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Annual Report

2004

VR and Business Environment

The VR Group is a broad-based Finnish transport company providing rail transport and supplementary road transport services. The Group also offers track construction and maintenance services. The Group consists of altogether 23 companies. The VR Group generated net turnover of EUR 1,179 million in 2004 and employed a total of 13,264 people.

VR Ltd, the Group's largest company, provides rail transport services. The subsidiaries of Oy Pohjolan Liikenne Ab provide road services. Rail services account for some 55% of VR Group's total net turnover and road services for roughly 17%.

VR-Track Ltd specializes in track design, construction and maintenance services, generating some 20% of VR Group's total net turnover.

The VR Group also includes Avekra Oy, which provides catering and restaurant services, and Corenet Ltd, which provides telecommunications services.

The Group's parent company is VR-Group Ltd, which provides its subsidiaries with real estate, financial and administration services.

VR-Group Ltd is a limited liability company owned entirely by the Finnish state. The company was incorporated on 1 July 1995 to continue the operations of Finnish State Railways (VR), which since 1990 had operated as a state-owned public enterprise. Before becoming a public enterprise, Finnish

railways had operated as a civil service department since it was established in 1862.

Most of the Group's personnel, 60%, work in rail transport. The number of personnel has steadily declined for some years now. The average age of personnel is 46 years.

Ministry of Transport and Communications

The VR Group is included in one of the administrative sectors of the Finnish Ministry of Transport and Communications. A Ministry representative exercises the Finnish state's shareholder voting rights at Annual General Meetings. The Ministry is also responsible for rail transport legislation and railway licensing. The Ministry purchases passenger services from VR, amounting to EUR 36 million in 2004.

Finnish Rail Administration

The division of work on the railways was re-organized in 1995, after VR-Group Ltd was incorporated, to correspond to other modes of transport. Management of the rail network and responsibility for the maintenance of railway lines was transferred to a new civil service department, the Finnish Rail Administration.

The Finnish Rail Administration is responsible for the renovation, development and maintenance of lines, within the framework of the state budget, and

► KEY FIGURES	2004	2003	Change-%
Net turnover, M€	1,179	1,160	1.6
Operating profit, M€	63	53	18.4
% of net turnover	5.3	4.6	
Net profit, M€	52	41	25.3
% of net turnover	4.4	3.6	
Gross capital expenditure, M€	180	151	18.8
Return on shareholders' equity, %	4.5	3.6	
Return on investment, %	5.8	5.1	
Solvency ratio, %	81.5	83.1	
Personnel on average	13,264	13,746	-3.5

procures track maintenance services from contractors through competitive tendering. The Finnish government's expenditure on the rail network in 2004 amounted to EUR 475 million.

The Finnish Rail Administration is also responsible for traffic control, and purchases control services from VR Ltd. Safety standards for rail transport are also in the Finnish Rail Administration's domain. However, safety and administration tasks will be transferred to a new safety body in 2006, after which the Finnish Rail Administration's main responsibility will be management of the rail network. This re-division of duties derives from EU legislation.

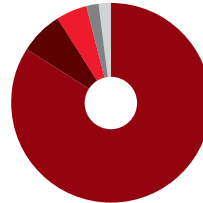
Market shares

VR's largest freight customers are Finnish industrial corporations. Some 60% of all carryings consists of the raw materials and products of the forest industry. A substantial proportion, roughly 40%, of VR's total freight volumes consists of carryings over the border with Russia. Railways have had a consistent 25% share of freight carryings in Finland for many years. This figure is high compared to other EU countries, where railways account for an average 13% of the freight market.

Commuter services in the Greater Helsinki area account for most of the passenger journeys on trains in Finland. The commuter area extends from Helsinki along the main line to Riihimäki and along the coastal line to Karjaa. The Helsinki Metropolitan Area Council (YTV) purchases rail services in the Helsinki, Espoo, Vantaa and Kauniainen area.

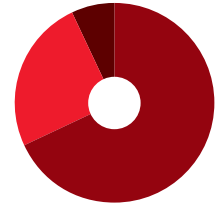
When the length of the journey is taken into account, however, long-distance services account for most passenger-kilometres travelled. The main customer groups for VR's long-distance services are business travellers, passengers travelling to distant work sites, families, students and pensioners. Rail's share of all travel in Finland is 5%, compared to the EU average of 6%. Rail has a 32% share of all public transport in Finland.

VR-Track's largest customer is the Finnish Rail Administration, which has increased the amount of competitive tendering for track construction and maintenance in recent years. VR-Track's share of all work commissioned by the Finnish government is less than 50%.



PASSENGER TRANSPORT IN FINLAND 2003

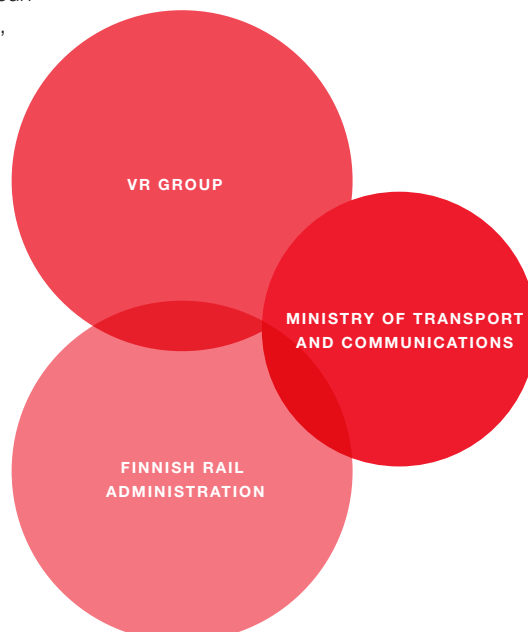
● Private cars	84%
● Bus and coach	7%
● Rail	5%
● Air	2%
● Other	2%



FREIGHT TRANSPORT IN FINLAND 2003

● Road	68%
● Rail	25%
● Water	7%

ROLES OF VR, THE MINISTRY OF TRANSPORT AND COMMUNICATIONS AND THE FINNISH RAIL ADMINISTRATION



THE VR GROUP

- Rail services
- Track construction and maintenance
- Road services
- Catering and restaurant services
- Telecommunications services

MINISTRY OF TRANSPORT AND COMMUNICATIONS

- Railway legislation and permits
- Commissioning of passenger services

FINNISH RAIL ADMINISTRATION

- Administration of the rail network and responsibility for line maintenance and development
- Technical standards and monitoring of track and rolling stock
- Commissioning of track work and traffic control
- Rail traffic safety standards
- Use of the rail network

The VR Group



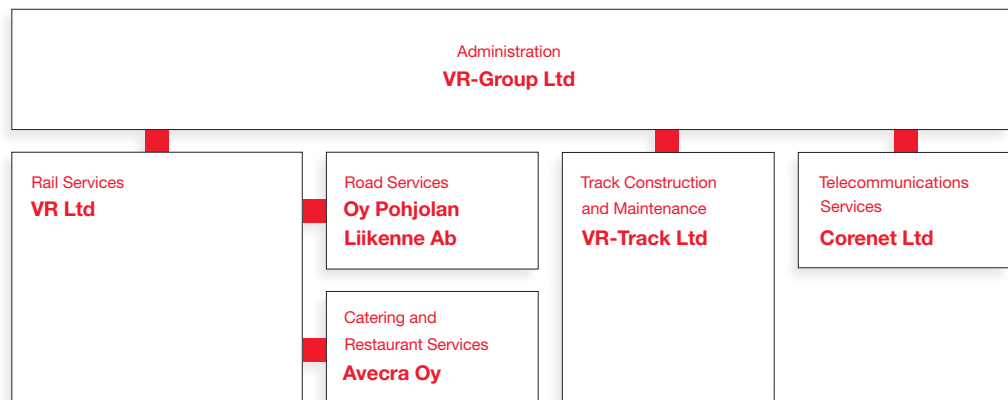
Rail Services

- VR Ltd, the Group's largest company, is Finland's leading freight and passenger carrier.
- The company carries over 42 million tonnes of freight by rail a year. Most of VR Cargo's carryings comprise raw materials and products of Finland's forest, chemical and metal industries.
- Some 60 million passenger journeys are made a year. VR provides an average of 260 long-distance services and 850 commuter services every day. Six daily train services operate between Finland and Russia.
- Rail services generate annual net turnover of EUR 652.6 million. This comprises EUR 348.2 million from freight services and EUR 304.4 million from passenger services.
- Personnel totals 8,113.

Track Construction and Maintenance

- VR-Track Ltd provides track design, construction and maintenance services for the Finnish government, local authorities, ports and industrial companies using the rail network.
- Roughly 90% of annual net turnover comes from contracts commissioned by the Finnish Rail Administration, which is responsible for managing the Finnish rail network.
- Annual net turnover amounts to EUR 235.5 million.
- Personnel totals 2,406.

GROUP STRUCTURE





Road Services

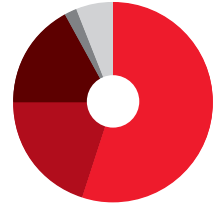
- Pohjolan Liikenne, a subgroup of VR Ltd that provides supplementary road services, has a strong position in Finland's road transport sector.
- The group has three freight companies. Transpoint Oy Ab is a national carrier of general cargo. Combitrans Oy handles partial and full-load carryings. Oy Transuotila Ab specializes in bulk transportation using tanker wagons. Together, these companies carry approximately 9 million tonnes of freight a year.
- Oy Pohjolan Henkilöliikenne Ab and its subsidiary Oy Pohjolan Kaupunkiliikenne Ab transport some 10 million passengers by coach and bus a year.
- Road services generate annual net turnover of EUR 197.8 million. This comprises EUR 166.3 million from freight services and EUR 31.5 million from passenger services.
- Personnel totals 1,906.

Catering and Restaurant Services

- Avecra Oy provides supplementary catering and restaurant services for VR's passenger transport operations.
- Avecra manages cafés and restaurants on long-distance train services and in larger railway stations. It provides daily catering services on 130 trains and has 17 service outlets in stations. The Swiss company Rail Gourmet Holding AG, part of the international Compass Group, is a minority shareholder in the company.
- Catering services generate annual net turnover of EUR 25.5 million.
- Personnel totals 351.

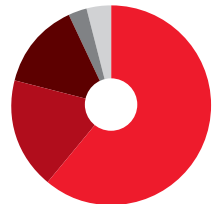
Telecommunications Services

- Corenet Ltd provides telecommunications services for VR's rail transport operations and develops specialized telecommunications systems for transport and logistics needs. Song Networks Ltd is a minority shareholder in the company.
- Telecommunications Services generates annual net turnover of EUR 17.6 million.
- Personnel totals 210.



NET TURNOVER BY BUSINESS 2004

● Rail services	55%
● Track construction and maintenance	20%
● Road services	17%
● Catering and restaurant services	2%
● Other	6%



PERSONNEL BY BUSINESS 2004

● Rail services	61%
● Track construction and maintenance	18%
● Road services	14%
● Catering and restaurant services	3%
● Other	4%

Chief Executive's Review



General economic trends have an appreciable impact on rail services. Passenger services reflect the changes in private consumption, while freight volumes are an indicator of how Finnish resource-based industries are faring.

At the beginning of 2004, business conditions could fairly be described as uncertain. In fact the business climate was progressively improving, as proven by the marked growth in Finland's GDP, and especially by the significant growth experienced by the forest industry. Finland's metal industry also improved its position towards the end of the year.

VR's net profit for the review period, some EUR 52 million, was higher than the 2003 figure and exceeded the target set for 2004.

Passenger volumes grew steadily throughout the year, a clear signal that investments in new rolling stock and improved services were correctly targeted. A highly encouraging development is that VR's commuter services outside the Helsinki Metropolitan Area Council's zone showed growth, after a long period of stagnation. A favourable development in freight services was the increase in domestic carryings. The Group's financial performance was also improved by VR Pension Fund's net profit exceeding the target set for the year.

VR's biggest problem, affecting its financial performance and the transport business itself, was, and continues to be, Russia's tariff policy. This favours – and in terms of pricing virtually subsidizes – carryings that are transported through Russia's own ports. Carryings to the country's land borders, for instance to Vainikkala, are far more expensive. Consequently, the volumes of VR's eastern services declined substantially in 2004.

VR's net turnover did not appreciably increase during the review period, largely due to these distortions in freight services from Russia. Nevertheless, VR kept costs well under control, which considerably improved our cost-efficiency.

Higher efficiency, better customer service

Safety is a cornerstone of VR's operations. The three-year Rail Safety Programme ended in 2004. The company achieved the targets set for the period in all the main areas of safety, making VR's level of rail safety one of the highest in Europe. A new Rail Safety Programme was launched, which will last until 2007.

The year was notable for the wide-scale and diversified development of the company's operations. VR Ltd, which is responsible for rail services, and VR-Track Ltd, which specializes in track maintenance and construction, restructured both their operations and their organizations. Even during their early stages, these changes have shown that improvements are possible in operative efficiency, operating economy and customer service.

The pace of investment by VR Ltd, in particular, has been vigorous for some years now. Procurement of new rolling stock has been a consistent EUR 100–150 million a year. The company's shopping list includes 20 sleeper cars, 15 car-carriers, 20 city trains and 16 railcars. VR Ltd is also buying more Pendolinos, bringing the total number in service in Finland to 18 by 2006.

The sale of e-tickets via the Internet is one concrete example of improvement in rail services. After VR introduced this service, which allows passengers to print their tickets at home, the volume of long-distance train tickets purchased through the Internet has risen to 5% of total sales, and that figure continues to grow.

Investments in infrastructure are of vital importance to rail services. An additional track between Tikkurila and Kerava was completed during the review period, allowing the number of train services to be increased. At the end of the year the line between Oulu and Rovaniemi was fully electrified. VR now has the opportunity to increase energy-efficient and eco-friendly electric train services in Northern Finland also.

For the railways, it is crucially important to press ahead with other acute projects. These include the modernization of the Ilmala marshalling yard and the renovation and upgrading of the Lahti-Luumäki and Seinäjoki-Oulu lines. Once completed, these projects will secure the future competitiveness of rail transport.

I would like to extend my heartfelt thanks to VR's customers in all their many sectors and to our numerous partners for their support during 2004. My thanks also to all the Group's employees for their excellent work during the year.

Henri Kuitunen
President and CEO
VR-Group Ltd



Business Concept, Goals and Values

Business concept

VR's core businesses are transport and track maintenance services.

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

For the Finnish state, other public bodies and industrial corporations, VR provides professional track design, construction and maintenance services.

Goals

1. Passenger rail services: faster growth than the market

VR profitably produces and markets customer-oriented public transport services that meet the travel needs of all social groups for both work and leisure purposes. VR also utilizes the expertise and resources of other Group companies and partners in its operations, with the aim of boosting rail transport's share of the passenger transport market.

VR's goal for domestic long-distance services and commuter services is to create an easy-to-use service network in co-operation with other forms of public transport. VR actively participates in the construction of Travel Centres. The Ministry of Transport and Communications plans to form a network of 22 Travel Centres in Finland by 2007. In international services, VR is preparing for faster connections with Russia and strong growth in passenger travel.

VR gives high priority to the quality of its customer service with the goal of enhancing customer satisfaction. The keys to achieving this are developing new sales channels, reducing journey times and introducing new rolling stock. The company is also improving the safety and punctuality of services.

2. VR Group freight services: a stronger market position

VR Cargo's operations are based on long-term co-operation agreements. Customers are offered not just rail transport but also a comprehensive package of logistics services in co-operation with VR Group's road transport companies. The goal is to strengthen VR Group's market share.

In international services, VR Group is focusing on developing freight services with Russia and the

other CIS countries by building new partnership models with Russian railways, rolling stock companies and other participants in eastern freight carryings.

Most eastern freight carryings involve importing raw materials into Finland and transit goods through Finland to the West. VR Group's goal is to increase carryings of exports by Finnish industry and transit carryings to the East as well as Far Asia traffic along the Trans-Siberian route.

In addition to new service models, VR Group's goal is also to strengthen its partnerships with key customers and improve the competitiveness and quality of its transport services.

3. Improved profitability

VR Group's operations are based on profitability. VR Group's goal is to improve profitability by increasing sales income and improving productivity. In order to increase net turnover, it is essential to improve the quality of customer service and develop total service models. VR Group is also placing high priority on developing personnel skills to achieve this goal.

The Group is cutting costs by focusing on core business and eliminating overlap. It is also examining the potential for outsourcing, but without jeopardizing the standard of service. Corporate administration is making increased use of electronic services and speeding up all change processes.

In passenger and freight services, the company is looking for savings through more efficient management of rolling stock and personnel. It is developing self-service channels for passengers buying tickets. In freight services, key issues are speeding up the turn-round of wagons and reducing the number of loading stations.

VR-Track is making every effort to adapt to changing markets, in which competition is intensifying and contracts are more often short-term. Another challenge is managing strong seasonal fluctuations.

Key success factors

- Speed and efficiency
- Safety and punctuality
- Environmental friendliness
- Committed, skilled personnel
- Modern rolling stock
- Smoothly functioning links with Russia
- Efficient track maintenance machinery
- Broad-based and versatile transport group

Values

Safety

- We transport passengers and freight safely
- We prevent environmental risks
- We ensure safety in all situations
- We continuously work towards improving safety and punctuality

Satisfied customers

- We work for the good of our customers
- We provide high-quality services that are easily available
- We collaborate with customers in improving our services
- We also value our customers within VR

Successful together

- When our operations are profitable and meet our customers' needs, that is when we are successful
- We co-operate with openness, mutual respect and a commitment to achieving our goals
- Dynamism, expertise and innovation are the keys to our success

Responsibility

- Each employee is responsible for the results and quality of their own work
- Our work is based on honesty and trust
- We recognize our responsibility to the environment



Fast travel times and modern rolling stock are key success factors for VR.



VR's goal is to be a safe and reliable transport provider.



Efficient use of energy and low emissions make rail transport an environmentally friendly mode of transport.

Highlights of 2004

12.1. New terminal for combined carryings opens in Oulu

The first train carrying articulated vehicles and trailers leaves the new Oritkari terminal in Oulu bound for Helsinki. The completion of the terminal makes it possible to double the annual volume of combined carryings.

3.3. VR Group commissions new warehouse terminal in Kouvola

A new warehouse terminal for the paper industry's exports to Russia and the CIS countries is completed at the Kouvola logistics centre. Its mission is to offer customers fully comprehensive service, from the paper mill right through to the destination.

