



**Annual Report**  
2005



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# Financial Information in 2006

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- The Annual Report is published in Finnish, Swedish, English and Russian.
- The Corporate Responsibility Report is published in Finnish and English.
- Interim Reports will be published in June and October.
- Interim Reports are published in Finnish, Swedish and English.
- The Annual Report, Corporate Responsibility Report and Interim Reports can be downloaded from the Internet at [www.vr.fi](http://www.vr.fi), under the link to VR Group.
- Printed copies can be ordered from VR-Group Ltd Corporate Communications, tel. +358 307 21 167, fax +358 307 21 500 or by writing to P.O. Box 488, FI-00101 Helsinki, Finland.



# Annual Report

2005



## Chief Executive's Review

**2005 was a record year** in VR's history in two ways. The volume of investments was the highest ever and the number of rail passenger journeys also reached an all-time high.

Many factors influence the choice of mode of transport used when travelling. The most important is speed, although comfort and price are also very important. VR has invested sizeable sums in rolling stock for several years and last year capital investment was the highest in the company's history, EUR 210 million.

This year our large investments are drawing to an end and we are now living in times when VR must prepare for its next wave of investment, which will begin in about ten years' time.

The investments in passenger comfort and speed started to show results towards the end of 2004. Development reached a peak last year, when VR booked a record 63.5 million passenger journeys. We can thank our customers for exceptionally strong growth, over 3%, compared to the public transport average, since it was they who chose train more and more often when travelling. The growth in commuter services in the Helsinki metropolitan area was especially satisfying.

The success of passenger services was particularly important for VR's finances because freight services slumped. During the industrial unrest in Finland's forest industry in the summer, VR Cargo's operations declined because over 60% of all VR Cargo's carryings are for the forest industry. The impact of the drawn out industrial action on sales was EUR 20 million and on net profit EUR 17 million.

Despite the trouble endured by freight services, the net profit of EUR 46 million for 2005 can be regarded as satisfactory. Net profit for 2004 was EUR 52 million.

### New models for track financing

The good condition of track is vital to the railways. Some EUR 170 million a year is needed for modernizing track, to avoid having to impose more restrictions on train speeds and weights.

It is also highly desirable that we boldly try to identify, develop and apply innovative financing solutions for the railway, to supplement the traditional budget financing. That will safeguard our opportunities for development.

There are many large items on the list of projects needed to manage transport services faultlessly and to ensure an attractive service, and the large marshalling yard at Ilmala in Helsinki heads the list because it is the nerve centre for the whole country's transport services. Modernization of the section of line between Lahti and Luumäki is extremely important for eastbound passenger and freight services. Renovation of the section of line between Seinäjoki and Oulu is also highly important for extracting the maximum benefit from new, fast rolling stock between southern and northern Finland.

Once the direct line between Kerava and Lahti is commissioned, it will be time to consider the next newbuilding project. A natural solution is to build the Marja urban line, which will serve Helsinki-Vantaa international airport and will connect the Vantaankoski line to the main Helsinki-Tampere line.

### Changes on the way

The railway traffic system will change significantly in autumn 2006 when the Kerava-Lahti direct line is opened, because the number of train services will increase and travel times will be shorter.

Finns in the east of the country will reap most benefit; a reduction of an hour or more in travel times can reasonably be expected to boost the popularity of trains. The greatest benefits will be gained in Lahti and Kouvola and also in Mikkeli, Kuopio, Kajaani, Lappeenranta and Joensuu.

Not many major changes in travel times will occur in western Finland, but an increase in the number of train services will raise the standard of service. The connection to Rovaniemi will be half-an-hour shorter, and modern, double-decker sleeping cars are available on two overnight trains.

Improving the connection between Helsinki and St Petersburg is also one of VR's more important development projects. A realistic target is for a travel time of 3 hours between the two cities within the next few years. That depends on both countries doing track work and deciding on the rolling stock to be used.

I am very confident that services to and from Russia will grow strongly from its present figure of some 270,000 passenger journeys a year. A fast connection between Helsinki and St Petersburg could even triple passenger volumes.

Changes are expected in freight services also, since they will be opened to competition at the beginning of 2007. Clearly freight services will attract newcomers, and this interest has already caused a stir in the sector. VR will meet this challenge in the same way as it competes with truck services – by broadening its business concept and further enhancing services.

### More recruitment

Over the past twenty years the number of VR's personnel has halved, to some 12,800, with little new recruitment. The situation will change in the near future, however, because the number of people retiring is growing substantially.

Most probably recruitment of new personnel will accelerate, which will set big challenges for HR management. Inducting newcomers and in some professions training for the job are demanding tasks, which VR has already started preparing for.

Without skilled and motivated personnel VR cannot succeed in the competition in the transport sector nor offer its customers good service. For these reasons, taking care of personnel is one of our most important tasks.

I would like to thank VR-Group's customers and other partners for the trust they have placed in us during 2005. Our goal is to be worthy of such trust this year also. I warmly thank the Group's personnel for a job well done.

**Henri Kuitunen**  
President and CEO  
VR-Group Ltd



**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 22 companies. The VR Group generated net turnover of EUR 1,197 million in 2005 and employed a total of 12,791 people.

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

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

The VR Group also includes Avecra Oy, which provides catering and restaurant services, and Corenet Oy, 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 1862.

After VR-Group Ltd was incorporated, the division of work on the railways was re-organized to correspond to other modes of transport, and management of the rail network was transferred to a civil service department. In Finland the Finnish Rail Administration, an administrative sector of the Ministry of Transport and Communications, is responsible for man-

agement of the rail network and for the maintenance and development of railway lines. Similar changes have also been made in other EU Member States.

Productivity in rail services has substantially increased over the last ten years. The volumes transported have grown by over 9% while the number of personnel has declined by about 30%.

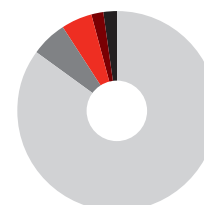
Most of the Group's personnel, over 60%, work in rail transport, with drivers and conductors forming the largest groups of personnel. The average age of personnel is 46.5 years.

## Customers

The operating environment of Finland's railways differs from that in many other European countries. Finland has a lot of primary heavy industry, which favours rail transport. Conversely, the country has a small population, mostly concentrated in the southern areas. Maritime transport and special rolling stock are usually needed for carryings to other countries in Europe. Set against that, transport connections to Russia are excellent, partly because the rail gauges in the two countries are the same.

VR's largest freight customers are Finnish industrial corporations. Over 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 14% of the freight market. Road transport has a 68% share of the freight market in Finland.



**Passenger transport in Finland 2004**

Private cars	85%
Bus and coach	6%
Rail	5%
Air	2%
Other	2%



**Freight transport in Finland 2004**

Road	68%
Rail	25%
Water	7%

Key figures	2005	2004	Change-%
Net turnover, M€	1,197	1,179	1.5
Operating profit, M€	61	63	-2.7
% of net turnover	5.1	5.3	
Net profit, M€	46	52	-11.1
% of net turnover	3.8	4.4	
Gross capital expenditure, M€	210	180	16.8
Return on shareholders' equity, %	3.9	4.5	
Return on investment, %	5.4	5.8	
Solvency ratio, %	82.8	81.5	
Personnel on average	12,791	13,264	-3.6



Some 40% of VR's freight carryings are to and from Russia. Carryings between the two countries grew by almost 7% during the review period. Most of the tanker wagon carryings from the east travel via the Vainikkala marshalling yard.

Commuter services in the Helsinki metropolitan 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, 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%. Private cars have the largest share of the transport market in Finland, almost 85%. Rail has a 37% 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 contracts, services and materials procured by the Finnish government is roughly 45%.

### Railway regulators and authorities

The VR Group is 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 responsible for rail transport

legislation and railway licensing. The Ministry also purchases passenger services from VR. In 2005 these purchases amounted to EUR 36.7 million.

The Finnish Rail Administration is responsible for the renovation, development and maintenance of railway lines, within the framework of the state budget, and procures track maintenance services from contractors through competitive tendering. The Finnish government's expenditure on the rail network in 2005 was some EUR 426 million.

The condition of tracks significantly affects the competitiveness of rail services. Finland's rail network needs renovation and additional capacity. VR cannot fully utilize its new train fleet because of the condition of the country's railway tracks. Rail lines that are in good condition enable higher speeds and reduced travel times. They also allow higher tonnage per train for freight carryings, making transportation more efficient. Investment in the rail network will also enhance VR-Track's business opportunities.