25.3. VR's Board of Directors to continue in office

VR-Group Ltd's Annual General Meeting re-elects VR's previous Board of Directors. Matti Ahde, MP, is elected Chairman of the Supervisory Board.

11.5. Customers can now print their own tickets

For the first time ever, customers in Finland can print an e-ticket for long-distance rail services themselves on their own printer, or can order the ticket in the form of a text message sent to their mobile phone.

30.7. More city trains placed into service

The first of a new series of city trains is introduced in commuter services in the Greater Helsinki Area. City trains have now been serving the YTV zone for 5 years. At the start of 2005, the trains also started operating between Helsinki and Riihimäki.

15.8. Kerava City line opens

Rail services between Helsinki and Kerava becomes denser when the number of services during morning and afternoon peak hours is doubled.

2.9. VR's phone service voted Contact Centre of the Year

VR's phone service, which has been operating for three years, is nominated Contact Centre of the Year. Enhanced customer-orientation and easy reachability were some of the reasons for awarding the title.



13.10. VR introduces new, fully-enclosed car carriers

VR announces a new type of car carrier that is fully-enclosed and has more headroom to accommodate rooftop ski-boxes fitted on cars. The first new car carriers were introduced on the Helsinki-Oulu line at the start of 2005.

17.10. More Pendolino services

A new Pendolino service starts operating between Helsinki and Oulu. The following day a new morning Pendolino service from Seinäjoki to Helsinki starts operating.

5.11. VR-Track to help build the Botniabanan line in Sweden

VR-Track wins a contract, together with Balfour Beatty Rail AB, for construction of the Botniabanan line in Northern Sweden. The contract is worth some EUR 40 million.

15.11. VR transfers its cleaning operations to ISS Facility Services

VR agrees with ISS Facility Services to transfer its cleaning operations to ISS as from the start of 2005, when some 200 employees transferred to ISS.

1.12. Electrified rail services start operating between Oulu and Rovaniemi

The first electric trains start serving Rovaniemi after electrification of the Oulu-Rovaniemi line is completed.

17.12. First rail bus arrives in Finland

The first of the rail buses ordered from the Czech Republic arrives in Finland. Intended for sections of line with low passenger volumes, it is scheduled to start operating between Joensuu and Pieksämäki in summer 2005, after testing is completed.

22.12. VR-Track wins a framework contract for superstructure work

VR-Track wins a 5-year framework contract for track superstructure work. Under the terms of the agreement, the Finnish Rail Administration will commission at least EUR 65 million of work each year.



Financial performance

VR Group improved its net profit in 2004. Profitability during the first part of the year was weaker than the corresponding period in 2003, but strengthened towards year's end. Operating profits for the last four months of 2004 were appreciably higher than during the same period in 2003.

Consolidated operating profit for the review period rose to EUR 62.8 million, compared to EUR 53.0 million in 2003. Consolidated net profit for the year increased from EUR 41.3 million to EUR 51.7 million, partly due to non-recurring items relating to pension liabilities and deferred tax liabilities.

Some 70% of the consolidated operating profit was generated by the Group's two largest companies, VR Ltd (rail services) and VR-Track Ltd (track construction and maintenance).

Up until November, VR Ltd's cumulative operating profit fell below the level of the previous year, but rose to EUR 28.1 million in December. The company's operating profit in the previous year was EUR 21.3 million. Higher turnover in December and reduced personnel expenses both contributed to improving operating profit.

The volume of the company's domestic freight carryings increased to 26.3 million tonnes, an all-time record in that sector of VR's business. Conversely, carryings to and from Russia, including transit traffic through Finland, declined by 12.9%, largely

as a result of Russia's transport policy, which strongly favours that country's ports and harbours. The lower volumes of eastern freight services depressed net profit for the year by several million euros.

Altogether 60.1 passenger journeys were made by train in 2004. Passenger volumes have never been so high since the exceptional conditions of the 1940s. Journeys on long-distance trains increased by 1.8%.

The volumes of passenger journeys on commuter services in the Greater Helsinki area remained broadly the same as in 2003, declining slightly within the Helsinki Metropolitan Area Council's zone and rising outside it.

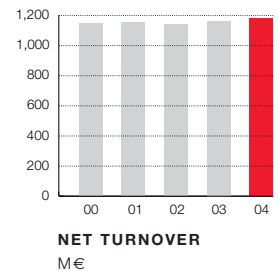
VR-Track made a net loss during the winter months, which is a normal seasonal result, but started generating a consistent net profit again in May, when work commenced after the ground frost had thawed. Operating profit amounted to EUR 15.5 million, an increase of EUR 2.7 million on the previous year.

VR Group's capital expenditure totalled EUR 180.0 million, of which over three-quarters was spent on rolling stock for VR Ltd. No major investment decisions were made during the year and capital expenditure in 2004 consisted of payments for orders placed earlier.

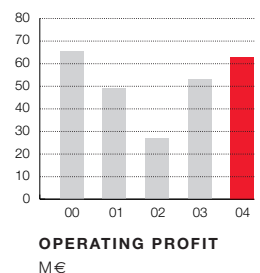
The Group's financial position and liquidity remained strong.



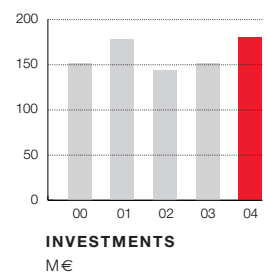
VR carried record volumes of freight in its domestic services in 2004. The market share rose in particular in product carryings for the chemical branch of the forest industry.



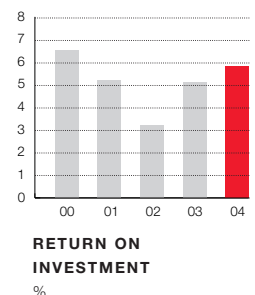
NET TURNOVER
M€



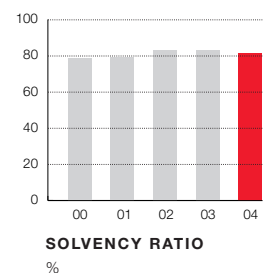
OPERATING PROFIT
M€



INVESTMENTS
M€



RETURN ON INVESTMENT
%



SOLVENCY RATIO
%



Kerava

5



The Kerava City line

The Kerava City line was opened in August 2004. The new line means better connections for passengers travelling between Kerava and Helsinki during peak hours. The intervals between K-trains were halved, to 10 minutes. The standard of service at stations was also improved when the line was built. Seen here, a commuter train at Kerava station.

Passenger Services



VR offers passengers a wide range of services on both long-distance routes and commuter lines in the Helsinki metropolitan area. VR provides some 260 daily long-distance services, six of which connect Finland and Russia. An average of 850 commuter services run each day in the Helsinki metropolitan area.

One of VR's objectives is to increase rail's share of passenger transport, which is currently some 5% of all journeys made in Finland. Rail transport's share of all public transport was 32% in 2003, representing growth of 2 percentage points since last measured in 2001. Rail's share of passenger journeys made on public transport that are longer than 75 kilometres is some 60%.

Net turnover and passenger volumes

Passenger Services generated net turnover of EUR 304.4 million, an increase of 2.5% on the previous year. Rail travel grew overall by 0.4% and altogether a total of 60.1 million passenger journeys were made by train during the year.

Some 12.1 million passenger journeys were made on long-distance services, 1.8% more than in 2003. Travel between Finland and Russia, 252,000 journeys, declined by 1.3%.

The number of journeys in the YTV zone managed by the Helsinki Metropolitan Area Council declined by 0.6%, but commuter journeys increased by 2.4% elsewhere in the Greater Helsinki area. Altogether 48.0 million journeys were made on commuter services during the year.

The volume of travel by private car increased sharply in 2004, and cut-price flights boosted domestic air transport volumes in the first part of the year. Rail transport lost long-haul passengers during the winter so VR responded to competition with discount offers on, for instance, sleeper berth tickets. In the autumn, changes in the air transport market allowed passenger rail transport to improve its market position.

New rolling stock

Faster journey times were clearly reflected in higher passenger volumes. Most growth in rail travel was

on main routes, such as Helsinki–Tampere, Helsinki–Lahti, Helsinki–Hämeenlinna, Helsinki–Jyväskylä and Tampere–Oulu.

Alstom delivered four of a series of nine new Pendolino trains to VR during the year. In October, VR introduced long-awaited morning services from Oulu and Seinäjoki to Helsinki. Tampere residents also received more seating on their favourite morning service, since the train from Seinäjoki is combined in Tampere with the train coming from Jyväskylä.

VR also received the first 13 of a series of 20 city trains ordered from Alstom. Previously 10 city trains have served the Helsinki metropolitan area's YTV zone. The new trains were placed into service in the YTV zone and on the Kerava City line. The trains also started operating between Helsinki and Riihimäki at the beginning of 2005.

The first two car carriers were completed at Talgo's Otanmäki factory and the remaining 13 will be delivered to VR during 2005. Production started on 20 new generation sleeping cars at Otanmäki.

The Czech company ČKD Vagonka delivered the first railcar to Finland at the end of the year, which will be placed into service between Pieksämäki and Joensuu in late spring 2005. Altogether VR has ordered 16 railcars to replace passenger trains pulled by locomotives on lines with low passenger volumes.

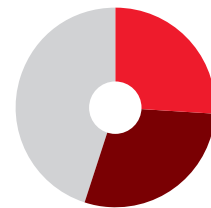
High international ranking for punctuality

The punctuality rate in 2004 was high. Long-distance services exceeded the target of 90%, where delays exceeding 5 minutes are counted as lateness, with a punctuality rate of 91.7%. In commuter services the corresponding figure was 98.4% and the limit 3 minutes.

In an international comparison, VR was the most punctual in commuter services and ranked in second place in long-distance services. The comparison covered 14 railway companies in Europe and one in Japan.

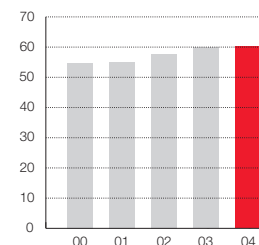
Growth in e-ticket volumes

VR continued to develop its modern distribution channels, adding a new feature to the online ser-

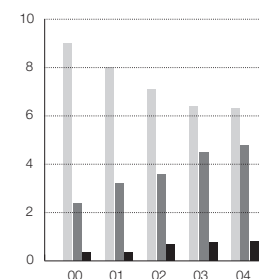


RAIL SERVICES, SHARE OF VR'S NET TURNOVER 2004

- Passenger services 26%
- Freight services 29%



PASSENGER JOURNEYS (Millions)



LONG-DISTANCE JOURNEYS BY TYPE OF TRAIN (Millions)

- Express services (includes regional trains)
- InterCity
- Pendolino

Main targets

- Boosting market share
- Cutting travel times and enhancing passenger comfort
- Improving punctuality and safety



VICES for consumers in the spring. Passengers can now print confirmation of tickets they order on their own computers and use this for travel. Confirmation can also be received by e-mail or as a text message to a mobile phone.

The new features appreciably boosted sales of tickets via the Internet, which at year-end accounted for 5% of all long-distance sales compared to 2% in 2003.

Help Desk Institute Nordic nominated VR's Call Centre – i.e. the company's nationwide phone service – Contact Centre of the Year – because of its high levels of cost-efficiency, customer satisfaction and personnel wellbeing.

VR introduced the new browser-based SoNet sales system for travel agents, which facilitates and speeds up sales of train tickets. A similar service for corporate customers will be added during 2005.

VR enhanced the Internet websites and ticket products for regular customers and business travellers. In commuter services, VR decided to continue the popular cut-price 'Kerava' ticket after an 18-month trial period. The parties in this project are the City of Kerava, the City of Vantaa, Helsinki City Transport (HKL), YTV and VR.

The number of customers holding passes under VR's 'Direct 360' customer loyalty scheme exceeded the 3,000 mark in the autumn. The scheme is intended for passengers travelling on a 30-day season ticket in VR's travel zone.

The use of Helsinki City Transport's mobile phone ticket was expanded to cover trains in the City of Helsinki area at the end of the year.

Finnish Bus and Coach Association and Matka-huolto, a company specializing in bus transport services, signed a new agreement with VR for extending the TrainBus service. Altogether there are 36 different TrainBus routes in Finland.

Prospects

Deliveries of rolling stock are scheduled to continue so that VR will have a completely new train fleet when the direct line from Kerava to Lahti is completed in autumn 2006. The top speed on the direct line will be 220 kilometres an hour, and the journey time

on the Pendolino service between Lahti and Helsinki will be less than 50 minutes. Travel times on services between Helsinki and East Finland and between Helsinki and Savo will also be from 30 minutes to one hour shorter.

Pendolino services will be extended in 2005 when the new route from Helsinki to Kuopio via Kouvola is opened. By early 2006 at the latest services will also start on the Karjala line to Joensuu.

VR will accept delivery of more railcars and progressively place them into service on the following sections of line: Joensuu–Pieksämäki, Joensuu–Nurmes, Karjaa–Hanko, Iisalmi–Ylivieska, Tampere–Haapamäki and Parikkala–Savonlinna.

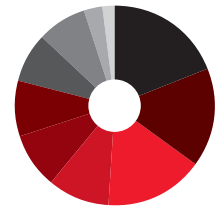
The target for the Helsinki–St Petersburg service is a journey time of three and half hours in 2008. VR is negotiating with October Railway on the procurement of fast rolling stock for this rail link.

VR will improve the quality of information given to passengers about disruptions and delays. The aim is to provide passengers with up-to-date information about delayed trains and other changes in services. Ticket availability will also be improved.

VR and the Ministry of Transport and Communications are continuing negotiations on the purchase of unprofitable passenger rail services. Urban services on the direct Kerava–Lahti line and any increase on the main Helsinki–Riihimäki line will require an increase in state purchasing after 2006.

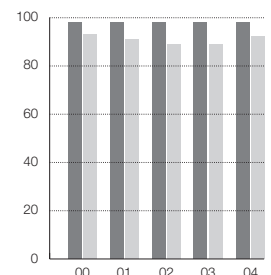
VR is also negotiating a new contract with Helsinki Metropolitan Area Council, as the existing contract expires at the end of 2005. The outcome is crucial to the future of public transport in the whole of the Helsinki metropolitan area.

VR is preparing to modernize the Ilmala depot and marshalling yard, based on the development proposal finalized in 2004. Ilmala is the most important marshalling yard in Finland for passenger services. The project is scheduled to last for 4 years.



PASSENGER FEEDBACK 2004

● Traffic services	19%
● Rolling stock	16%
● VR's in-train services	16%
● Station ticket sales	10%
● Internet pages and online sales	9%
● Tickets, prices and sales systems	9%
● Other station services	8%
● Avecra's in-train services	8%
● Telephone service	3%
● VR's operations in general	2%



PUNCTUALITY OF RAIL TRAFFIC %

- Commuter services
- Long-distance

Freight Services

Main targets

- Strengthening VR Cargo's role in transporting key customers' freight
- Increasing eastern freight and developing co-operation models
- Expanding the logistics services portfolio

VR Cargo is the main freight carrier for Finland's forest, metal and chemical industries in both domestic and international freight transportation. The company has collaborated with its customers and partners in developing safe, punctual and environmentally friendly transport systems.

Railways have had a consistent 25% share of freight carryings in Finland for several years. This figure is high compared to other EU countries, where railways account for an average 13% of the freight market. Rail transport is the most efficient option when the items to be carried are bulky and transport is regular or distances are long.

VR Cargo's freight transport is very punctual and highly reliable. The company has improved its punctuality rate over the last two years and 93.5% of trains arrived on time, with delays exceeding 15 minutes counting as lateness.

Net turnover and freight volumes

VR Cargo carried altogether 42.7 million tonnes of freight during the year. This was a decrease of 1.9% on the previous year, mainly due to lower volumes of freight between Finland and Russia. Freight Services generated net turnover of EUR 348.2 million in 2004, 1.0% less than the previous year.

Domestic services carried record volumes of freight for the second consecutive year, 26.3 million tonnes or 5.1% more than in 2003. VR Cargo's market share rose in particular in product carryings for the chemical branch of the forest industry.

Eastern freight carryings, 12.1 million tonnes, declined by 15.8%. Nevertheless, export carryings from Finland to Russia grew by 13.7%. The volume of transit freight via Finland, 3.2 million tonnes, remained broadly the same as the previous year.

Westward carryings via Turku and Tornio grew by 16.5%, amounting to 1.1 million tonnes. When all the ports to which VR Cargo transports freight are included, the total volume of westward carryings was 11.2 million tonnes.

Volumes of container freight rose by 24.1%, amounting to 261,900 TEUs. Container freight on the Siberian line grew by 24.1%, and totalled 124,473 TEUs. TEU (Twenty-foot Equivalent Unit) is

a unit of measurement used in container transportation and refers to one 20-foot container.

Carryings for key customers still growing

Carryings for key customers in the forest, metal and chemical industries in 2004 continued the previous year's strong growth.

At the beginning of the year regular carryings of paper started on Finland's longest rail transport route from Kemi, in Lapland, to Hanko. The aim of the service is to get the product to the end-customer faster.

The Logistics Forum of Finland gave the Logistics Project of the Year Award to the Vetoketju project, citing substantial improvement of the supply chain. VR has been involved in the project, which aims to automate the loading and unloading of paper rolls while minimizing damage to the rolls during those operations.

New models for co-operation in eastern freight services

Sales activities for eastern freight services were strengthened in 2004. VR Cargo signed more co-operation agreements with Russian railway operators and as a result can now offer extensive service packages for freight to Russia and the CIS countries. Co-operation with transport partners and road transport subsidiaries has enabled the refining and marketing of new service models.

Volumes of container traffic between Finland and East Asia have grown steadily over the last five years, especially in the case of Korea and China. The route has become popular because of its regular connections, speed and consistent quality. Finnish customers show increasing interest in using the route for their exports.

Wagon freight from Finland to the CIS countries has also developed favourably, boosted especially by the forest industry's increased freight volumes.

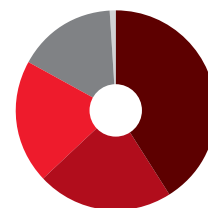
One-stop logistics service

VR Cargo's Cargo East Terminal (CET) in Kouvola was completed in 2004. Built to provide services for eastbound freight, the terminal is one element in



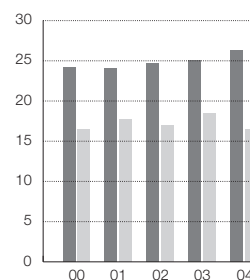
RAIL SERVICES, SHARE OF VR'S NET TURNOVER 2004

- Freight services 29%
- Passenger services 26%



VR CARGO'S CARRYINGS BY PRODUCT GROUP

- Mechanical forest industry 41%
- Chemical forest industry 22%
- Metal industry 20%
- Chemical industry 16%
- Other 1%



VR CARGO'S CARRYINGS (Million tonnes)

- Finland
- International



VR's total service model. Eastbound freight flows are assembled into consignments at the terminal, thus maximizing cost-efficiency, and transported to their destination. The rolling stock can be owned both by private companies and Russian Railways, as needed. Road transport is also used in areas in Russia close to Finland.

A new terminal for combined transport was completed in the Oritkari district of Oulu at the start of 2004, which will enable freight volumes to be doubled. Trains carrying commercial vehicles travel at night in both directions on the Oulu–Helsinki and Kemi–Helsinki lines. The terminal is a joint project between the City of Oulu, VR Ltd and the Finnish Rail Administration. New wagons for serving combined transports were also finished. The wagons can carry articulated vehicles that are 4.2 metres high.

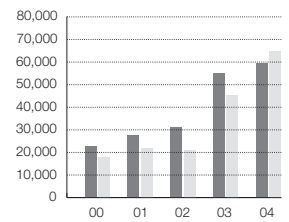
VR is transferring its order handling system for freight to electronic EDI messaging. The system was successfully used with the first customer during the review period and all customers with EDI-compatible systems can join. VR is developing an Internet-based ordering system for other customers.

Prospects

Finnish export industries are situated further away from their markets than their European competitors. VR Cargo actively participates in projects aimed at developing customers' freight flows and enhancing Finnish companies' competitiveness. These projects cover aspects such as improving rolling stock, centralizing transport operations and enhancing service concepts to meet the customer's transport needs more exactly.



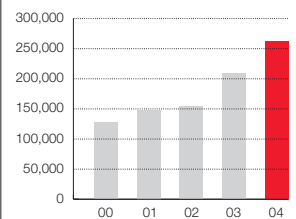
VR Cargo designs wagons with its customers. Shown here, a new wagon for sawn timber with a two-section roof that withstands strong winds.



EAST ASIA CONTAINER TRAFFIC

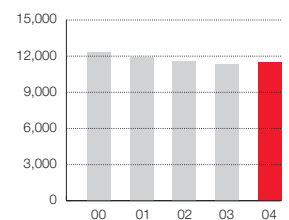
TEU = 20-foot container equivalent

- Imports
- Exports



SEA CONTAINER CARRIINGS

TEU = 20-foot container equivalent



NUMBER OF FREIGHT WAGONS





The direct line to Lahti

VR-Track worked on the line superstructure, electrification and installation of safety equipment on the direct line between Kerava and Lahti during 2004. Shown here, rails being laid in the Hakosilta district of Hollola in August. The direct line will be completed in autumn 2006, after which the fastest journey time between Helsinki and Lahti will be less than 50 minutes. Journey times to Eastern Finland and Savo will be between 30 minutes and 1 hour shorter.



Track Construction and Maintenance



TRACK CONSTRUCTION AND MAINTENANCE, SHARE OF VR'S NET TURNOVER 2004

- Track construction and maintenance 20%

VR-Track Ltd specializes in track design, construction and maintenance services. The company's customers include the Finnish government, local authorities, ports and industrial companies using the rail network.

VR-Track offers a total package for rail infrastructure services, including design, construction and maintenance, but customers can also purchase individual services, such as design or material services.

The company's biggest customer is the Finnish Rail Administration, a civil service department subordinate to the Ministry of Transport and Communications and responsible for the national rail network. In recent years the Finnish government's annual expenditure on track construction and maintenance has been some EUR 380 million. In addition to this, the market for building private tracks and for track maintenance and construction for other industrial sectors is worth EUR 20–30 million a year.

Net turnover and main projects

Track Construction and Maintenance generated net turnover of EUR 235.5 million in 2004, an increase of some 12.8% on the previous year. Contracts commissioned by the Finnish Rail Administration accounted for some 90% of net turnover. VR-Track's market share of all contracts commissioned by the Finnish Rail Administration is less than 50%.

The company's own production focused on work requiring a high level of expertise in railway engineering. VR Track's order book on 31 December 2004 was approximately EUR 215 million.

The largest railway consulting project during the year was managing the design work for raising the standard of the Seinäjoki–Oulu section of line.

VR-Track carried out superstructure work, electrification and the installation of signalling equipment on the direct Kerava–Lahti line. VR-Track's subsidiaries Vuorenpeikot Oy and Megasiirto Oy have contracts for earthworks and bridge construction for the line. VR-Track and its subsidiaries have a 20% share of all work on the direct Kerava–Lahti line.

The biggest line superstructure projects were on the Kokemäki–Rauma, Luumäki–Lappeenranta,

Rovaniemi–Kemijärvi, Oulu–Kokkola, Pieksämäki–Kuopio and Siilinjärvi–Viinijärvi line sections. Superstructure work includes cleaning the ballast and replacing sleepers and rails. Superstructure was upgraded on altogether 250 kilometres of railway line.

At the end of the year the company won the Finnish Rail Administration's competitive tender for a five-year framework contract for line superstructure works.

In Estonia, VR-Track AS's ballast cleaning project, commissioned by RT-Ehitus AS, entered its fifth year.

The condition of line superstructure was extremely good. In 2004 the geometrical index indicating line superstructure's physical condition reached its best value yet. The availability of signalling equipment and electrified line systems remained at broadly the same level as in previous years.

Capacity utilization at the company's own production units remained high. The rail-welding unit in Kaipainen handled some 25,000 tonnes of rails. The track point units in Pieksämäki and Kaipainen manufactured over 140 track points of varying types and reconditioned almost 60 track points and 460 units of turning gear.

Production at the Haapamäki wood impregnation plant amounted to 27,000 cubic metres of impregnated timber, some two-thirds of which was sleepers.

Good profitability

Profitability remained at a good level in all areas of the company's business operations and VR-Track continued its systematic personnel policy for maintaining future profitability.

Proactive personnel planning enabled the company to adapt to prevailing market conditions and to maintain the number of personnel at the optimum level. VR-Track also prepared for managing recruitment to replace the large proportion of personnel due to retire at the end of the decade.

Customer satisfaction a priority

The company introduced a new, customer-oriented business process management model in early 2004



Main targets

- Maintaining profitability
- Enhancing customer satisfaction and boosting productivity
- Improving the competitiveness of services



aimed at enhancing customer service and highlighting the critical role that projects play.

The company developed its core businesses – track construction and maintenance – by strengthening product control, introducing a new resource management system and centralizing the production of support services.

Maintenance projects were re-organized to correspond more precisely with the Finnish Rail Administration's new regional distribution of maintenance operations. This will improve VR-Track's position in future competitive tendering. In 2004, basic maintenance was still based on a nationwide framework agreement between the Finnish Rail Administration and VR-Track.

Development of a comprehensive design system for VR-Track's Railway Consulting was completed. Based on positioning data and covering all the company's business sectors, the system integrates the design processes of the different sectors with the whole company's resource management system.

The quality systems for design, construction, maintenance and material services were updated to conform to the new operating model and the ISO 9001:2000 standard. The company has certified quality systems and ISO 14001 environmental management systems in all its main business areas.

In a customer satisfaction survey conducted in early 2005, customers rated VR-Track's service more highly than in previous years.

Competitive service

VR-Track's strengths include technical skills and comprehensive expertise in management of the railway system. One of the company's objectives is to retain its strong market position in track construction, maintenance and consultancy services and to increase its earthworks and bridge construction activities in the track environment. Another objective is to succeed in export markets.

VR-Track bought a majority holding in Arcus Oy, an engineering consultancy that specializes in structural and geotechnical design. Arcus Oy's customers include the Finnish Road Administration, the Finnish Rail Administration, industrial plants and harbours.

Arcus supplements VR-Track's product portfolio of consultancy services and broadens the company's customer base.

In Sweden, VR-Track won a contract for line superstructure work on the 110-kilometre Botniabanan line. The other party in the alliance formed to perform the contract is Balfour Beatty Rail AB. Work on the project is scheduled for 2005–2007.

VR-Track's capital expenditure amounted to EUR 5.3 million, mostly spent on replacing decommissioned track machinery and equipment.

Prospects

VR-Track continues to strengthen its business processes that are independent of regional borders, since personnel mobility is essential for project-oriented worksites that move geographically and for work that requires specialized expertise.

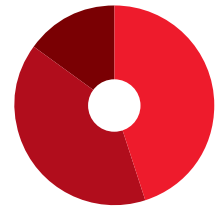
Much of the work to improve the rail network over the next few years will be in East and West Finland. Success in both domestic and foreign markets depends on developing and diversifying personnel skills.

The Finnish Rail Administration's action plans will shift the focus of work back to repairing and modernizing the old rail network once construction of the Kerava–Lahti direct line and electrification of the North Finland region are completed.

New major track repair and modernization projects will give VR-Track and its subsidiaries an opportunity to expand their business operations in the near future.

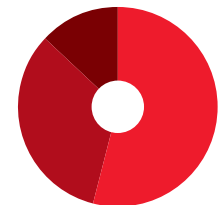
Planning is under way for developing the Lahti–Luumäki section of line using a lifecycle model, modernizing the Ilmala marshalling yard, and improving the standard of service on the Oulu–Seinäjoki section of line. Construction of the access line to Vuosaari Harbour is also ongoing.

VR-Track will continue to focus on work that requires technical expertise in railway engineering, special machinery and a thorough understanding of rail safety.



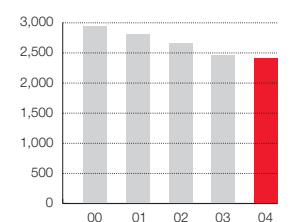
NET TURNOVER 2004

- Maintenance 45%
- Construction 40%
- Engineering, materials and other services 15%



WORKING HOURS 2004

- Maintenance 54%
- Construction 33%
- Engineering, materials and other services 13%



NUMBER OF EMPLOYEES

Road Services



Oy Pohjolan Liikenne Ab's subsidiaries are responsible for providing the VR Group's road services. Oy Pohjolan Henkilöliikenne Ab and its subsidiary Oy Pohjolan Kaupunkiliikenne Ab, which specializes in chartered services in the Helsinki metropolitan area, provide bus and coach services.

Transpoint Oy Ab, Combitrans Oy (a wholly-owned Transpoint subsidiary), and Oy Transuotila Ab provide freight services. Oy Transuotila Ab also has three subsidiaries in the Baltic countries that provide road tanker services.

The Pohjolan Liikenne companies continued in most areas to hold a strong position in the Finnish road transport sector.

Market share of charter business in the Helsinki metropolitan area declined appreciably, however, as a number of contracts expired during the year. Char-

ter carryings in Turku ceased totally for the same reason.

Transpoint and Combitrans retained their position in freight transport, but Transuotila lost market share in heavy oil carryings.

In 2004 the company had 185 of its own trucks, 730 trucks owned by subcontractors, 75 articulated road tankers and 277 buses.

Net turnover, passenger and freight volumes

Road Services's net turnover declined in 2004 by 1.9%, amounting to EUR 197.8 million. Freight services generated 84% of net turnover, EUR 166.3 million, and passenger services 16%, EUR 31.5 million.

Freight volumes, 8.9 million tonnes, grew by 3.6% on the previous year. Growth in general cargo and



Transpoint's domestic transport volumes grew compared to the previous year. Shown here, Pasila terminal.

Main targets

- Improving profitability
- Adapting bus services to demand
- Expanding the customer base



in partial and full load carryings was 6.7%. The total tonnage of road tanker carryings declined by 10.3%, largely due to a decrease in carryings of heavy oil and animal feeds.

Passenger services carried 10.2 million passengers by road, 26.2% fewer than in 2003. The decrease was largely due to a decline in chartered traffic. Excluding chartered traffic, the number of passengers declined by 2.9%.

Bus services show improved profitability

A series of adjustments in bus services started in 2003 was completed during the review period and consequently the number of kilometres per year driven by Pohjolan Henkilöliikenne is now 10% less than earlier. As a result, profitability improved slightly in 2004 after declining for the two previous years.

The volume of Pohjolan Kaupunkiliikenne's services dropped to its lowest level for ten years due to the termination of a number of charter contracts.

Nevertheless, the company won contracts that call for 36 additional buses in Helsinki as from the start of 2005, which necessitated a major training and recruitment campaign for 70 drivers in autumn 2004.

Freight services expand their customer base

The highlight of the year for Combitrans was the start-up of warehousing operations in the Cargo East Terminal in Kouvola. The terminal is based on VR Group's total service concept. Combitrans signed new transport contracts, which replaced the loss of a large customer during the year. The company's profitability declined slightly during the review period.

The volume of Transpoint's domestic carryings grew compared to the previous year, although international carryings' share of total volume declined to almost one-half. The terminal network was developed by transferring Transpoint's Savonlinna operations to Mikkeli at the beginning of the year and by moving into new premises at Karjaa in the spring. Transpoint's profitability was almost the same as the previous year.

In late spring Transuotila lost a contract for transporting heavy oil. The company did not win contracts to replace the loss until the autumn, which depressed net turnover from domestic operations by over 60% for the year compared to 2003. The company expanded the customer base in line with the targets set. Transport journeys decreased in length, however, and the high start-up costs of new transport contracts reduced profitability. Volumes of carryings in the Baltic countries developed favourably and the Lithuanian subsidiary, in particular, considerably increased its net turnover.

The Pohjolan Liikenne subgroup transferred its purchasing invoices to an electronic system and Transpoint started issuing electronic invoices. Passenger services introduced a fuel consumption monitoring system. New solutions were also developed for transmitting information along the freight supply chain.

Prospects

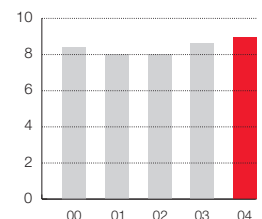
New contracts are expected to double the net turnover that passenger services generate from charter contracts. Net profit is also expected to improve. The new Kamppi bus station in Helsinki, scheduled to start operating in June 2005, will be of major importance to Pohjolan Henkilöliikenne, and indeed the whole sector.

No appreciable growth is expected in freight services. Competition in the domestic freight transport market is steadily intensifying, but overcapacity in supply is preventing rising costs from being passed on in higher prices. Profitability among companies operating in the sector will therefore remain weak or become weaker. Tailored solutions in supply chain communications will gain in importance. The main challenge for road tanker services in 2005 is to ensure the continuation of key haulage contracts.



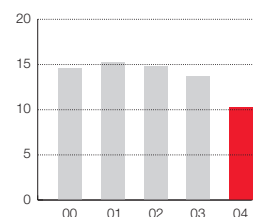
ROAD SERVICES, SHARE OF VR'S NET TURNOVER 2004

• Road services 17%



FREIGHT VOLUME BY ROAD

Million tonnes



BUS AND COACH JOURNEYS

Millions

Catering and Restaurant Services

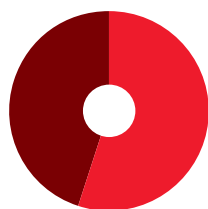
Main targets

- Improving financial performance
- Activating customer service
- Developing supervisor activities



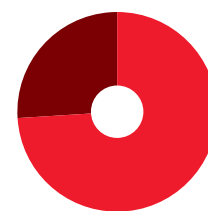
CATERING AND RESTAURANT SERVICES, SHARE OF VR'S NET TURNOVER 2004

- Catering and restaurant services 2%



NET TURNOVER 2004

- Restaurant services in trains 55%
- Restaurants at stations 45%



PERSONNEL 2004

- Restaurant services in trains 74%
- Restaurants at stations 26%

Avecra Oy provides catering and restaurant services on long-distance passenger trains and at railway stations. A-Catering provides daily services on some 130 trains, covering 80% of all express, Inter-City and Pendolino services.

Avecra has altogether 17 restaurants or kiosk outlets at seven railway stations. A reduction in alcohol tax that became effective in March 2004 made the year an especially challenging one for the restaurant sector. The change reduced net turnover from alcoholic beverages throughout the entire sector, as demand moved to retailers and away from restaurants.

Net turnover and sales

Net turnover from Catering and Restaurant Services amounted to EUR 25.5 million in 2004, a decline of 3.6% on the previous year. A-Catering's restaurant net turnover on trains declined by 4.4%, largely due to a reduction in services aimed at improving profitability and to declining net turnover on trains to North Finland in the first six months of the year. Sales picked up, however, in the second half of the year.

Restaurant net turnover decreased by 2.8%, mainly as a consequence of changed consumer behaviour resulting from the lower tax on alcohol and weak sales at outdoor retail outlets during the summer season.

Improved profitability

Costs continued to be closely monitored during the review period. A-Catering restructured its services on trains on which business was unprofitable due to low passenger volumes. Other targets during the year were reducing the wastage of perishable goods, improving purchasing terms, rationalizing pricing and making sales activities more dynamic.

Further cost control improvements were made in the restaurant business area and three unprofitable units were closed down during the year.

Active customer service

The service and sales training courses started in 2003 and provided to all customer service staff

ended in the spring, and campaign-oriented training was arranged as an additional option in the autumn.

The private rooms at the Pullman Bar restaurant at Helsinki central station were modernized for conference use and the Nelmanni and Nellu Pub restaurants at Pasila station were upgraded.

Helsinki's Station Restaurant changed its name back to Restaurant Eliel and adopted a more traditional product range and more distinctive image.

Avecra received positive feedback, especially about the quality of service it provides. The feedback also enabled Avecra to identify one target for development as broadening the product range, particularly on trains.

New skills for supervisors

In June, A-Catering adopted a new team supervisor organization. Responsibility for personnel working in trains was transferred to ten team supervisors located in different parts of Finland.

The main aim of the change was to locate the supervisors' activities closer to train personnel. Positive results from the new supervisor arrangements were reflected in the results of a job satisfaction survey conducted in late autumn.

Seven of Avecra's supervisory staff started a course leading to a specialist qualification in management at the Haaga Institute Polytechnic, together with supervisory staff from the Compass Group's Finnish companies.

Prospects

Changes planned for the near future, such as completion of the direct line to Lahti and the introduction of new sleeper cars, will present Avecra with some major challenges. The company will meet these challenges by upgrading its restaurant services and enhancing efficiency in the logistics chain.

The biggest challenge for the restaurant business is to generate adequate net turnover. This calls for careful monitoring and analysis of customer behaviour, continuous development of restaurant concepts and actively seeking new business outlets.



Safety



Safety is the most important value for VR. Maintaining high safety standards ensures that business operations proceed without interruptions and delays. A high level of safety also prevents injuries to customers or personnel and damage to the environment or VR's property.