The Finnish Rail Administration is also responsible for traffic control and safety standards for rail transport, and purchases control services from VR Ltd. However, safety and administration tasks will be transferred to a new regulatory body in autumn 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.





## **2.1. New, fully-enclosed car carriers in service**

VR's new, fully-enclosed, double-decker car carriers started operating between Helsinki and Oulu. The cars carried in the wagons are protected from the weather and each car bay is provided with an electric socket for engine block heating. In summer 2005 car carrier services were extended to the Helsinki–Rovaniemi and Helsinki–Kolari routes, and in December to include services between Turku and Lapland as well as between Tampere and Lapland.

## **17.5. Rail bus services begin**

The first rail bus entered service between Joensuu and Pieksämäki. Rail bus services started between Joensuu and Nurmes in late autumn and between Iisalmi and Ylivieska in December. In early 2006 the rail bus was also placed into service between Savonlinna and Parikkala, and in early spring was operated on the Tampere–Haapamäki and Karjaa–Hanko lines.

## **25.5. All new city trains in service**

The last of the new city trains ordered in 2002 entered service. VR now has altogether 30 low-floor, air-conditioned city trains in commuter services in the Greater Helsinki Area. Some 40% of train services during weekdays and 70% during weekends are now provided by city trains.

## **5.6. New Pendolino routes to Eastern Finland**

In early June Pendolino services were extended to the Helsinki–Kouvola–Iisalmi route. In early November Pendolinos started operating between Helsinki and Joensuu. Now that the Joensuu service has started, the network of Pendolino routes covers all the main rail connections in Finland.

## **15.6. VR and R-Kiosks cooperate on ticket sales**

VR Ltd and Rautakirja Corporation signed a Letter of Intent that will allow R-Kiosks to issue train tickets. Cooperating with R-Kiosks will increase the number of service outlets around Finland by over 700. The arrangement will be implemented during 2006.

## **27.6. VR-Track started work on contract in Sweden**

VR-Track started the line superstructure work on the Botniabanan line in Sweden. Last summer work was completed on some 35 kilometres of the line. VR-Track has joined Balfour Beatty Rail AB in a consortium that will handle the line superstructure work on the 110-kilometre Botniabanan line.

## **30.6. Competitive tender for InterCity coaches**

VR invited tenders for the construction of 20 double-decker InterCity coaches, and the leasing of them to VR. Invitations to tender were re-issued in the autumn because VR did not receive a single offer meeting the conditions within the tendering deadline. A decision on procurement of the coaches was made in January 2006.

## **28.8. Transpoint and Varova started cooperation**

Transpoint Oy Ab and Varova Oy started cooperation under the terms of which Transpoint will handle the terminal operations of Varova's trailers and related carryings of general cargo in Finland.

## **31.10. YTV and VR sign long-term contract**

The Helsinki Metropolitan Area Council (YTV) and VR Ltd signed a new contract for rail services in the YTV zone. The contract starts at the beginning of 2006 and extends to 2017. The agreement negotiated is more detailed than earlier contracts.

## **2.11. Russian railways award for VR**

The Russian railway company OAO RZD designated VR as its best international partner. VR also received the same Partner award in 2004.

## **30.11. New sleeping cars for VR**

The first new double-decker sleeping cars were handed over to VR after completion of the testing phase. After personnel training and technical fine-tuning the sleeping cars were placed into service between Helsinki and Rovaniemi in February 2006.

# Financial Performance

**VR Group's** financial performance in 2005 was depressed by the long period of industrial unrest in the paper industry. The volume of carryings for the paper industry in the spring and early summer was only half of its normal level. The dispute reduced the net turnover generated by freight services by an estimated EUR 20 million, which represents some 6% of net turnover from freight services. The Group's consolidated net turnover grew, however, by 1.5% to EUR 1,196.6 million.

The growth in net turnover generated by passenger services and other businesses even combined with reduced costs was not sufficient to fully compensate the deterioration in profit resulting from the industrial unrest. The Group's operating profit declined from EUR 62.8 million to EUR 61.1 million. Consolidated net profit after taxes was EUR 46.0 million, compared to EUR 51.7 million in 2004.