VR's Safety Policy defines the main principles, organization and responsibilities of safety-related work. The Rail Safety Programme, a framework for all safety activities that is updated every three years, outlines VR's safety goals and development projects. The programme is refined each year to set specific targets for each VR sector.

No major accidents in rail services

Rail safety has improved consistently for many years now. The main safety target for 2004, preventing major accidents, was achieved. There were no collisions in rail services during 2004 and derailments were less serious than in previous years.

Co-operation between VR and the Finnish Rail Administration aimed at improving the operating reliability of signalling equipment produced results, and the number of signal malfunctions affecting rail services decreased substantially.

The most serious accidents during the review period were the deaths of three passengers disembarking from a moving express train and the serious injury of one person attempting to board a moving train.

The number of accidents involving road traffic at level crossings remained the same as the previous year, 52, in which 7 people died and 12 were injured. This is a worrying trend because in 2002 only 42 accidents occurred and in 1998, the year with the best record so far, only 39.

A truck belonging to Transpoint, a subsidiary of Pohjolan Liikenne, was involved in a road accident in March 2004 at Konginkangas in Äänekoski, central Finland. The truck-trailer carrying heavy paper rolls collided with a bus coming the other way in icy road



Over the next few years, VR plans to recruit a large number of personnel to work as drivers and traffic controllers, as well as in other safety-related jobs. Recruiting and training new professionals is a substantial challenge – also from the safety viewpoint.

Main targets

- Avoiding major accidents
- Continuously improving safety
- Reducing potential accidents



conditions. 23 people died in the accident, 13 passengers were injured seriously and one slightly. The final report on the crash from the Accident Investigation Board is expected in summer 2005.

Safety norms updated

The Train Safety Instructions form an important norm for rail services and were updated during the review period with assistance from VR's railway experts and persons working in jobs related to rail safety.

The new Train Safety Instructions, which will be adopted in May-June 2005, will necessitate induction training for all rail safety personnel during early 2005.

The audits and management reviews required by the safety administration system were conducted as planned in 2004. The instructions for management reviews were updated to place more emphasis on management's responsibilities and role as a driving force in safety matters.

Fewer potential accidents

Reducing cases of minor injuries or damage and minimizing potential accidents is an important element for improving safety, because each non-conformance to safety requirements contains the risk of causing a larger accident. A positive development in 2004 was a reduction in cases of unauthorized passing of stop signals. High priority was given to providing safe pathways for trains.

VR encourages its personnel to follow the correct procedures and to be alert in their day-to-day work. As in previous years, a number of employees were given awards in 2004 for preventing dangerous or threatening situations.

Rail's most important safety system technically, the ATP (Automatic Train Protection) system, already covers 3,650 kilometres of Finland's rail network and almost 90% of rail services. ATP was extended to cover more sections of line in 2004, including the Oulu-Laurila-Kemijärvi and Laurila-Kolari lines.

The Finnish Rail Administration is responsible for construction of the system and VR-Track for installing ATP on the rail network.

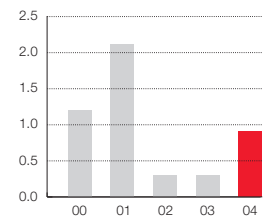
Introduction of the new radio system based on the European standard did not proceed as planned because some defects were noticed on the Piek-sämäki-lisalmi line during trials, and compatible terminal equipment was not available on the market. Consequently, VR can start procurement of radio equipment for its rolling stock in spring 2005 at the earliest.

Prospects

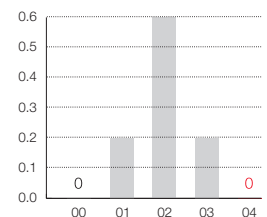
VR is in many respects achieving its objective of improving rail safety to the level where Finland ranks among the top European countries in terms of safety standards. Maintaining this standard will be a big challenge over the next few years, when a high proportion of experienced traffic safety personnel retire and hundreds of new people are recruited to take their place. The recruiting, training, practical induction and skills testing needed for this set tough requirements for the whole organization.

Traffic control can be more centralized and managed with fewer resources by deploying new traffic control and signalling systems. This calls for high reliability in signalling equipment, however, which must be factored in at the planning stage. The operability of the existing radio system must be ensured for a number of years still owing to the delay in deploying the new system.

Accidents at level crossings constitute the most serious safety risk for rail services in Finland. The most effective way to reduce the number of level crossing accidents is to do away with level crossings altogether, which requires adequate financing. The Ministry of Transport and Communications aims to replace 1,100 level crossings by 2015.



FATALITIES AND SERIOUSLY INJURED RAIL PASSENGERS
Per billion passenger-km



COLLISIONS IN RAIL TRAFFIC
Per 10 million train-km

Human Resources



VR Group's long-term personnel strategy supports the Group's business strategies and steers the Group's personnel management. The strategy is refined each year to identify key areas for personnel management. The key areas identified in 2004 were forecasting the quantitative and qualitative changes in personnel needed in coming years, recruiting more employees, managing personnel skills, and supporting supervisors in the development of business activities and work communities.

Number of personnel

During 2004 the VR Group employed an average of 13,264 people, 3.5% less than in the previous year. The average age of personnel was 46 years.

The majority of the Group's personnel, an average of 8,113 in 2004, were employed by VR Ltd in passenger services, freight services and related jobs. VR-Track Ltd with its subsidiaries employed 2,406 people in track construction and maintenance during the year.

The Pohjolan Liikenne subgroup employed 1,906 people in road services, 351 worked with Avecra Oy in catering and restaurant services, 210 with Corenet Ltd in telecommunications services, and 277 people with the Group's parent company VR-Group Ltd, mainly in administration and support services.

Personnel structure changing

Most of VR Group's personnel have worked for VR for a long time. Their skills and competences have been developed through years of experience and hands-on learning. The average length of service in the VR Group is 26 years.

After pursuing a restrained recruitment policy for a number of years, VR is now preparing for faster recruitment of a new generation of employees. The challenge for such a recruitment campaign is that there is no existing pool of labour professionally trained in railway work. Consequently, most new employees start working for the VR Group through the company's own vocational education.

The pace of recruitment during 2004 was brisk. Altogether 135 people were selected for training as

drivers, conductors, traffic controllers and marshalling yard personnel.

Activities in the keep-fit programme launched in 2002 started to become established in the workplace. Depots and works were especially active in helping employees improve their work fitness. The Ratakunto (Track fitness) programme, run jointly by VR-Track and the occupational health service, improved working conditions and provided keep-fit sessions for employees.

Early rehabilitation was also the focus of a research project conducted by the UKK Institute. The project has developed an exercise-based model for treating back disorders in aging employees. Over the last two years, 106 VR employees have participated in the study.

Business perspective for competence management

The correct competences are needed for business development, especially with a faster personnel replacement rate. Therefore, VR has developed an operating model for defining, measuring and developing the competences needed. The competence management model will be widely adopted in the VR Group during 2005. The goal is to link personnel development more closely to business targets.

The VR Training Centre is responsible for professional railway training in Finland. The Centre's basic professional training remained at broadly the same level as the previous year.

The training provided VR with new marshalling yard personnel, conductors, drivers and track construction specialists. The VR Training Centre also trained railway construction experts for employment with other companies, not only the VR Group's own construction company.

The Training Centre organized a wide range of supplementary training in addition to basic training during the year. This included apprenticeship training in electric train maintenance, arranged in cooperation with an external partner in 2004 for fitters at depots and other personnel groups.

A large part of vocational training is given at work places, for which on-the-job trainers are needed.

Main targets

- Managing changes in personnel structure
- Developing competence management
- Supporting management and supervision

Basic training for on-the-job trainers was increased and supplementary training was also arranged for them.

Updated training programmes for supervisors and middle management started in autumn 2004. Demand for occupational counselling for supervisors increased compared to the previous year.

Process management training

VR Ltd and VR-Track Ltd switched to process-based working procedures during the review period. VR-Track also now operates within a project organization. The aim is to ensure that the customer is satisfied with the services received. Another goal is to improve the quality of operations and enhance efficiency.



Conductors form one of the largest personnel groups at VR. Some 44 people were trained as conductors last year.

When the new procedures were being defined, supervisors' duties were clarified and clear targets and performance indicators were set for the processes. Productivity bonus schemes promote personnel commitment to achieving the targets. Supervisors were also given comprehensive training on the new management model.

Development of the working community continued, partly based on the results of the personnel survey conducted in 2003. Priorities during the year were target orientation and supervisor activities.

VR Group conducts an extensive personnel survey once every three years. In 2005 the Group is introducing a new, more concise job satisfaction survey, which will be conducted every year with the aim of improving the monitoring of development results.

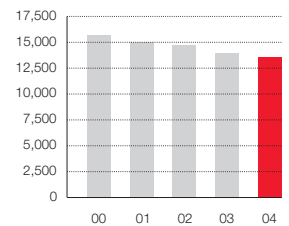
Prospects

The key issues for VR Group's personnel management over the next few years will continue to be managing changes in personnel structure, developing personnel competences, and developing the activities of supervisors and working communities.

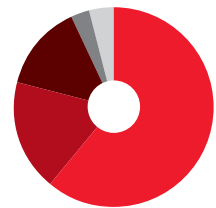
Competition for skilled personnel is increasing. That means correct timing and flexible management are essential in large-scale recruitment campaigns. The VR Training Centre's basic and supplementary vocational training will increase substantially due to new recruitment.

Since the importance of a good working atmosphere is increasing, personnel satisfaction will be monitored with annual surveys. The company will develop the framework for effective working communities by setting clearer targets and by improving work planning and the monitoring of results. Development of bonus and incentive schemes will also continue.

The competence management model will be widely adopted in the VR Group. VR will formulate development paths for experts and supervisors, both company-wide and within each VR business.

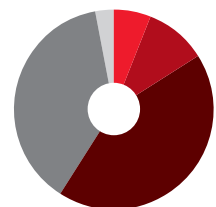


PERSONNEL ON AVERAGE



PERSONNEL BY BUSINESS 2004

● Rail services	61%
● Track construction and maintenance	18%
● Road services	14%
● Catering and restaurant services	3%
● Other	4%



AGE STRUCTURE 2004

● -29 years	6%
● 30-39	10%
● 40-49	43%
● 50-59	38%
● 60-	3%

The Environment

VR's strategy is to utilize the environmental friendliness of rail transport in its business operations. Expanding the market shares of rail transport, public transport and combined transport will improve the eco-efficiency of the entire transport system.

VR's Environmental Strategy and Environmental Policy were updated in 2004, when the Group also updated its Environmental Manual.

The Group's environmental management system is based on the ISO 14000 series of international standards. All Group companies prepare an environmental programme each year, which is based on the principle of continuous improvement.

The central objectives for VR Group's environmental management activities are to improve efficiency in the use of energy, materials and chemicals, and to reduce emissions and other environmental impact caused by the company's operations. VR Group promotes environmental awareness and trains personnel to address environmental issues in their day-to-day work. A special priority is safety in the transport of hazardous substances.

Higher proportion of electrified services

Efficiency in the use of energy is improved by increasing the capacity utilization rate of trains, increasing the proportion of electric traction in rail transport, optimizing marshalling yard operations and improving logistics efficiency through sound traffic planning. The indicators used to measure energy consumption are consumption per passenger-kilometre and per tonne-kilometre.

Electric traction's share of all rail transport rose to 77.8% in 2004. In December a new electrified service started between Oulu and Rovaniemi. Rail transport consumed 566 GWh of electrical energy, compared to 563 GWh in 2003. Consumption of liquid fuels in 2004 amounted to 51.7 million litres, compared to 50.5 million litres in 2003.

The specific consumption of energy by rail services increased slightly compared to the previous year, amounting to 0.29 MJ/(tonne-km + passenger-km), i.e. measured in megajoules per tonne-kilometre and passenger-kilometre. In recent years, specific consumption by freight services has approached

the target of 0.20 MJ/tonne-km set for 2012. Specific consumption has increased in passenger services, however, largely due to improvements in services and passenger comfort and to higher speeds.

Emissions reduced

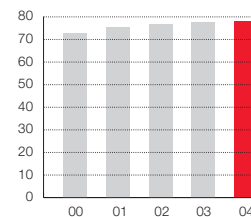
VR places high priority on reducing emissions produced by rail services as well as at workshops, depots and worksites. Raising electric traction's share of rail transport reduces emissions of carbon dioxide and nitrogen oxides. Rail transport produced 308,000 tonnes of carbon dioxide emissions in 2004, a reduction of 3.7% compared to the previous year. An increase in electrified services and changes in the specific emissions from electricity generation were the main causes of this favourable development.

Pohjolan Liikenne's aim is for its transport fleet to meet the low-emission requirements of the Euro 2 and Euro 3 engine emission standards. Road passenger services introduced the EcoLine system, which monitors individual drivers' fuel consumption. The Pohjola Liikenne subgroup is participating in a research study conducted by the Technical Research Centre of Finland (VTT) aimed at permanently reducing the fuel consumption of heavy road transport by 5–10%.

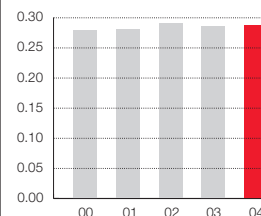
VR spent altogether EUR 730,000 on soil surveys and soil decontamination in 2004, some 53% less than the previous year. In 2003 several large sites were decontaminated, while in 2004 the largest decontamination project was modernization of the Turku refuelling depot. Further surveys of the Ilmala marshalling yard were initiated in co-operation with the Finnish Rail Administration.

During the year the Group's rail services carried a total of 5.5 million tonnes of hazardous substances and road services 1.1 million tonnes, representing a decrease of 28%. Altogether 13 leaks occurred in rail services, of which three necessitated soil decontamination. No significant emissions that were harmful to the environment or to people's health occurred.

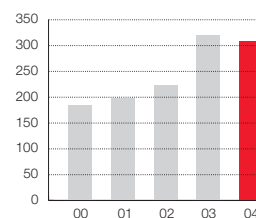
The Group collaborated with the Finnish Rail Administration and local authorities in seeking solu-



ELECTRIC TRACTION, SHARE OF TOTAL TRAIN-KM
%



ENERGY CONSUMPTION BY TOTAL TRANSPORT VOLUME
MJ/(tonne-km + passenger-km)



CARBON DIOXIDE EMISSIONS IN RAIL SERVICES
1,000 tonnes

Main targets

- Improving efficiency in the use of energy
- Reducing emissions and other environmental impact
- Using materials and chemicals more efficiently



tions to noise and vibration problems. VR continued to improve its working methods in respect of noise abatement.

Care in the use of chemicals

The Group pursued the project for improved management of chemicals in 2004 by upgrading the instructions and providing training to 140 employees on use of the chemicals register, purchasing procedures, statutory obligations and occupational health.

The coverage of environmental management certification within the Group remained the same, but the number of certificates changed owing to corporate restructuring. The Group updated its Environmental Manual and provided more environmental training for personnel. The training focused especially on the safe use of chemicals and other safety issues.

VR participated in the evaluation of the environmental management systems of civil service departments, public enterprises and companies within the administrative sector of the Ministry of Transport and Communications. This produced recommended improvements for co-operation within the administra-

tive sector and for the system at each organization. VR published its fourth Environmental Report, which covered the 2-year period 2002–2003. A national comparison ranked it the best dedicated environmental report in the transport sector.

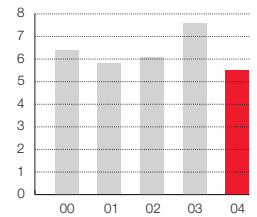
Prospects

VR will continue to focus its environmental management activities on enhancing efficiency in the use of energy and increasing electric traction's share of rail transport. The target is that electrified services will account for 80% of all train-kilometres by 2012. Eco-efficiency in transport will be achieved by increasing train capacity utilization, train sizes and axle loads. One major challenge is achieve a reduction in passenger services's specific energy consumption.

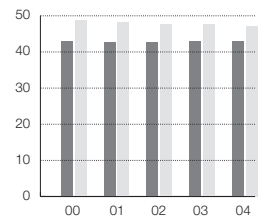
VR assesses the full lifecycle impacts on the environment when modernizing rolling stock or making other large-scale procurements. Stricter regulations on emissions and noise steer the Group's purchasing decisions and other activities. VR will endeavour to ensure that Finland's special climatic conditions are taken adequately into account in the preparation of European railway standards.



Electric traction accounts for 78% of all rail transport.

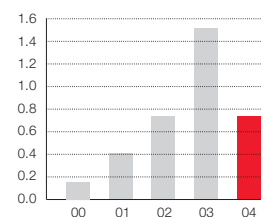


HAZARDOUS SUBSTANCES TRANSPORTED BY RAIL
Million tonnes



FUEL CONSUMPTION IN ROAD TRANSPORT
l/100 km

● Transport
● Combitrans



COSTS FOR DECONTAMINATION OF POLLUTED SOIL
M€





Financial Statements

2004

Report by the Board of Directors

Market conditions and operating environment

Prospects for rail services did not look encouraging in the first half of 2004. The economic situation was worse than usual in the industrial sectors of greatest importance for freight carryings, traffic from Russia was declining, and major changes in the supply and pricing of airline services had a negative impact on passenger services.

The industrial economic barometer published towards the end of the summer showed, however, a strengthening trend, and exports were also expected to pick up during the autumn in the resource-based industries important for rail transport. The industrial production index, excluding electrotechnical products, rose 2.5% for the whole year, according to preliminary estimates. Most of this growth was in the second half of the year.

The forest and paper industry index rose 6.2% for the whole year, the chemical industry index 1.8%, and the metal and mechanical engineering index, excluding electrotechnical products, 1.4%. Production volumes in these industrial sectors are of decisive importance to VR's freight transport business. The volume of exports increased 2.9% according to preliminary estimates. This was also reflected in VR's domestic freight transport volumes, which were greater than the previous year in almost every month. The biggest growth took place in November and December.

Roughly 40% of VR's total freight carryings consists of traffic over the border with Russia. The volume of this traffic does not entirely correlate with domestic business trends, since it is also affected by Russia's own trade practices. These affect goods that stay in Finland as well as transit traffic via Finland to third countries and make it difficult to make reliable predictions, especially for transit traffic. Russia has for several years now strongly favoured international carryings through its own ports over land connections. At the same time it has vigorously expanded its port capacity.