The volume of freight carried by rail, 40.7 million tonnes, decreased by 4.6% in 2005 from the previous year. The volume of domestic freight carryings declined by 10.6% owing to the industrial unrest in the paper industry. The volume of international carryings, however, increased by 5.1%, most of which was from services between Finland and Russia. Eastward services continued to be hampered by the transport policy Russia is pursuing, which strongly favours routes via the country's own harbours.

Altogether 63.5 million rail passenger journeys were made in 2005, the highest volume in VR's entire history. Journeys on long-distance trains increased by 3.1% and on commuter trains in the Helsinki metropolitan area by 6.2%. Long-distance services accounted for some 20% of all train journeys; the remaining 80% were made in the Helsinki metropolitan area. The volume of passenger-kilometres and net turnover were, however, substantially higher in long-distance services than in commuter services because the journeys made were longer.

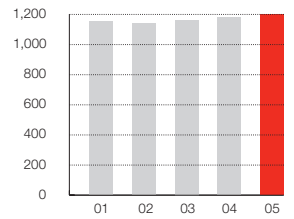
VR-Track Ltd made an operating loss in the winter, which is a normal seasonal cycle. This turned into an operating profit in May, which then rose fairly steadily. Operating profit amounted to EUR 9.3 million. The Pohjolan Liikenne subgroup, which provides road services, made an operating profit of EUR 4.0 million.

The VR Group's capital expenditure amounted to EUR 210.2 million. Some 80% of this was spent on VR Ltd's rolling stock. No major new investment decisions were made, but expenditure comprised payments for orders made earlier. Investments have been higher than the long-term average in recent years because of the plan to modernize rolling stock made at the end of the 1990s.

The Group's financial position and liquidity remained strong.

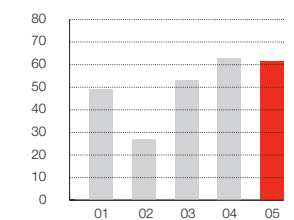


The number of rail journeys reached a new record level in 2005. Altogether 51 million train journeys were made on commuter services, over 6% more than the previous year.