Demand for passenger services does not clearly correlate with the general economic situation, and is more strongly affected by developments within different forms of transport and socioeconomic changes in the population. During 2003 changes occurred in the availability of domestic air services and in their prices, and these continued to reduce demand for

rail services in 2004 on the routes between Helsinki and the north of Finland, although the situation stabilized towards the end of the year. Taken as a whole, however, rail is estimated to have slightly increased its share of public transport, but travel by private car is thought to have grown more than public transport.

However, one factor that has a bigger impact on demand for rail services than air travel or the private car is the fact that the standard of the rail network does not at present allow trains to travel at the speeds expected of modern rail transport and that would be possible with existing rolling stock. Domestic and foreign analyses and experience all demonstrate that fast timetables are the most important means of raising demand for long-distance train services.

Consolidated turnover, result and liquidity

The Group's net turnover totalled EUR 1,178.9 million, having been EUR 1,160.5 million in the previous year. Net turnover grew in passenger services but declined in freight services as the result of the reduction in traffic from Russia. Turnover from track construction and maintenance for the government increased. The Group's personnel expenses and depreciation were lower than in the previous year, but material costs and other operating expenses increased. Total operating expenses rose 1.1% from the previous year.

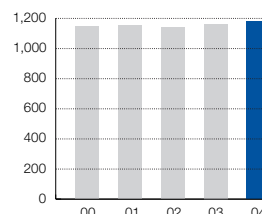
The operating profit was EUR 62.8 (53.0) million and the net profit for the period was EUR 51.7 (41.3) million. A reorganization of pension provisions for group companies in the pension fund improved the operating profit by EUR 7.3 million.

VR Ltd posted an operating profit of EUR 28.1 (21.3) million and VR-Track Ltd EUR 15.5 (12.8) million. The operating profits of the Group's other main subsidiaries are shown in Note 7 of the notes to the financial statements.

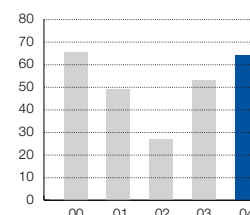
The Group's liquidity remained good throughout the period. Net interest income amounted to EUR 7.3 (8.3) million. No new external long-term loans were raised during the year.

Rail volumes

Rail transport operations are the responsibility of VR Group's subsidiary VR Ltd. Freight transport is handled under the name of VR Cargo and passenger services by VR Passenger Services.



NET TURNOVER
M€



OPERATING PROFIT
M€

VR Cargo's carryings totalled 42.7 million tonnes. Of this total, 26.3 million tonnes came from domestic traffic and 16.4 million tonnes from international traffic. Domestic traffic increased 5.1% and international traffic declined 11.4%. International traffic refers to rail traffic crossing Finland's borders. Most of this comprises traffic between Finland and Russia or transit traffic via Finland to third countries. The reduction in international traffic caused total carryings to decline by 1.9%. Traffic volumes in the November-December period were higher than in the previous year and in several previous years.

Within domestic traffic, carryings in the largest segment, the forest industry, increased by 6.7%, in the metal industry declined 0.5%, and in the chemical industry increased 6.5%. The latter two segments are the largest freight categories after the forest industry.

Traffic between Finland and Russia fell 15.8% to 12.1 million tonnes. More than half of this total consisted of raw timber imports into Finland, almost a quarter comprised chemical industry products, and the rest was made up almost entirely of metal industry products. Timber carryings declined by over 5%. Chemical industry carryings showed proportionally the greatest reduction.

Traffic between Finland and Russia also includes traffic between Finland and East Asia (principally Korea, Japan and China), most of which is container traffic. This segment grew 24% and totalled 124 473 TEU (1 TEU, twenty foot equivalent unit, is the nominal capacity of one 20-ft long container).

Transit traffic via Finland to third countries totalled 3.2 million tonnes, the same as in the previous year. Most of this was composed of Russian exports of raw materials to western Europe. Chemical carryings, principally petroleum products from Russia to western Europe, accounted for 70% of total transit traffic. This freight category decreased by more than 17%, whereas metal industry products, which represented 27% of total transit traffic, more than doubled.

Direct rail traffic between Finland and western Europe increased 16.5%, from almost one million tonnes to 1.1 million tonnes. Some 53% of this freight was carried by ferry from Finland to Germany and Sweden. Virtually all the rest was transported via Tornio in northern Finland. Rail-ferry traffic increased 5.4%, and traffic moving through the Tornio border station rose by more than 33%.

VR-Cargo's non-consolidated net turnover totalled EUR 349.9 (353.6) million. The average transport distance increased from 231 kilometres to 236 kilometres.

Preliminary figures indicate that rail slightly increased its market share of freight traffic.

The number of journeys in passenger traffic totalled 60.1 million, an increase of 0.4%.

Long-distance journeys showed an increase of 1.8% to 12.1 million passenger journeys, with most of this growth taking place in the latter part of the year. The average length of a long-distance journey was three kilometres shorter or 219 kilometres. Long-distance traffic comprises all journeys other than those made in the Greater Helsinki area, regardless of the journey length. A total of 251,800 passenger journeys were made between Finland and Russia, down 1.3%. The general decline in the number of people travelling from Russia to Finland also affected rail transport.

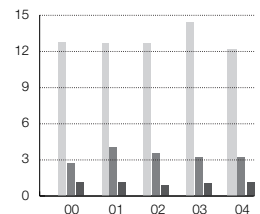
Commuter traffic in the Greater Helsinki area remained at the same level as in the previous year at 48.0 million passenger journeys. The number of journeys in the zone administered by the Helsinki Metropolitan Area Council (YTV = Helsinki, Vantaa, Espoo, Kauniainen) was 38.2 million, a decline of 0.6%. Commuter traffic outside this zone grew 2.4% to 9.8 million journeys.

Non-consolidated net turnover from passenger services amounted to EUR 304.9 (297.5) million.

Road services

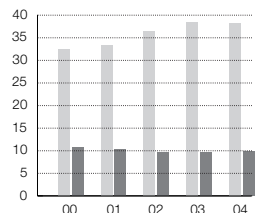
VR's road transport operations are handled by Oy Pohjolan Liikenne Ab and its subsidiaries. Transpoint Oy Ab is a national carrier of general cargo and Combitrans Oy handles partial and full-load carryings. Oy Transuotila Ab and its subsidiaries carry liquid fuels. The Pohjolan Liikenne companies carried a total of 8.9 million tonnes of freight, an increase of 3.6% on the previous year. Pohjolan Liikenne companies owned 260 trucks at year end and employed an average of 730 trucks owned by subcontractors.

Passenger services in the Pohjolan Liikenne group are organized around two companies. Oy Pohjolan Henkilöliikenne Ab is responsible for regular and charter coach services mainly in southern and eastern Finland. Oy Pohjolan Kaupunkiliikenne Ab manages contract traffic in the Greater Helsinki area. These companies carried a total of 10.2 mil-



VR CARGO'S INTERNATIONAL RAIL CARRIINGS
Million tonnes

- Eastern traffic
- Transit traffic
- Western traffic



JOURNEYS IN COMMUTER TRAFFIC
Millions

- Helsinki metropolitan area
- Other
- Helsinki

lion passengers, down roughly 26% on the previous year. This was mainly due to a decrease in contract traffic from the previous year. There were 277 coaches in service at the year end.

Net turnover of the Pohjolan Liikenne companies was EUR 199.3 (202.5) million, 84% of which was derived from freight and 16% from passenger traffic.

Track construction and maintenance

VR-Track Ltd is the VR Group company responsible for providing track design, construction and maintenance services for the Finnish government, local authorities and also companies that use rail services. VR-Track Ltd's largest customer is the Finnish Rail Administration, a government department subordinated to the Ministry of Transport and Communications and responsible for management of the rail network.

VR-Track Ltd's net turnover in 2004 was EUR 225.9 (216.0) million, over 90% of which was commissioned by the Finnish Rail Administration. VR-Track Ltd handles almost 50% of all contracts awarded by the Finnish Rail Administration, most of which involve work requiring specialist rail track expertise. The order book at the close of the review year totalled roughly EUR 215 (150) million.

The company's largest superstructure projects during the year were on the Kokemäki-Rauma, Luumäki-Lappeenranta, Rovaniemi-Kemijärvi, Oulu-Kokkola, Pieksämäki-Kuopio and Sillinjärvi-Viinijärvi lines. Superstructure work involves cleaning the ballast and replacing sleepers and rails. Superstructure was upgraded on altogether 250 kilometres of railway line. At the end of the year the company won the Finnish Rail Administration's competitive tender for a five-year framework contract for line superstructure works.

VR-Track continued the superstructure work, electrification and installation of signalling equipment on the direct Kerava-Lahti line. In addition, VR-Track's subsidiaries Vuorenpeikot Oy and Megasiirto Oy have contracts for earthworks and bridge construction for the line. VR-Track and its subsidiaries have a 20% share of all work on the direct Kerava-Lahti line.

In Estonia, VR-Track AS's ballast cleaning project, commissioned by RT-Ehitus AS, entered its fifth year. In northern Sweden, VR-Track won a contract for line superstructure work on the 110-kilometre Botnibanan line, in an alliance with Balfour Beatty Rail AB. Work on the project is scheduled for 2005–2007.

Capacity utilization at VR-Track's own production units – the rail welding shop, the track points production works and the wood impregnation plant – remained good. The rail-welding unit in Kaipainen handled some 25,000 tonnes of rails. The track point units in Pieksämäki and Kaipainen manufactured some 140 track points of varying types and reconditioned almost 60 track points and 460 units of turning gear. Production at the Haapamäki wood impregnation plant amounted to 27,000 cubic metres of impregnated timber, some two-thirds of which was sleepers.

Investments

The Group's capital expenditure amounted to EUR 180.0 (151.5) million, which included EUR 140.9 (94.5) million covering rolling stock for VR Ltd. No decisions were made on major new investments; capital expenditure consisted mainly of payments for previously decided investments.

The principal items were the Sm4 city trains, on which EUR 63.5 million were spent, and the Pendolino trains, which accounted for EUR 43.6 million of the capital expenditure. During the review year, 13 new city trains were supplied and four Pendolino trains.

VR-Track Ltd's investments amounted to EUR 5.7 (12.1) million, most of which comprised replacements of track machinery and wagons retired from use.

The Pohjolan Liikenne group's investments totalled EUR 12.6 (11.7) million and principally covered spending on new vehicles.

Business development

The replacement of passenger rolling stock continued as planned. This included the deliveries of Pendolinos and city trains, and in December the first of the 16 rail buses ordered in 2001 from the Czech Republic arrived in Finland for test runs. The rail buses are intended to replace trains pulled by locomotives on sections of line with low passenger volumes. The first two car carriers were supplied of the series of 15 ordered the previous year.

The completion of the fourth track in August between Tikkurila and Kerava made it possible to reduce the interval between departures of commuter trains between Helsinki and Kerava to 10 minutes during morning and afternoon peak hours. At other times, trains depart at 20 minute intervals. In October Pendolino rolling stock was introduced on the morning services departing from Seinäjoki and Oulu.

The first electric trains started serving Rovaniemi after electrification of the Oulu–Rovaniemi line was completed.

Further improvements were made to Internet ticket sales in May so that customers were able to print e-tickets for long-distance rail services themselves on their own printer or to order the ticket in the form of a text message sent to their mobile phone. This change increased Internet ticket sales and at the end of the year they accounted for 5% of long-distance sales. During the spring VR also introduced an extranet sales system for travel agents at 260 of their outlets.

At the start of new timetable period at the beginning of June, the first class compartments disappeared from conventional express trains, leaving two classes of compartment only on InterCity and Pendolino trains. The reduced price 'green departures' were terminated at the same time and were partially replaced by various special offers.

The punctuality rate in passenger services in 2004 improved from the previous year. According to international practice, in long-distance services delays exceeding 5 minutes at the destination station are counted as lateness and in commuter services the limit is 3 minutes. VR's punctuality rate in long-distance traffic was almost 92% and in commuter traffic more than 98%, which are extremely high figures by international standards.

In January the terminal for combined transport was taken into service at Oritkari in Oulu. The terminal is a joint project between the City of Oulu, VR Ltd and the Finnish Rail Administration. Some 15,000 articulated vehicles are transported each year via Oulu and the new Oritkari terminal makes it possible to double current freight volumes.

A new cargo terminal was opened in March in Kouvola, for assembling eastbound freight flows from Finnish customers into consignments. The terminal is also utilized by VR Group's road transport services.

During the year VR introduced EDI messaging for freight order handling with a pilot customer and all customers with EDI-compatible systems can join.

Operations of Metropolitan Area Rolling Stock Ltd

The beginning of the year saw the start of operations for VR Ltd's associated company Metropolitan Area Rolling Stock Ltd, in which VR Ltd has a 35% holding. The other shareholders are the cities

of Helsinki, Vantaa, Espoo and Kauniainen. The purpose of the rolling stock company is to purchase and administer the new rolling stock needed for commuter traffic in the Greater Helsinki area and to lease it to operators.

During the review year the company has mainly examined the process for purchasing rolling stock. It is planned to start the process of ordering trains after the signing of the operating agreement between VR Ltd and YTV (Helsinki Metropolitan Area Council), which should come into force at the beginning of 2006.

In accordance with the shareholder agreement, VR Ltd has committed itself to finance the company's operations with capital loans to a maximum of EUR 7.0 million, to provide guarantees to a maximum of EUR 70.0 million and, if the company's situation so requires, to contribute to an increase in share capital to a maximum of EUR 1.68 million.

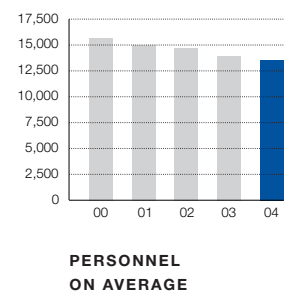
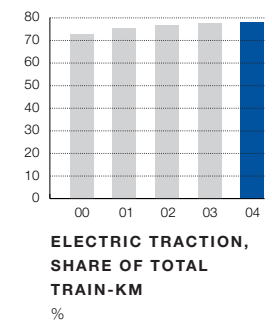
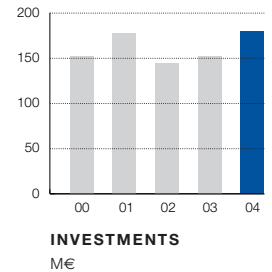
Corporate agreements

In February VR-Group Ltd and YIT Construction Ltd signed an agreement under which YIT will acquire the land owned by VR in the Vallila district of Helsinki. The area, designated for residential development, is known locally as the Pasila Workshops. The transaction will take place in stages as building progresses, once the rezoning plan takes legal effect.

In March Transpoint Oy Ab, part of the Pohjolan Liikenne companies, purchased the 10% holding of Paroc Oy Ab in Combitrans Oy, which as a result became a fully-owned subsidiary of Transpoint Oy Ab. In October Oy Transuotila Ab, part of the Pohjolan Liikenne companies, purchased four road tanker-trailers and their business from Sirja-Trans Oy, which operates in the Southern Ostrobothnia region of Finland.

In November VR-Group Ltd and ISS Facility Services signed an agreement transferring cleaning operations for VR's properties and train coaches to ISS as from the beginning of 2005. The agreement followed competitive tendering in the spring. Just over 200 people employed by VR in cleaning operations transferred to the service of ISS retaining their existing employee status.

In November VR-Track Ltd purchased a 70% majority holding in Insinööritoimisto Arcus Oy, an engineering office specializing in construction and geotechnical design. The company has a net turnover of EUR 0.6 million. The acquisition expands VR-Track Ltd's rail track design capabilities.



Safety

Safety is the most important value for VR. Maintaining high safety standards ensures that business operations proceed without interruptions and delays. A high level of safety also prevents injuries to customers or personnel and damage to the environment or VR's property. VR's Safety Policy defines the main principles, organization and responsibilities of safety-related work. The Rail Safety Programme, a framework for all safety activities that is updated every three years, outlines VR's safety goals and development projects. The programme is refined each year to set specific targets for each VR sector.

VR achieved its main safety target for 2004, preventing major accidents. There were no collisions in rail services and derailments were less serious than in previous years. Cases of unauthorized passing of stop signals decreased significantly from the previous year. During the review period three passengers died when disembarking from a moving express train and one person was seriously injured when attempting to board a moving train. Overall, however, rail safety has improved consistently for several years and the figures for 2004 meet VR's target of being among the best in the EU.

The number of accidents involving road traffic at level crossings remained the same as the previous year, 52, in which 7 people died and 12 were injured. Viewed over a period of several years, the number of accidents at level crossings has remained more or less the same, although the numbers in individual years have occasionally varied. In legal terms, accidents at level crossings are classified as road accidents.

The Finnish Rail Administration, the civil service department responsible for rail safety, initiated a complete revision of the Train Safety Instructions, which will be adopted in May-June 2005. This will necessitate induction training for all rail safety personnel during early 2005.

Rail's most important safety system technically, the ATP (Automatic Train Protection) system, already covers 3,650 kilometres of Finland's rail network and almost 90% of rail services. ATP was extended to cover more sections of line in 2004, including the Oulu-Laurila-Kemijärvi and Laurila-Kolari lines.

To improve the management of its business risks, VR Group approved a risk management policy and carried out the first risk assessment, covering all of

VR's business areas. In accordance with the policy, risk assessments will be carried out for each business area each year.

The environment

The central objectives for VR Group's environmental management activities are to improve efficiency in the use of energy, materials and chemicals, and to reduce the environmental impacts and emissions caused by the company's operations. The Group's environmental management system is based on the ISO 14000 series of international standards.

VR participated in the evaluation of the environmental management systems of civil service departments, public enterprises and companies within the administrative sector of the Ministry of Transport and Communications. This produced recommended improvements for co-operation within the administrative sector and for the system at each organization. The Group updated its Environmental Manual, and VR's Environmental Report, which covered the 2-year period 2002-2003, was ranked the best dedicated environmental report in the transport sector in a national comparison.

VR provided more environmental training for personnel and altogether 164 drivers attended Pohjolan Liikenne's training courses promoting economical driving habits.

Electric traction has better energy efficiency and considerably lower emissions than diesel-powered transport. In 2004, electric traction accounted for 77.8% of all rail transport kilometres, compared to 77.6% in the previous year. Consumption of diesel fuel by rail traffic totalled 51.7 (50.7) million litres. Thanks to changes in electricity generating methods and the increase in electrified services, carbon dioxide emissions from rail traffic fell by 3.7%.

A total of 5.5 million tonnes of hazardous substances were transported by rail and there were 13 incidents of leaks during the transportation of these substances compared to 16 one year earlier. Three of these leaks required soil decontamination on a small scale.

Soil surveys and soil decontamination were carried out under the plan drawn up earlier. The largest decontamination project was in connection with the modernization of the Turku refuelling depot. Soil surveys and soil decontamination are performed continuously on an annual basis and VR is not aware of

any major environmental damage. Altogether EUR 0.7 million was spent on this work. The Finnish Rail Administration is responsible for decontamination of the soil on which the national rail network is built.

Personnel and administration

The number of employees in VR Group has declined continuously for many years as a result of rationalization, the use of new technology and the concentration of traffic flows. Most reductions have taken place through natural depletion. Personnel decreased 3.5% during the review year. The Group had 13,264 employees on average during the year. The largest personnel reductions took place in VR Ltd and VR-Track Ltd.

In consequence of the strict recruiting policy in force for more than ten years, the average age of personnel has risen and now the Group has started to recruit more personnel. This is speeding up the changeover to the new generation of personnel, which in turn requires control of the changes in personnel structure, development of personnel skills, and increasing support for the work of supervisory staff.

During the review year VR streamlined its recruitment practice and developed tools for this. The Group developed an operating model for defining personnel skill needs and assessing skill levels, which is to be introduced during 2005. New training programmes for foremen and middle management were initiated in autumn 2004 to develop supervisor skills. Process management training was given for supervisors. The VR Training Centre is responsible for professional railway training in Finland.

The parent company's Annual General Meeting on 25 March 2004 re-elected the following to the Board of Directors: Martin Granholm (chairman), Kalevi Alestalo, Kari Kallio, Eija Malmivirta, Kirsti Lehtovaara-Kolu, Antti Remes, Veli-Matti Ropponen and Jukka Ruuska. The Board elected Antti Remes as its deputy chairman. The Board appointed from its members an appointment and remuneration committee and an audit committee. Martin Granholm was elected chairman of the appointment and remuneration committee and Antti Remes chairman of the audit committee.

Matti Ahde was elected chairman of the Supervisory Board and the Supervisory Board elected Pekka Nousiainen as its deputy chairman.

The AGM elected as auditors Osmo Valtonen, Approved Accountant, Chartered Public Finance Auditor, and the firm of authorized public accountants KPMG Oy Ab under the supervision of principal auditor Pentti Savolainen, Authorized Public Accountant.

Henri Kuitunen is VR's Chief Executive Officer and President of VR-Group Ltd. Veikko Vaikkinen, Chief Financial Officer of VR-Group Ltd, and Tapio Simos, President of VR Ltd, are Executive Vice Presidents of VR-Group.

VR has a performance-based bonus scheme for personnel and in 2005 is introducing a management incentive bonus scheme that covers 26 people. The scheme includes short- and long-term elements. The short-term incentives are based on achieving performance targets for the individual company and the Group and 2-3 personal targets, and the long-term incentive is based on VR Group's return on equity (ROE).

Prospects in 2005

Towards the end of 2004 the general economic situation took an upturn, but is likely to stabilize during the year and no major increase in volumes is anticipated in the industrial sectors important for VR's freight services. The volume of freight tonnage carried by VR is forecast to rise slightly. Larger growth is expected in traffic from Russia after the substantial decline in carryings the previous year. The number of passenger journeys is also estimated to increase slightly. VR raised its passenger service prices in line with inflation at the beginning of January. No major changes are expected in the volume of track construction and maintenance work.

Towards the end of 2004 VR conducted a study of planned depreciation of rolling stock to find out how well it corresponded to the actual economic life of the rolling stock. On the basis of the study, VR decided to extend the working life of VR Ltd's tractive stock and rolling stock by on average five years as from the beginning of 2005.

Consolidated Profit and Loss Account

(1,000 €)	Note	1 Jan.–31 Dec. 2004	1 Jan.–31 Dec. 2003
Net turnover	1	1,178,945	1,160,494
Change in stocks of finished goods and work in progress		844	213
Production for own use		25,804	26,777
Share of result of associated companies		-12	115
Other operating income	2	15,874	11,638
Materials and services	3	319,281	313,491
Personnel expenses	4	556,791	558,336
Depreciation	5	112,641	115,896
Other operating expenses	6	169,959	158,479
Expenses, total		1,158,673	1,146,202
Operating profit	7	62,781	53,035
Financial income and expenses	8	7,286	8,309
Profit before extraordinary items and taxes		70,067	61,344
Income taxes	11	-15,831	-17,600
Minority interest		-2,487	-2,433
Profit for the year		51,750	41,310

Consolidated Balance Sheet

(1,000 €)	Note	31 Dec. 2004	31 Dec. 2003
Assets			
Fixed assets			
Intangible assets	12	12,402	9,901
Goodwill on consolidation		5,510	7,475
Tangible assets	12	1,095,252	1,031,504
Investments	13		
Holdings in Group companies		42	60
Holdings in associated companies		4,645	5,181
Other investments		94,273	84,161
Fixed assets, total		1,212,124	1,138,283
Current assets			
Stocks	14	57,563	51,474
Long-term receivables	15	1,825	2,030
Current receivables	15	118,420	120,348
Securities	16	122,381	144,312
Cash at bank and in hand		4,635	10,034
Current assets, total		304,824	328,198
Assets, total		1,516,948	1,466,482
Capital and liabilities			
Shareholders' equity			
Share capital	17	370,013	370,013
Share premium account		525,761	525,761
Other reserves		339	339
Retained earnings		264,708	263,475
Profit for the year		51,750	41,310
Shareholders' equity, total		1,212,572	1,200,899
Minority interest		10,328	9,706
Provisions	19	1,316	1,331
Liabilities			
Deferred tax liability	20	43,918	48,084
Long-term liabilities		3,944	3,401
Current liabilities		244,870	203,060
Liabilities, total		292,732	254,545
Capital and liabilities, total		1,516,948	1,466,482

Consolidated Cash Flow Statement

(1 000 €)	1 Jan.–31 Dec. 2004	1 Jan.–31 Dec. 2003
Cash flow from operating activities		
Operating profit	62,781	53,035
Adjustments to operating profit ¹⁾	96,404	109,689
Change in net working capital	10,770	-8,018
Interest received	7,923	8,716
Interest paid and other payments	-689	-444
Dividends received	37	26
Taxes paid	-11,134	-24,405
Net cash from operating activities	166,093	138,599
Cash flow from investing activities		
Subsidiaries acquired	-274	-2,416
Capital expenditure on fixed assets	-148,943	-146,415
Subsidiaries sold	0	700
Other fixed assets disposals	7,456	4,068
Change in other long-term investments	-10,074	-6,413
Change in long-term receivables	258	
Net cash from investing activities, total	-151,576	-150,476
Cash flow before financing activities	14,516	-11,877
Cash flow from financing activities		
Long-term loans, repayments	-76	-89
Short-term loans, proceeds/repayments	0	-17
Dividends paid	-41,770	-31,797
Net cash used in financing activities, total	-41,846	-31,903
Change in cash reserves	-27,330	-43,780
Cash reserves on 1 Jan.	154,346	198,126
Cash reserves on 31 Dec.	127,016	154,346

¹⁾ Depreciation according to plan, other non-monetary items, and items shown elsewhere in cash flow.

Parent Company Profit and Loss Account

(1,000 €)	Note	1 Jan.–31 Dec. 2004	1 Jan.–31 Dec. 2003
Net turnover	1	48,937	47,206
Other operating income	2	7,364	4,853
Materials and services	3	13,023	12,934
Personnel expenses	4	12,990	12,594
Depreciation	5	11,746	10,857
Other operating expenses		10,426	9,821
Expenses, total		48,185	46,205
Operating profit		8,116	5,855
Financial income and expenses	8	20,982	22,605
Profit before extraordinary items		29,098	28,459
Extraordinary items	9	25,000	20,000
Profit before taxes		54,098	48,459
Change in depreciation difference	10	403	-1,258
Income taxes	11	-15,567	-13,452
Profit for the year		38,934	33,750

Parent Company Balance Sheet

(1,000 €)	Note	31 Dec. 2004	31 Dec. 2003
Assets			
Fixed assets			
Intangible assets	12	970	945
Tangible assets	12	222,268	225,337
Investments	13		
Holdings in, and receivables from, Group companies		567,956	521,703
Other investments		95,601	85,536
Fixed assets, total		886,796	833,521
Current assets			
Current receivables	15	89,472	87,938
Securities	16	122,381	144,312
Cash at bank and in hand		1,769	7,707
Current assets, total		213,622	239,957
Assets, total		1,100,417	1,073,478
Capital and liabilities			
Shareholders' equity			
Share capital	17	370,013	370,013
Share premium account		525,754	525,754
Retained earnings		60,803	67,053
Profit for the year		38,934	33,750
Shareholders' equity, total		995,503	996,569
Accumulated appropriations	18	1,716	2,119
Liabilities			
Long-term liabilities	20	193	169
Current liabilities		103,006	74,620
Liabilities, total		103,199	74,790
Capital and liabilities, total		1,100,417	1,073,478

Parent Company Cash Flow Statement

(1,000 €)	1 Jan.–31 Dec. 2004	Jan.–31 Dec. 2003
Cash flow from operating activities		
Operating profit	8,116	5,855
Depreciation according to plan	11,746	10,857
Other non-payment-related income and expenses	-7,257	-4,769
Cash flow before change in net working capital	12,605	11,943
Change in current receivables	3,556	3,941
Change in current liabilities	-778	876
Change in net working capital	2,777	4,817
Interest paid	-2,475	-3,150
Dividends received	1,826	1,953
Interest received from operating activities	20,885	23,003
Taxes paid	-7,951	-16,610
Cash flow from financial items and taxes	12,285	5,197
Net cash from operating activities	27,667	21,956
Cash flow from investing activities		
Capital expenditure on fixed assets	-10,141	-19,751
Subsidiaries sold	0	758
Sale of other fixed assets	5,333	2,218
Change in other long-term investments	-10,074	-6,413
Net cash from investing activities, total	-14,882	-23,188
Cash flow before financing activities	12,785	-1,232
Cash flow from financing activities		
Long-term receivables, increase	-100,980	-40,000
Long-term receivables, decrease	55,467	52,339
Group contributions received	20,000	16,000
Dividends paid	-40,000	-30,000
Change in funds transferred to Group accounts	24,860	-39,907
Net cash used in financing activities, total	-40,653	-41,567
Change in cash reserves	-27,868	-42,800
Cash reserves on 1 Jan.	152,018	194,818
Cash reserves on 31 Dec.	124,150	152,018

Notes to the Financial Statements

Accounting principles

Scope of consolidation

The consolidated financial statements comprise 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 consolidated financial statements are available from the company's head office at Vilhonkatu 13, P.O. Box 488, 00101 Helsinki, Finland.

Principles of consolidation

Mutual holdings

The consolidated financial statements are prepared using the purchase method. Goodwill on consolidation in eliminations is amortized 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 separated from shareholder equity and the net profit and 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.

Comparability of accounts

No significant changes compared to the previous year were made to the accounting principles applied when preparing the financial statements.

Recognition of long-term projects

Revenue from VR-Track Ltd's construction projects is recognized as a percentage of their completion, with the exception of small contracts worth less than EUR 50,500, income from which is recognized on their completion. The percentage of completion

is determined according to the project's physical degree of completion. Net turnover is calculated as the aggregate recognized percentage as a proportion of the estimated total revenue accruing from the projects. Project costs are the aggregate recognized 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 provisions.

Valuation principles applied when preparing the financial statements

Fixed assets are capitalized at their direct acquisition cost. Fixed assets totalling M€ 25.8 (26.8) were produced by the company itself and include M€ 3.9 (2.4) 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 their purchase cost. Receivables, liabilities and other commitments denominated in foreign currencies are translated into euros 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. VR's pension commitments are fully covered.

Notes to the Profit and Loss Account

1 Net turnover by operating sector (1,000 €)	Group	2003	Parent Company	2003
	2004		2004	
Rail services				
Freight services	348,154	351,818		
Passenger services	304,443	296,947		
Road services				
Freight services	166,319	166,875		
Passenger services	31,468	34,732		
Track construction and maintenance	235,535	215,353		
Catering and restaurant services	25,482	26,421		
Other services	67,544	68,349	48,937	47,206
Total	1,178,945	1,160,494	48,937	47,206

Revenue from long-term line construction projects is recognized as a percentage of completion, calculated from actual costs and estimated total costs. The amount recognized during the year was M€ 50 (53).

2 Other operating income (1,000 €)	Group	2003	Parent Company	2003
	2004		2004	
Profits on sale of fixed assets	7,497	6,184	7,274	4,771
Other	8,377	5,455	89	83
Total	15,874	11,638	7,364	4,853

The main items under other operating income comprise the sale of the parent company's land and compensation for damages (M€ 2). The parent company's profit on the sale of fixed assets was derived from the sale of land.

3 Materials and services (1,000 €)	Group	2003	Parent Company	2003
	2004		2004	
Materials and supplies (goods)				
Purchases during the year	164,003	145,268	6,036	6,648
Change in stocks	-5,103	1,022	0	0
External services purchased	160,381	167,201	6,987	6,286
Total	319,281	313,491	13,023	12,934

4 Personnel and personnel expenses	2004	2003
The Group's average number of personnel during the year was distributed as follows:		
VR-Group Ltd	277	280
VR Ltd	8,113	8,376
VR-Track Ltd	2,358	2,459
Pohjolan Liikenne group	1,906	1,985
Avecra Oy	351	376
Corenet Ltd	210	206
Others	49	64
Total	13,264	13,746

Personnel expenses (1,000 €)	Group		Parent Company	
	2004	2003	2004	2003
Wages and salaries	429,207	429,309	10,484	10,111
Pension expenses	85,836	91,143	1,550	1,599
Other social expenses	41,747	37,885	955	884
Personnel expenses in the P&L account	556,791	558,336	12,990	12,594

Management remuneration (1,000 €)	Group		Parent Company	
	2004	2003	2004	2003
Presidents	1,777	1,486	465	398
Members of Boards of Directors	270	224	161	150
Supervisory Board	98	106	98	106
Total	2,145	1,815	724	654

The same pension commitments apply to the members of the Board of Directors and Presidents as to other company employees.

5 Depreciation (1,000 €)	Group		Parent Company	
	2004	2003	2004	2003
Planned depreciation				
Intangible assets	5,202	4,570	209	195
Buildings and structures	9,145	10,697	8,445	8,095
Tractive and rolling stock	67,990	70,527	0	0
Other machinery and equipment	27,346	27,899	2,529	2,123
Other tangible assets	2,928	2,094	563	445
Amortization of goodwill on consolidation	30	107		
Total	112,641	115,896	11,746	10,857

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	straightline
Other long-term expenditure	3–10 years	straightline
Buildings	4–7%	declining
Structures	20%	declining
Tractive stock (including Pendolinos and electric trains)	20–25 years	straightline
(As from the beginning of 2005, depreciation period for locomotives 30 years)		
Rolling stock	15 years	straightline
(As from the beginning of 2005, depreciation period for rolling stock 20 years)		
Other machinery and equipment (parent company, VR Ltd, VR-Track Ltd)	20–30%	declining
Other machinery and equipment (other companies)	5–15 years	straightline
Other tangible assets	5–30 years	straightline

6 Other operating expenses

The largest item under other operating expenses is the track usage fee and track tax of M€ 58.1 (57.6) paid by VR Ltd.

7 Operating profits of the Group's principal companies (1,000 €)	2004	2003
VR-Group Ltd	8,116	5,855
VR Ltd	28,103	21,307
VR-Track Ltd	15,451	12,790
Pohjolan Liikenne group	3,556	4,659
Avecra Oy	1,670	1,682
Corenet Ltd	6,841	5,461

8 Financial income and expenses (1,000 €)	Group 2004	2003	Parent Company 2004	2003
Dividend income				
From Group companies	0	0	2,535	2,732
From associated companies	0	11	0	0
From others	52	25	37	19
Dividend income, total	52	36	2,572	2,751
Interest income from long-term investments				
From Group companies	0	0	13,179	14,372
From others	4,077	3,968	4,077	3,964
Other interest and financial income				
From Group companies	0	0	74	1
From associated companies	139	139	139	139
From others	3,707	4,609	3,417	4,528
Interest expenses and other financial expenses				
To Group companies	0	0	2,439	3,101
To others	689	444	35	49
Financial income and expenses, total	7,286	8,309	20,982	22,605

9 Extraordinary items

Extraordinary items in the parent company consist of Group contributions received.