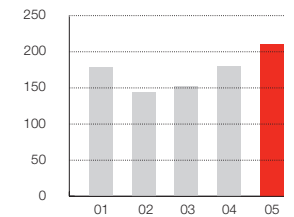
**Net turnover**

M€



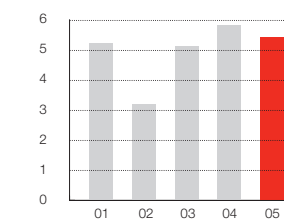
**Operating profit**

M€



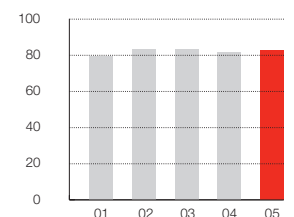
**Investments**

M€



**Return on investment**

%



**Solvency ratio**

%



## Rail Services

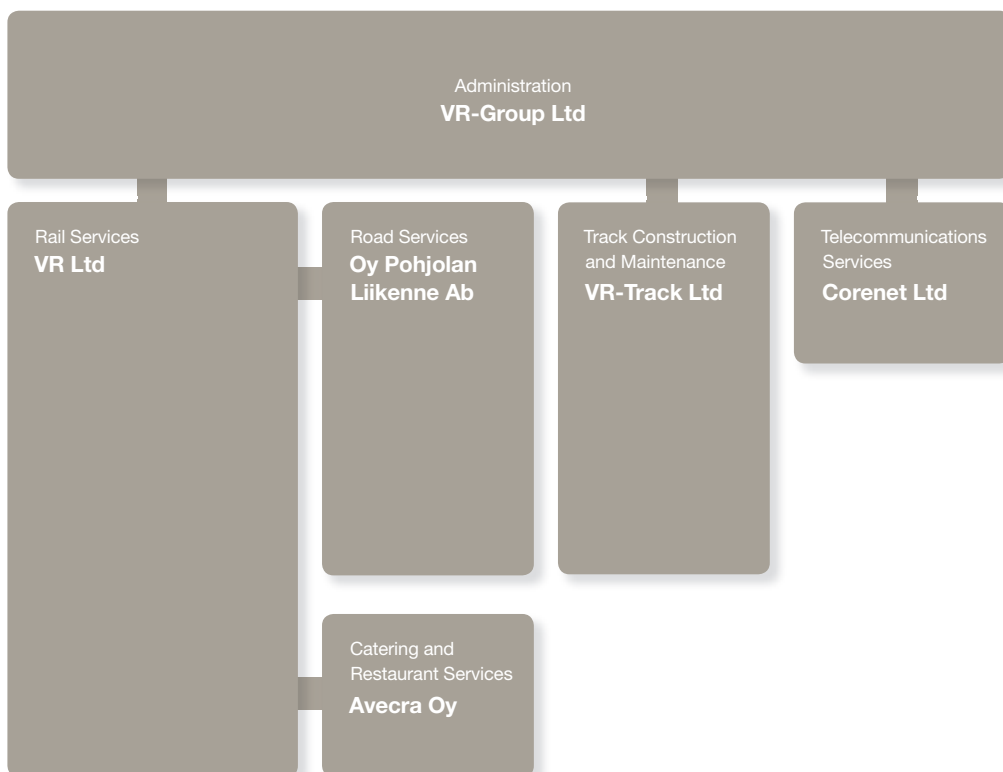
- VR Ltd, the Group's largest company, is Finland's leading freight and passenger carrier.
- The company carried over 40.7 million tonnes of freight by rail in 2005. Most of VR Cargo's carryings consist of the raw materials and products of Finland's forest, chemical and metal industries.
- Some 63.5 million passenger journeys were made. VR provides an average of 270 long-distance services and 850 commuter services every day. Six daily train services operate between Finland and Russia.
- Rail services generate net turnover of EUR 653.8 million. This comprises EUR 333.4 million from freight services and EUR 320.4 million from passenger services.
- Personnel totals 7,713.



## Track Construction and Maintenance

- VR-Track Ltd and its subsidiaries provide 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.
- Net turnover amounts to EUR 241.5 million.
- Personnel totals 2,382.

## 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 carried approximately 9.1 million tonnes of freight in 2005.
- Oy Pohjolan Henkilöliikenne Ab and its subsidiary Oy Pohjolan Kaupunkiliikenne Ab transported some 11.9 million passengers by coach and bus in 2005.
- Road services generate a net turnover of EUR 209.1 million. This comprises EUR 172.9 million from freight services and EUR 36.1 million from passenger services.
- Personnel totals 1,936.



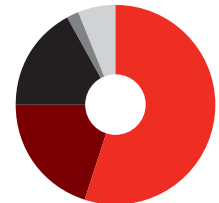
### Catering and Restaurant Services

- Avekra Oy provides supplementary catering and restaurant services for VR's passenger transport operations.
- Avekra manages cafés and restaurants on long-distance train services and in larger railway stations. It provides daily catering services on 130 trains and has 16 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 and restaurant services generate annual net turnover of EUR 25.6 million.
- Personnel totals 289.



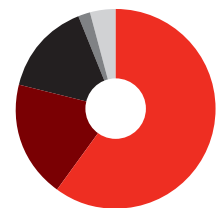
### Telecommunications Services

- Corenet Ltd provides telecommunications services for VR's rail transport operations and develops specialized telecommunications systems for transport and logistics needs.
- TDC Song Ltd is a minority shareholder in the company.
- Telecommunications services generate a net turnover of EUR 18.2 million outside the Group.
- Personnel totals 204.



Net turnover by business 2005

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



Personnel by business 2005

• Rail services	60%
• Track construction and maintenance	19%
• Road services	15%
• Catering and restaurant services	2%
• Other	4%

## VR Group's Business Concept

VR Group's mission is to operate profitably in the transport business and the railway infrastructure services sector, meeting shareholder targets for dividend yields while offering its customers high-quality services. The Group aims to increase shareholder value and is committed to corporate social responsibility.

VR provides safe, high-standard and environmentally benign transport and logistics services for freight customers and passengers as well as added-value services closely linked to these activities. VR also offers professional track design, construction and maintenance services.

## Goals

### 1. Passenger rail services: faster growth than public transport on average

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 cooperation 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 23 Travel Centres in Finland. 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 reducing journey times, introducing new rolling stock and developing new sales channels. The company is also improving the safety and punctuality of its services.