10 Appropriations (1,000 €)	Parent Company 2004	2003
Difference between planned depreciation and depreciation booked for tax purposes		
Change in depreciation difference (increase +, decrease -)		
Intangible assets	26	2
Buildings and structures	-157	780
Tractive and rolling stock	-546	196
Other tangible assets	274	280
Total	-403	1 258

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

11 Income tax (1,000 €)	Group 2004	2003	Parent Company 2004	2003
Income tax on extraordinary items	0	0	7,250	5,800
Income tax on operating activities	20,089	17,508	8,317	7,652
Change in deferred tax liability	-4,259	92	0	0
Total	15,831	17,600	15,567	13,452

Notes to the Balance Sheet

12 Fixed assets (1,000 €)

Group 2004	Intangible assets				Tangible assets						
	Intangible rights	Goodwill	Consolidation difference	Total	Land	Buildings	Machinery & equipment	Other tangible	Work in progress	Total	Assets, total
Acquisition cost 1 Jan. 2004	16,018	10,865	18,864	45,746	62,612	272,711	1,358,505	26,716	75,036	1,795,578	1,841,325
Increases	6,002	259	0	6,261	841	7,310	161,010	5,585	15,295	190,042	196,303
Decreases	-48	-8	-466	-522	-372	-1,828	-8,795	-216	-16,735	-27,945	-28,467
Transfers between items	0	0	0	0	0	-14,617	4,464	10,153	0	0	0
Acquisition cost 31 Dec. 2004	21,972	11,116	18,398	51,485	63,081	263,576	1,515,184	42,238	73,597	1,957,676	2,009,163
Accumulated depreciation 1 Jan. 2004	6,117	9,546	12,707	28,370	0	99,856	647,941	16,945	0	764,741	793,112
Accumulated depreciation in decreases	2	0	0	2	0	6,106	6,141	-3,161	0	9,087	9,089
Depreciation during year	3,455	617	1,134	5,206	0	9,145	95,338	2,954	0	107,437	112,643
Accumulated depreciation 31 Dec. 2004	9,570	10,163	13,841	33,574	0	102,894	737,138	23,060	0	863,092	896,666
Revaluations	0	0	0	0	8	659	0	0	0	667	667
Book value 31 Dec. 2004	12,402	953	4,556	17,911	63,090	161,341	778,047	19,178	73,597	1,095,252	1,113,164

Group 2003	Intangible assets				Tangible assets						
	Intangible rights	Goodwill	Consolidation difference	Total	Land	Buildings	Machinery & equipment	Other tangible	Work in progress	Total	Assets, total
Acquisition cost 1 Jan. 2003	14,332	10,615	18,433	43,379	62,572	251,271	1,282,143	23,923	44,226	1,664,134	1,707,513
Increases	2,873	250	431	3,554	89	22,582	91,058	2,987	132,772	249,488	253,042
Decreases	-698	0	0	-698	-49	-1,001	-14,840	-194	-101,962	-118,046	-118,744
Transfers between items	-489	0	0	-489	0	-141	141	0	0	0	-489
Acquisition cost 31 Dec. 2003	16,018	10,865	18,864	45,746	62,612	272,711	1,358,505	26,716	75,036	1,795,578	1,841,325
Accumulated depreciation 1 Jan. 2003	4,098	8,879	11,495	24,472	0	89,881	562,330	14,591	0	666,802	691,274
Accumulated depreciation in decreases	780	0	0	780	0	722	12,815	-260	0	13,277	14,057
Depreciation during year	2,799	667	1,212	4,678	0	10,697	98,426	2,094	0	111,217	115,895
Accumulated depreciation 31 Dec. 2003	6,117	9,546	12,707	28,370	0	99,856	647,941	16,945	0	764,742	793,113
Revaluations	0	0	0	0	8	659	0	0	0	667	667
Book value 31 Dec. 2003	9,901	1,319	6,156	17,376	62,620	173,512	710,565	9,771	75,036	1,031,504	1,048,880

Parent company 2004	Intangible assets				Tangible assets						
	Intangible rights	Goodwill	Consolidation difference	Total	Land	Buildings	Machinery & equipment	Other tangible	Work in progress	Total	Assets, total
Acquisition cost 1 Jan. 2004	1,497	10,865	18,864	21,226	61,567	229,579	38,729	9,323	965	341,659	341,659
Increases	234	259	0	493	11	6,594	1,000	724	10,603	18,932	19,166
Decreases	0	-8	-466	-474	-372	-1,825	-85	-25	-9,026	-11,333	-11,333
Acquisition cost 31 Dec. 2004	1,731	10,865	18,864	31,460	61,206	234,348	39,644	10,022	2,542	349,492	349,492
Accumulated depreciation 1 Jan. 2004	552	9,546	12,707	22,805	0	83,560	28,997	2,269	0	115,378	115,378
Accumulated depreciation in decreases	0	0	0	0	0	806	59	2	0	867	867
Depreciation during year	209	617	1,134	1,960	0	8,445	2,529	563	0	11,537	11,745
Accumulated depreciation 31 Dec. 2004	761	10,163	13,841	24,765	0	91,199	31,467	2,829	0	126,255	126,255
Book value 31 Dec. 2004	970	953	4,556	15,479	61,206	143,149	8,177	7,193	2,542	223,237	223,237

Parent company 2003	Intangible assets				Tangible assets						
	Intangible rights	Goodwill	Consolidation difference	Total	Land	Buildings	Machinery & equipment	Other tangible	Work in progress	Total	Assets, total
Acquisition cost 1 Jan. 2003	1,479	10,615	18,433	30,527	61,616	210,065	35,850	7,775	5,779	322,564	322,564
Increases	34	250	431	715	0	20,086	2,897	1,548	19,829	44,394	44,394
Decreases	-16	0	0	-16	-49	-573	-18	0	-24,643	-25,299	-25,299
Acquisition cost 31 Dec. 2003	1,497	10,865	18,864	31,226	61,567	229,579	38,729	9,323	965	341,659	341,659
Accumulated depreciation 1 Jan. 2003	357	8,879	11,495	19,731	0	75,787	26,890	1,824	0	104,858	104,858
Accumulated depreciation in decreases	0	0	0	0	0	322	16	0	0	338	338
Depreciation during year	195	667	1,212	2,074	0	8,095	2,123	445	0	10,857	10,857
Accumulated depreciation 31 Dec. 2003	552	9,546	12,707	22,805	0	83,560	28,997	2,269	0	115,377	115,377
Book value 31 Dec. 2003	945	1,319	6,156	17,420	61,567	146,019	9,732	7,054	965	226,282	226,282

13 Investments (1,000 €)

	Shares			Receivables			Total
	Group companies	Associated companies	Other companies	Group companies	Associated companies	Other companies	
Group 2004							
Acquisition cost 1 Jan. 2004	60	5,181	1,250	0	2,932	79,980	89,403
Increases	0	4	0	0	0	10,120	10,124
Decreases	-18	-540	-9	0	0	0	-567
Intragroup item	0	0	0	0	0	0	0
Acquisition cost 31 Dec. 2004	42	4,645	1,241	0	2,932	90,100	98,960
Group 2003							
Acquisition cost 1 Jan. 2003	60	5,914	1,476	0	2,932	73,567	83,949
Increases	0	70	2	0	0	11,876	11,948
Decreases	0	0	-228	0	0	-5,463	-5,691
Intragroup item	0	-803	0	0	0	0	-803
Acquisition cost 31 Dec. 2003	60	5,181	1,250	0	2,932	79,980	89,403
Parent company 2004							
Acquisition cost 1 Jan. 2004	288,021	1,600	1,024	233,682	2,932	79,980	607,240
Increases	0	0	0	100,680	0	15,384	116,064
Decreases	0	0	-9	-54,427	0	-5,310	-59,746
Acquisition cost 31 Dec. 2004	288,021	1,600	1,015	279,935	2,932	90,054	663,558
Parent company 2003							
Acquisition cost 1 Jan. 2003	288,526	1,600	1,024	248,848	2,932	73,567	616,497
Increases	0	0	0	40,000	0	18,996	58,996
Decreases	-505	0	0	-55,166	0	-12,583	-68,254
Acquisition cost 31 Dec. 2003	288,021	1,600	1,024	233,682	2,932	79,980	607,240

The parent company's receivables from associated companies consist of a capital loan granted according to the Companies Act and a loan to an associated company. Investments include corporate and state bonds.

	Group		Parent company	
	2004	2003	2004	2003
Repurchase cost	93,461	82,906	93,461	82,906
Book value	90,054	79,980	90,054	79,980
Difference	3,407	2,926	3,407	2,926

Group and parent company shares

	Group holding %	Parent company holding %		
Group companies				
VR 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	100	0		
Oy Transuotila Ab, Helsinki	100	0		
Napapiirin Turistiauto Oy, Helsinki	100	0		
Oy Pohjolan Kaupunkiliikenne Ab, Helsinki	100	0		
Oy Pohjolan Henkilöliikenne Ab, Helsinki	100	0		
Purolan Liikenne Oy, Pyhtää	100	0		
Joensuun Maaliikenneasema Oy, Joensuu	69.8	0		
Oy Logis Ab, Helsinki	100	0		
Kuljetus Huhtala Oy, Lohja	100	0		
AS Transuotila, Estonia	100	0		
UAB Transuotila, Lithuania	100	0		
SIA Transuotila, Latvia	100	0		
VR-Track Ltd, Helsinki	100	100		
Megasiirto Oy, Nurmo	80	0		
Vuorenpeikot Oy, Riihimäki	100	0		
Insinööritoimisto Arcus Oy, Turku	70	0		
AS VR-Track, Estonia	100	0		
Corenet 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		
Oy Railcarriers Ab, Helsinki	50	0		
Searail EEIG, Turku	33.3	0		
Metropolitan Area Rolling Stock Ltd, Helsinki	35	0		
Elielin Pysäköinti Oy, Helsinki	31.8	31.8		
Seinäjoen linja-autoasemakiinteistö Oy, Seinäjoki	20.7	20.7		
Varkauden Keskusliikenneasemakiinteistö Oy, Varkaus	33.3	33.3		
Vainikkalan Vesi Oy, Lappeenranta	42.5	42.5		
Kiinteistö Oy Kupittaa Kolmio, Turku	32.5	32.5		
KT Oy Oulun Terminaalivarasto, Oulu	39.1	0		
	Group	Parent		
14 Stocks (1,000 €)	2004	2003	2004	2003
Materials and supplies	53,639	48,524	0	0
Work in progress	3,730	2,906	0	0
Advance payments	194	44	0	0
Total	57,563	51,474	0	0

15 Receivables (1,000 €)	Group	2003	Parent company	2003
	2004		2004	
Receivables from other companies				
Other long-term receivables	1,825	2,030	0	0
Current receivables				
Receivables from Group companies				
Accounts receivable	0	0	1,224	238
Loans receivable	0	0	54,427	55,167
Prepaid expenses and accrued income	0	0	25,808	20,026
Receivables from associated companies				
Accounts receivable	635	824	0	0
Receivables from other companies				
Accounts receivable	84,206	75,106	362	371
Loans receivable	0	8	0	0
Other receivables	3,386	16,350	927	5,563
Prepaid expenses and accrued income	30,194	28,061	6,724	6,573
Current receivables, total	118,420	120,348	89,472	87,938

Main items in prepaid expenses and accrued income

The main items under Group prepaid expenses and accrued income are interest receivables (M€ 3), deferred tax assets (M€ 3) and prepaid expenses (M€ 6). Parent company prepaid expenses and accrued income includes Group contribution receivables totalling M€ 25 (M€ 20).

A Group subsidiary's accounts receivable include a M€ 0.9 receivable from Componenta CPC Oy related to the delivery of a wheel set subsequently found to be defective. In a decision dated 31 December 2003 the Helsinki District Court ordered Componenta CPC Oy to pay VR Ltd damages amounting to M€ 0.9 with interest. Both parties have appealed the decision.

16 Securities (1,000 €)	Group	2003	Parent company	2003
	2004		2004	
Repurchase cost	122,410	144,371	122,410	144,371
Book value	122,381	144,312	122,381	144,312
Difference	29	59	29	59

Securities comprise bank certificates and depository receipts as well as Commercial Papers and corporate and state bonds purchased in public trading.

17 Shareholders' equity (1,000 €)	Group	2003	Parent company	2003
	2004		2004	
Share capital on 1 Jan.	370,013	370,013	370,013	370,013
Share capital on 31 Dec.	370,013	370,013	370,013	370,013
Revaluation reserve 1 Jan.	339	339	0	0
Change in revaluation reserve	0	0	0	0
Revaluation reserve 31 Dec.	339	339	0	0
Share premium account 1 Jan.	525,761	525,758	525,754	525,754
Increase during the year	0	3	0	0
Share premium account 31 Dec.	525,761	525,761	525,754	525,754
Retained earnings 1 Jan.	304,785	294,385	100,803	97,053
Dividend distribution	-40,000	-30,000	-40,000	-30,000
Changes in Group structure	-77	-910		
Retained earnings 31 Dec.	264,708	263,475	60,803	67,053
Profit for the year	51,750	41,310	38,934	33,750
Shareholders' equity, total	1,212,572	1,200,899	995,503	996,569

Calculation of distributable funds (1,000 €)	Group 2004	2003	Parent company 2004	2003
Retained earnings	264,708	263,475	60,803	67,053
Profit for the year	51,750	41,310	38,934	33,750
Total	316,458	304,785	99,736	100,803
Accumulated depreciation difference and voluntary provisions in shareholders' equity	-124,372	-117,320		
Distributable funds, total	192,086	187,465	99,736	100,803

18 Accumulated appropriations

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

19 Provisions (1,000 €)	Group 2004	2003	Parent company 2004	2003
Voluntary provisions				
Housing provision	834	604	–	–

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

Obligatory provisions

Obligatory provisions M€ 1.3 (1.3) comprise expected warranty costs on long-term projects.

Impact of voluntary provisions and depreciation difference on the balance sheet	Group 2004	2003
Voluntary provisions	834	604
Depreciation difference	168,082	165,202
	168,916	165,806
Transfer to shareholders' equity	124,372	117,320
Deferred tax liability	43,918	48,084
Minority interest	626	402
	168,916	165,806
Impact of voluntary provisions and depreciation difference on the profit and loss account	2004	2003
Change in voluntary provisions	230	280
Change in depreciation difference	2,880	38
	3,110	318
Change affecting profit for the year	7,134	198
Change in deferred tax liability	-4,259	92
Change affecting minority interest	235	28
	3,110	318

20 Liabilities (1,000 €)	Group		Parent company	
	2004	2003	2004	2003
Long-term liabilities				
Loans from financial institutions	2,361	2,430	0	0
Other long-term loans	967	177	0	0
Advances received	616	795	193	169
Long-term liabilities, total	3,944	3,401	193	169
Liabilities due after five years				
Loans from financial institutions	886	959	0	0
Current liabilities	2004	2003	2004	2003
Debt to other companies				
Loans from financial institutions	73	383	0	0
Advances received	13,895	9,274	254	283
Accounts payable	78,478	48,056	3,566	4,650
Other liabilities	36,900	39,897	322	253
Accrued expenses and prepaid income	114,443	104,967	6,737	2,296
Debt payable to Group companies				
Advances received	1,081	435	4	5
Accounts payable	0	0	2,762	2,471
Other liabilities	0	23	89,361	64,501
Accrued expenses and prepaid income	0	0	0	162
Debt payable to associated companies				
Accrued expenses and prepaid income	0	25	0	0
Current liabilities, total	244,870	203,060	103,006	74,620

The major item in accrued expenses and prepaid income is holiday pay (M€ 83).

21 Contingent liabilities (1,000 €)	Group 2004	2003	Parent company 2004	2003
Debt covered by mortgages				
Pension loans	0	0	0	0
Loans from financial institutions	2,333	3,115	0	0
Mortgages	3,808	5,950	0	0
Debt covered by shares				
Loans from financial institutions	0	0	0	0
Pledges	0	0	0	0
Other contingent liabilities	64,774	62,750	60,307	62,750
Contingent liabilities, total	68,582	68,700	60,307	62,750
Commitments given on behalf of				
VR Group	68,582	68,700	0	0
VR subsidiaries	0	0	60,307	62,750
Others	0	0	0	0
	68,582	68,700	60,307	62,750
Leasing commitments				
Due for payment in next financial year	787	82	0	0
Due for payment in later years	6,101	156	0	0
Total	6,888	238	0	0
Future payments for long-term rental agreements	6,405	6,902	0	0

The Group has made commitments related to fixed assets acquisitions totalling M€ 242 in the years 2005–2009. VR-Track Ltd obtained the superstructure work contract for the Botniabana line in Sweden and in connection with this VR-Group Ltd has given a guarantee that its subsidiary will comply with its contractual obligations.

22 Group key indicators

		2004	2003	2002	2001	2000
Scope of operations						
Net turnover	M€	1,179	1,160	1,140	1,151	1,143
Balance sheet total	M€	1,517	1,466	1,450	1,515	1,499
Gross capital expenditure	M€	180	151	144	178	152
– as % of net turnover	%	15.3	13.1	12.6	15.4	13.3
Average number of employees		13,264	13,746	14,426	14,938	15,430
Profitability						
Operating profit	M€	63	53	27	49	65
– as % of net turnover	%	5.3	4.6	2.3	4.3	5.7
Net profit	M€	52	41	22	42	52
Return on investment (ROI)	%	5.8	5.1	3.2	5.2	6.5
Return on shareholders' equity (ROE)	%	4.5	3.6	2.2	3.7	4.5
Solvency						
Solvency Ratio	%	81.5	83.1	82.9	79.1	78.5
Liquidity						
Quick Ratio		1.0	1.4	1.5	1.5	1.7

Calculation of key indicators

Capital investments	=	Balance sheet total - interest-free debt	
Return on investment (ROI)	=	$\frac{\text{Profit before extraordinary items} + \text{interest costs and other financial costs}}{\text{Capital investments (average over period)}} \times 100$	x 100
Return on shareholders' equity (ROE)	=	$\frac{\text{Profit before extraordinary items} - \text{taxes and change in deferred tax liability}}{\text{Shareholders' equity} + \text{minority interest (average over period)}} \times 100$	x 100
Solvency Ratio	=	$\frac{\text{Shareholders' equity} + \text{minority interest}}{\text{Balance sheet total} - \text{advance short-term and long-term payments received}} \times 100$	x 100
Quick Ratio	=	$\frac{\text{Financial assets (excl. long-term receivables)}}{\text{Current liabilities} - \text{advance payments received}}$	

Board's Proposal on the Disposal of Profit

The Group's distributable funds were	EUR 192.1 million.
The parent company's distributable funds were	EUR 99.7 million,
which included a net profit for the year totalling	EUR 38.9 million.

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

To be distributed as dividend	20,000,000 EUR,
and to be retained under shareholders' equity	79,736,267 EUR.

Helsinki, 10 March 2005

Martin Granholm	Kalevi Alestalo
Kari Kallio	Eija Malmivirta
Kirsti Lehtovaara-Kolu	Antti Remes
Veli-Matti Ropponen	Jukka Ruuska
Henri Kuitunen	

Auditors' Report

To the Annual General Meeting 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 2004. 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 an 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 the members of the Supervisory Board and 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, 11 March 2005

Osmo Valtonen, AA, Chartered Public Finance Auditor	KPMG Oy Ab Authorized Public Accountants Pentti Savolainen, APA
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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 2004 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: Marcus Henricson, Anne Huotari, Arto Isomäki, Alpo Mäkinen, Olli Männikkö, Pekka Nousiainen, Erkki Rantala, Timo Rautajoki, Erkki Taatila and Raija Vahasalo.

Helsinki, 16 March 2005

Matti Ahde	Pekka Nousiainen	Eero Akaan-Penttilä
Marcus Henricson	Anne Huotari	Tytti Isohookana-Asunmaa
Arto Isomäki	Alf Jakas	Lauri Kähkönen
Jaakko Lehtonen	Alpo Mäkinen	Olli Männikkö
Lauri Oinonen	Katariina Poskiparta	Erkki Rantala
Timo Rautajoki	Harri Rumpunen	Kalervo Sipi
Erkki Taatila	Satu Taiveaho	Raija Vahasalo



Administration and Management

Board of Directors

1 Martin Granholm, Chairman

- Born 1946, MSc (Eng.), DSc (hc)
- Chairman of the Board of VR-Group Ltd 1 July 1995–25 March 2003 and 3 July 2003–
- Chairman or Deputy Chairman of the Board: Pohjola Group Insurance Corporation (deputy chairman), German-Finnish Chamber of Commerce, Finnish-American Chamber of Commerce (deputy chairman), ICC Finland (deputy chairman) and The Foundation for the University of Turku (deputy chairman)
- Member of the Board: Ilmarinen Mutual Pension Insurance Co.