### 2. VR Group's freight services: a stronger market position

VR Cargo's operations are based on long-term cooperation agreements. Customers are offered not just rail transport but also a comprehensive package of logistics services in cooperation 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. The aim is to build 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 east-bound transit carryings also, as well as to develop services to and from Far Asia along the Trans-Siberian route.

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

### 3. Safeguarding 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 full-service models.

VR Group is giving increasing priority to developing personnel skills, because the Group's personnel structure is changing briskly at the same time as the Group is enhancing the efficiency of its operations.

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, thereby making the purchasing of train tickets more convenient. In freight services, the 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

- Train speeds and efficiency
- Safety and punctuality
- Environmental friendliness
- Committed, skilled personnel
- Modern rolling stock
- Smoothly functioning links to Russia
- Efficient track maintenance machinery
- A broad-based and versatile transport group



**VR's target is to boost customer satisfaction. The company plans to do this by, for example, reducing travel times, introducing new rolling stock, and developing new sales channels.**

## 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 cooperate 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

## Risk Management

The objective of VR Group's risk management is to support the achievement of business targets while avoiding the occurrence of undesirable operative and financial events.

The Group's risk management policy defines the goals and spheres of responsibility in risk management. The policy also strengthens the Group's principles for assessing, monitoring and reporting risks.

Risk management involves identifying hazards, determining the magnitude of risks and the decision-making needed to eliminate or reduce risks.

Risks are assessed by business area. The basis of assessment is the probability of damage or injury attached to the threat and the impact of the consequences. The assessment also describes the methods for managing risks.

Risk assessments are conducted each year by the Boards of Management of VR-Group Ltd and other group companies, who decide on any necessary actions at that time. The boards address especially large risks and those risks that fall outside the management capabilities of the Group's officers or supervisors. The status of risk management is reported to VR-Group Ltd's Board of Directors once a year.

## Rail travel gains in popularity

Rail travel has substantially increased in the past few years, and last year more quickly than other modes of transport. Families in particular used trains more than in previous years.

One reason for the growth in passenger volumes was the low-price family ticket, which allows one child to travel free with one adult passenger. The volume of passengers travelling on family tickets grew by 8%. Altogether 16% of rail passengers are families.

Families with children have been given high priority in designing accommodation on trains. All InterCity trains have a double-decker service coach, with a play corner for children and a separate family compartment.







# Passenger Services

## Main targets

- Enhancing customer satisfaction and boosting market share
- Cutting travel times and enhancing passenger comfort
- Improving punctuality and safety

**VR offers** train passengers a wide range of services on both long-distance routes and commuter lines in the Helsinki metropolitan area. VR provides some 270 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. Private cars form the main competitor to rail, with some 85% of all journeys in Finland being made by car. Rail transport's share of all public transport was 37% in 2004. 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 320.4 million in 2005, an increase of 5.2% on the previous year. Rail travel grew overall by 5.6% and an all-time record of altogether 63.5 million passenger journeys were made by train during the year.

Some 12.5 million passenger journeys were made on long-distance services last year, 3.1% more than in 2004. Travel between Finland and Russia, altogether 267,000 journeys, grew by 6.2%.

The number of journeys in the YTV zone managed by the Helsinki Metropolitan Area Council increased by 7.0%, and commuter journeys increased by 3.2% elsewhere in the Greater Helsinki area. Altogether 51.0 million journeys were made on commuter services during the year.

Passenger volumes grew especially on the main rail links: Helsinki-Tampere, Helsinki-Lahti, Helsinki-Hämeenlinna and Helsinki-Jyväskylä. Rail travel also increased between Tampere and Oulu. Families and pensioners recorded the biggest increases in rail travel.

There was strong growth in daily commuter travel on both commuter services and long-distance services. Commuters travel longer distances to work in the Greater Helsinki area than previously, including from Lahti, Hämeenlinna, Tampere, Salo and Turku.

### Rail travel grew faster than other public transport

The volume of passenger journeys has increased sharply in the past few years. For the past two years growth has been higher than the average for public transport. In 2005 rail travel grew faster than all other forms of transport, since the number of journeys made by private car rose by only 2%. One reason for this favourable development are shorter travel

times, the major investments made in rolling stock and successful re-organization of the services offered by rail.