2 Antti Remes, Deputy Chairman

- Born 1947, MSc (Econ. and Bus. Admin.)
- Managing Director, Cooperative Tradeka Corporation, Tradeka Group Oy
- Member of the Board of VR-Group Ltd 9 September 1997–25 March 2003 and 3 July 2003–
- Chairman of the Board: Ketjuetu Oy T&E, Palveluetu Oy T & E, Restel Oy, Taskukirja Loisto Oy, Tradeka Oy, Inex Partners Oy and the Finnish Food Marketing Association
- Member of the Board: The Federation of Finnish Commerce and Trade, Metsä Tissue Corporation, The Employers'

- Confederation of Service Industries in Finland and Tradeka Group Oy
- Member of the Supervisory Board: Luottokunta (the Finnish Credit Card Institution) and Varma Oy

3 Kalevi Alestalo

- Born 1947, MSc (Soc. Sc.)
- Ministerial Adviser, Ministry of Transport and Communications
- Member of the Board of VR-Group Ltd since 28 December 1998

4 Kari Kallio

- Born 1955
- Chairman, Rautatievirkamiesliitto r.y. (Union for Management and Clerical Railway Staff)
- Member of the Board of VR-Group Ltd since 26 March 2003

5 Kirsti Lehtovaara-Kolu

- Born 1957, MSc (Econ.)
- President, Hansel Ltd
- Member of the Board: Suomen Erillisverkot Oy
- Member of the Board of VR-Group Ltd since 26 March 2003

6 Eija Malmivirta

- Born 1941, MSc (Eng.)
- Director
- Member of the Board of VR-Group Ltd 1 July 1995–25 March 2003 and 3 July 2003–

- Deputy Chairman of the Board: Kemira Oyj
- Member of the Board: National Emergency Supply Agency, Kemira Oyj, Premcor Inc., USA and The Finnish National Theatre

7 Veli-Matti Ropponen

- Born 1949, MSc (Econ. and Bus. Admin.)
- Consultant, Fortum Corporation
- Member of the Board of VR-Group Ltd 11 April 2000–25 March 2003 and 3 July 2003–
- Chairman of the Board: Assuranceforeningen Skuld (Gjensidige), Oslo

8 Jukka Ruuska

- Born 1961, LL.M., MBA
- President, OMX Exchanges Oy
- President, Stockholm Stock Exchange Ltd
- Member of the Board of VR-Group Ltd since 26 March 2003
- Chairman of the Board: Helsinki Exchanges, Tallinn Stock Exchange Supervisory Council and NOREX
- Member of the Board: OMX Exchanges Oy, Suomen Pörssisäätiö (Finnish Foundation for Share Promotion), Stockholm Stock Exchange Ltd, Federation of European Securities Exchanges, EDX London and Värdepapperscentralen

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Board of Management

1 Henri Kuitunen, Chairman

Born 1958, LL.M.
President and CEO, VR-Group Ltd
Member of the Board of Management
since 1 July 1995

2 Minna Isoaho

Born 1966, MSc (Econ.)
Director, Corporate Development,
VR-Group Ltd
Member of the Board of Management
since 1 February 2005

3 Martti Mäkinen

Born 1948, MSc
Director, Corporate Communications,
VR-Group Ltd
Member of the Board of Management
since 1 March 2003

4 Pertti Saarela

Born 1957, LL.M.
Director, Administration, VR-Group Ltd
Member of the Board of Management
since 12 April 1999

5 Tapio Simos

Born 1950, MSc (Econ.)
President, VR Ltd
Member of the Board of Management
since 1 May 2002

6 Teuvo Sivunen

Born 1946, MSc (Eng.)
President, VR-Track Ltd
Member of the Board of Management
since 1 July 1995

7 Veikko Vaikkinen

Born 1945, MSc (Soc. Sc.)
CFO, VR-Group Ltd
Member of the Board of Management
since 1 July 1995

Supervisory Board

Matti Ahde, MP, Chairman
Pekka Nousiainen, MP,
Deputy Chairman
Eero Akaan-Penttilä, MP
Marcus Henricson
Anne Huotari, MP
Tytti Isohookana-Asunmaa
Arto Isomäki
Alf Jakas
Lauri Kähkönen, MP
Jaakko Lehtonen
Alpo Mäkinen
Olli Männikkö
Lauri Oinonen, MP
Katariina Poskiparta
Erkki Rantala
Timo Rautajoki
Harri Rumpunen
Kalervo Sipi
Erkki Taatila
Satu Taiveaho, MP
Raija Vahasalo, MP

Auditors

Osmo Valtonen, Approved Accountant,
Chartered Public Finance Auditor
KPMG Oy Ab: Pentti Savolainen,
Authorized Public Accountant

Corporate Governance

VR Group's parent company is VR-Group Ltd, which is owned entirely by the Finnish state and subordinated to the Ministry of Transport and Communications. The company was established in 1995 to continue the operations of Finnish State Railways (VR) and for this purpose was given the state assets that were legally owned by VR according to a decree of the Council of State (the Finnish government). The Finnish state still directly owns the rail network and continues to be responsible for its administration. The Finnish Rail Administration, a civil service department subordinate to the Ministry of Transport and Communications, performs the practical tasks relating to administration.

VR-Group Ltd's field of business is providing railway transport and other related or supporting services, either directly or through subsidiaries or associated companies. Immediately after its establishment the company diffused by founding VR Ltd, a subsidiary providing passenger and freight services, and VR-Track Ltd, a subsidiary specializing in track construction and maintenance. Currently, VR Group also includes other companies, as listed in the appendix to the Report by the Board of Directors.

Annual General Meeting

The company's financial year is the calendar year. The Annual General Meeting is held every year on a date specified by the Board of Directors within six months of the end of the financial year. A Ministry of Transport and Communications representative exercises votes at the Annual General Meeting on behalf of the Finnish state.

Supervisory Board

VR-Group Ltd's Supervisory Board comprises at least 15 and at most 24 members who are elected by the Annual General Meeting. The Supervisory Board currently has 21 members and their period of office is three years. One third of the Supervisory Board's members retire by rotation each year. A person aged 65 years or older may not be elected a member of the Supervisory Board.

The Supervisory Board's duties include ensuring that the company's affairs are managed in compliance with sound business principles with good profitability as the aim, and in accordance with the Articles of Association and the decisions of the Annual General Meeting.

The Supervisory Board advises the Board of Directors on matters of wide-ranging or funda-

mental significance, reviews the financial and annual plans, and submits an opinion on the financial statements and the auditors' report to the Annual General Meeting. The Supervisory Board also makes decisions regarding substantial reductions or expansions in the company's operations or significant changes to its organization.

The Supervisory Board convened 7 times during the review year and the attendance rate was 84%.

Board of Directors

VR-Group Ltd's Board of Directors comprises a chairman and at least four, and at most eight, members who are elected by the Annual General Meeting for the following financial year. The Board currently has eight members, including the chairman. One of the members is a VR personnel representative; the others are not employees of VR. The Board of Directors elects a deputy chairman from among its members.

The term of office of the chairman and members of the Board of Directors ends at the latest on their 65th birthday.

The Board of Directors is responsible for managing the administration of the company and for the proper arrangement of its business activities, for appointing and dismissing its president and deputy president and deciding on their remuneration, and for preparing the matters to be put before General Meetings and the Supervisory Board. The Board of Directors also ensures that decisions by these bodies are executed, and it handles other administrative duties that it is required to perform under the Finnish Companies Act if these are not separately assigned to the Supervisory Board or the president.

The Board of Directors convened 12 times during the review year and the attendance rate was 93%.

Committees of the Board of Directors

The Board of Directors has formed two committees from among its members: the appointment and remuneration committee and the audit committee. The term of office of these committees is one year. The term of office starts at the appointment of the committee after VR-Group Ltd's Annual General Meeting and lasts until the following Annual General Meeting. The committees convene 3–4 times a year, and report to the Board of Directors.

The main tasks of the appointment and remuneration committee are matters relating to the

selection and remuneration of the Group's senior management. The committee chairman during the review year was Martin Granholm and the members were Eija Malmivirta, Veli-Matti Roppo-nen and Jukka Ruuska. The committee convened 5 times during the review year.

The main tasks of the audit committee are matters relating to financial reporting, especially the company's financial statements and interim reports, internal supervision and risk management, and the selection of the company's auditors. The committee chairman during the review year was Antti Remes and the members were Kalevi Alestalo, Kari Kallio and Kirsti Lehtovaara-Kolu. The committee convened 4 times during the review year.

President and Board of Management

The President of VR-Group Ltd is also the Chief Executive Officer (CEO) of VR Group.

VR-Group Ltd's Board of Management comprises the President and CEO, VR-Group Ltd's Chief Financial Officer (CFO), the Director, Administration, the Director, Corporate Development, and the Director, Corporate Communications, as well as the Presidents of VR Ltd and VR-Track Ltd.

The Board of Management addresses matters of strategic or other major importance for VR's business operations, and decisions concerning more important daily activities and operative decisions. The Board of Management generally convenes once a week and is chaired by the President and CEO.

Auditors

The company has at least two and at most five auditors. One auditor must be an auditor or firm of Authorised Public Accountants certified by the Central Chamber of Commerce and the others must be certified auditors. The company currently has two auditors. The term of office of an auditor ends at the close of the Annual General Meeting following the auditor's election.

Four people work in an internal audit unit, which is subordinate to the President and CEO.

Parliamentary State Auditors have the right to receive sufficient information from VR Group for the performance of their duties. The State Audit Office has the right to audit VR, especially in respect of how the state has exercised control as owner and its shareholder rights.

Statistical Information

Freight services	2004	2003	% change¹⁾	2002	2001	2000
Carryings, 1,000 tonnes						
By rail	42,663	43,503	-1.9	41,679	41,678	40,501
Finland	26,255	24,980	5.1	24,695	23,993	24,072
International	16,408	18,523	-11.4	16,984	17,685	16,429
East	12,099	14,374	-15.8	12,632	12,631	12,703
Transit	3,199	3,196	0.1	3,461	4,006	2,671
West	1,110	953	16.5	891	1,048	1,055
By road	8,861	8,554	3.6	8,169	8,168	8,399
Total	51,524	52,057	-1.0	49,848	49,846	48,900
Tonne-kilometres by rail, million						
Finland	7,197	6,760	6.5	6,695	6,588	6,802
International	2,908	3,287	-11.5	2,969	3,269	3,305
East	2,025	2,585	-21.7	2,173	2,170	2,473
Transit	604	462	30.7	516	772	473
West	279	240	16.3	280	327	359
Total	10,105	10,047	0.6	9,664	9,857	10,107
Passenger services						
Journeys, 1,000						
By rail	60,134	59,909	0.4	57,695	54,987	54,783
Long-distance	12,129	11,915	1.8	11,643	11,561	11,783
Finland	11,877	11,659	1.9	11,377	11,321	11,577
International	252	256	-1.6	266	240	206
Commuter	48,005	47,994	0.0	46,052	43,426	43,000
Helsinki metropolitan area	38,222	38,443	-0.6	36,443	33,166	32,300
Other	9,783	9,551	2.4	9,609	10,260	10,700
By road	10,152	13,748	-26.2	14,653	15,248	14,456
Total	70,286	73,657	-4.6	72,348	70,235	69,239
Passenger-kilometres by rail, million						
Long-distance	2,654	2,642	0.4	2,636	2,596	2,707
Finland	2,582	2,570	0.5	2,555	2,531	2,648
International	72	72	-0.3	81	65	60
Commuter	698	696	0.3	682	686	697
Helsinki metropolitan area	363	365	-0.6	346	316	308
Other	335	331	1.4	336	370	390
Total	3,352	3,338	0.4	3,318	3,282	3,405
VR Group personnel	13,264	13,746	-3.5	14,401	14,913	15,405
Energy consumption in rail traffic, %						
Electric traction	77.8	77.6	-	76.6	75.4	72.9
Diesel traction	22.2	22.4	-	23.4	24.6	27.1
Tractive stock, number						
Electric locomotives	156	156	0.0	148	140	130
Diesel locomotives	258	273	-5.5	279	285	299
Electric trains	148	119	24.4	119	112	112
Rolling stock, number						
Wagons in freight traffic	11,449²⁾	11,324	1.1	11,528	11,933	12,292
Coaches in passenger traffic	1,192²⁾	1,060	12.5	1,077	1,056	1,047

The book value of freight rolling stock at the end of 2004 totalled M€ 70.2.

The Finnish rail network ³⁾

Length of rail network, line-km	5,741	5,851	-1.9	5,850	5,850	5,854
Length of electrified lines, line-km	2,619	2,400	9.1	2,400	2,400	2,372
Length of track, track-km	8,596	8,707	-1.3	8,736	8,734	8,705

¹⁾ % change refers to the change from 2003 to 2004

²⁾ Preliminary figure

³⁾ Owned by the Finnish Rail Administration

Glossary

Automatic Train Protection (ATP)

The ATP system consists of equipment installed both on the track and on board locomotives. ATP ensures that the train complies with speed limits, warning signs and line signals. If the train exceeds the permitted speed, the ATP system brakes the train automatically.

Ballast cleaning

The removal of impurities and grains that are too small from the ballast that supports the railway track.

Botniabanan

The Botniabanan is a new 190-kilometre line that runs along the east coast of Sweden south of Uumaja.

City line

A line exclusively for commuter traffic in the Helsinki metropolitan area, providing frequent train services. The first city line, between Helsinki and Hiekkaharju in Vantaa, was completed in 1995, and the second, between Helsinki and Lepävaara in Espoo, in 2001. The city line between Hiekkaharju and Kerava was completed in 2004.

City train

A new type of train introduced in commuter traffic in the Helsinki metropolitan area. These trains have low floors, space for prams and wheelchairs, and air conditioning. VR plans to use these trains for longer distances in the future, for example between Helsinki and Tampere and on the new Kerava–Lahti direct line. City trains have a maximum speed of 160 km/h.

Combined carryings

In combined carryings, the freight remains in the same container or unit from departure to destination while being carried by at least two different means of transport. A long terminal-to-terminal journey is made by rail, ship or inland waterway while short pick-up and delivery trips are made by road.

E-ticket

A train ticket purchased online which passengers can print themselves or receive as an SMS text message on their mobile phones.

Express train

Express trains consist of conventional passenger coaches, traditionally blue in colour, that are in service between larger cities and on long-distance routes.

Finnish Rail Administration

A civil service department, subordinate to the Finnish Ministry of Transport and Communications, which is responsible for maintaining and developing the rail network, for rail safety and for other administrative duties relating to infrastructure management. www.rhk.fi.

General cargo

Packaged goods of various sizes and normally transported from the sender to the recipient by road.

Geometrical index

An index describing the physical condition of line superstructure in terms of the number of metres of geometrically defective track. Geometric defects include rail height deviations, incorrect track inclination and twisting, and incorrect rail gauge.

Hazardous substances

Substances that can injure people, harm the environment or damage property because of their explosive, flammable, radiational, toxic, corrosive or other properties.

Helsinki Metropolitan Area Council (YTV) zone

The Helsinki Metropolitan Area Council (YTV) is a cooperative council for the Helsinki metropolitan area that provides public transport and other services in the area. The YTV zone includes the cities of Helsinki, Vantaa, Espoo and Kauniainen.

InterCity (IC) train

InterCity trains are in service between larger cities, and contain single-decker and double-decker coaches. IC trains are ideal for business travellers while also meeting the needs of families, the physically handicapped, passengers with allergies and passengers travelling with pets.

InterCity2 train, IC2 train

An InterCity2 train consists entirely of double-decker coaches and is no smoking throughout. Catering services on IC2 trains are provided by staff who circulate the passenger compartments with trolleys. InterCity2 trains have a nominal top speed of 200 km/h.

Kerava–Lahti direct line

A new rail connection between Kerava and Lahti. Construction of the track was started in autumn 2002, and is scheduled for full completion, including bridges and railway stations, in 2006. Once completed, the fastest journey time from Helsinki to Lahti will be less than 50 minutes.

Lifecycle model

The lifecycle model is an alternative to the conventional form of railway financing that is tied to the state's budget. In the lifecycle model of financing, the state buys a full-service package that covers a defined section of line for the contract period. The package includes engineering, construction, maintenance and servicing for the contract period and financing of the whole project. The service provider then receives service payments for providing the package.

Partial-load and full-load carryings

Partial-load and full-load carryings are used to transport large quantities of freight, and are based on agreements between the customer and the carrier. Depending on the agreement, the customer can use either complete trucks (full-load) or parts of the truck's capacity (partial-load).

Passenger-kilometre

A performance measurement for passenger transport representing a journey of one kilometre made by one passenger.

Pendolino train

A Pendolino is a high-speed train for passenger services between major cities. The Pendolino has a top speed of 220 kilometres an hour. The Business class on the Pendolino includes a high standard of service for business travellers. The tilting, pressure-proofed body of the train inclines around corners, ensuring good passenger comfort at high speeds.

Railcar

A light, diesel-driven train designed for non-electrified lines serving low passenger volumes. The railcars will enter into service in summer 2005. They have a maximum speed of 120 km/h.

Regional train

Regional trains offer VR's basic travel services and also stop at smaller stations. Seat places cannot be reserved on these trains. Regional trains are locomotive-hauled trains or electric trainsets.

Safety equipment

A system that consists of rail points controlling the direction taken by the train, switching devices for the rail points, and signals which function as traffic lights for trains.

Specific consumption

Energy consumption per unit transported. For rail transport, the unit transported is generally measured in either tonne-kilometres or passenger-kilometres. In international comparisons, specific consumption per total units transported is also used, which is calculated by dividing the total energy consumption by the sum of tonne-kilometres and passenger-kilometres.

TEU

Twenty-foot Equivalent Unit. A unit of measurement used in container traffic, which refers to one 20-foot container.

Tonne-kilometre

A performance measurement for freight traffic representing one tonne of freight multiplied by a distance carried of one kilometre.

Transit traffic

Traffic passing through Finland en route for a third country. Most of VR's transit traffic comes from Russia and passes westwards via Finnish ports.

Travel Centre

A centralized location for transport services making it easy for passengers to change from one mode of transport to another. The ticket sales, information desks, waiting facilities and other services of all modes of transport are also combined under one roof in a Travel Centre. Travel Centres interconnect local, regional and national passenger transport services.

Wheel flat

A wheel that is worn smooth in some places and is therefore no longer perfectly round. A wheel flat produces more noise and vibration than a wheel that is in good condition.

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