During 2005 VR focused on applying customers' opinions more effectively to developing the services it offers. It improved the feedback system and introduced new types of surveys and measurements of customer expectations. VR received altogether 17,360 items of feedback from customers during the year, most of which concerned train services, rolling stock and service on trains.

VR continued to develop its distribution channels, and the number of rail tickets purchased online increased steadily. In 2005 some 5% of all train tickets for long-distance services were bought over the Internet. VR's business customers can now also buy tickets online to a VR Travel Account, which more than half of businesses' use as their method of payment.

VR signed a Letter of Intent with Rautakirja Oy for a service which will in the future allow tickets to be collected from R-Kiosks.

### More comfortable journeys to Lapland

Rail travel to Lapland was substantially improved during 2005. VR deepened its cooperation with tourist operators in Lapland and re-introduced winter Ski-Train product brands.

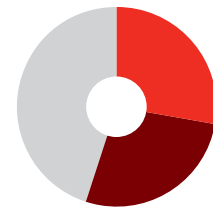
The new rolling stock on these services considerably improves night travel by train. In 2005 altogether some 471,000 customers travelled in sleeping cars on these services, and the trains on this route carried 37,800 cars.

New car carriers have now been introduced on all car-carrying routes. A total of 15 car carriers are in service, each with capacity for carrying 12 private cars. The car carriers are covered and include electrical engine block heating points for vehicles.

The first double-decker sleeping cars underwent manufacturer's trials in the autumn and were placed into service in February 2006. The compartments on the top floor of the sleeping cars have an in-suite shower and toilet. On the lower floor, two compartments can be combined, for example to accommodate families.

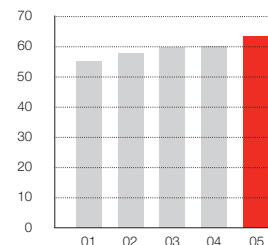
### Pendolino network completed

The network of Pendolino routes was extended in 2005 and now covers all the main rail links in Finland. Two new Pendolino services were introduced on the Helsinki-Oulu route at the start of the year. Another two services were introduced at a later stage: Helsinki-Kouvola-Iisalmi and Helsinki-Joensuu.

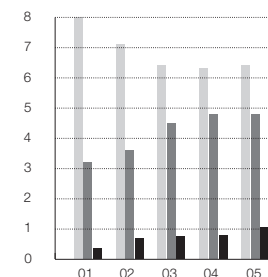


Rail service's share of VR's net turnover 2005

- Passenger services 27%
- Freight services 28%



Passenger journeys  
millions



Long-distance journeys  
by type of train  
millions

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



VR operates altogether 24 Pendolino services a day. In 2005 a total of over one million passengers used these services. VR now has all the 18 trainsets it ordered, the newest of which was placed into service at the beginning of 2006. Pendolino services celebrated their tenth anniversary during the review year, as the first trains, operating between Helsinki and Turku started operating at the end of 1995.

### Railcar service started

The new railcars started operating in May, firstly serving the Joensuu–Pieksämäki route. Railcar services were also started on the Joensuu–Nurmes and Iisalmi–Ylivieska routes towards the end of 2005. VR uses railcars to serve non-electrified lines with low passenger volumes.

At the beginning of the summer more city trains equipped with air-conditioning were placed into service between Helsinki and Riihimäki. Almost one-half of commuter services in the Greater Helsinki area are now provided by VR's new city trains.

### Long-term agreement with Helsinki Metropolitan Area Council (YTV)

YTV and VR signed an agreement for rail services in the YTV zone for the period 2006–2017. The value of the contract is roughly EUR 46 million a year.

Overall the agreement is more detailed than in previous years and consists of four parts, the largest of which applies to handling the operation of passenger rail services. The other contracts address rolling stock, maintenance and other services.

The agreement allows VR to make long-term planning in the Helsinki metropolitan area. The agreement also covers Metropolitan Area Rolling Stock Ltd's planned procurement of rolling stock.

### Safe and punctual transport services

The punctuality rate for passenger services in 2005 was high. Long-distance services achieved a punctuality rate of 90.04%, exceeding the target of 90%, where delays of more than 5 minutes are counted as lateness. In commuter services the corresponding figure was 97.6% and the limit 3 minutes.

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

A high priority in express trains was ensuring that all doors were closed when a train leaves in order to improve passenger safety.

During the review year VR took part in an extensive survey of the safety of public transport in the

Helsinki metropolitan area. The results indicated that safety has declined significantly in the evenings and at weekends. Conversely, commuter travel was considered to be safe.

### Prospects

In autumn 2006 rail services will be considerably faster when the direct Kerava–Lahti line is completed. All the new rolling stock VR has ordered in recent years will also be in service by that time.

The top speed on the direct line will be 220 kilometres an hour. The travel time for a Pendolino train from Lahti to Helsinki will be less than 50 minutes, and travel times from Helsinki to Savo and Eastern Finland will be reduced by between 30 minutes and up to more than one hour.

Railcar services will be extended during 2006 to cover four new routes: Karjaa–Hanko, Iisalmi–Ylivieska, Tampere–Haapamäki and Parikkala–Savonlinna. Sections of lines in built-up areas with low passenger volumes can then be provided more economically than with the locomotive-driven trains currently operating these services.

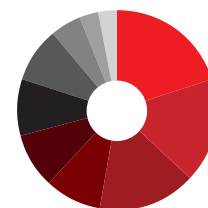
VR and Russian Railways are continuing to work towards launching a fast rail connection between Helsinki and St Petersburg in 2008. The plan is to establish a Finnish-Russian company for rolling stock procurement during 2006 and start competitive bidding for the provision of fast trains. Achieving a travel time of less than three hours between St Petersburg and Helsinki requires all customs formalities to be handled on the moving train, in addition to track renovation and the procurement of fast rolling stock.

VR will improve the information given to passengers about disruptions in rail services during 2006. The goal is that passengers will receive up-to-date information about train delays and other changes in services on the Internet.

VR plans to improve ticket availability. R-Kiosks will provide a new sales channel during 2006 when tickets ordered from VR by phone can be collected from kiosks. This will open up over 700 new service outlets for rail passengers.

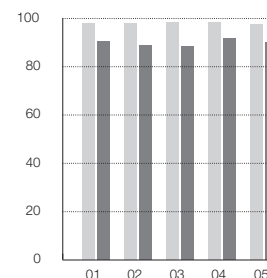
The main innovation in commuter services is the employer-subsidized commuter ticket. The amendment to tax legislation needed for this entered into force at the beginning of 2006. This system is expected to increase the use of public transport.

VR cooperates widely with other transport providers in the Helsinki metropolitan area to improve travel safety.



Passenger feedback 2005

• Traffic services	20%
• Rolling stock	17%
• VR's in-train services	16%
• Station ticket sales	9%
• Internet pages and online sales	9%
• Tickets, prices and sales systems	9%
• Other station services	9%
• Avekra's in-train services	5%
• Telephone service	3%
• VR's operations in general	3%



Punctuality of rail traffic

• Commuter services	
• Long-distance services	

# Freight Services

## Main targets

- Strengthening VR Cargo's role as part of the customer's service package
- Developing the international network of partners
- 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 14% 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. In 2005 VR Cargo retained its position as an established carrier for Finnish cargo.

VR Cargo's freight transport is very punctual and highly reliable, and the company aims to further improve its punctuality rate. According to the new and more accurate monitoring procedures introduced in

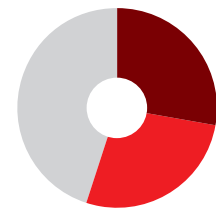
2005, 88.8% of trains arrived within 15 minutes of their scheduled arrival times.

## Net turnover and freight volumes

VR Cargo carried altogether 40.7 million tonnes of freight during the year. Freight volumes declined by 4.6% compared to the previous year, mainly due to industrial disputes in the forest industry. Freight services generated net turnover of EUR 333.4 million, some 4.2% less than in 2004. The decrease in carryings for the forest industry reduced net turnover by approximately EUR 20 million.

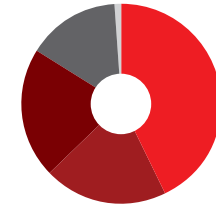
Domestic services carried 23.5 million tonnes of freight, 10.6% less than in 2004.

Freight carryings between Finland and Russia, 12.9 million tonnes, grew by 6.9%. Strongest growth was in carryings of raw materials for the forest industry. Volumes of other product groups were weakened by Russia's railway tariff policy, which favours



**Rail services, share of VR's net turnover 2005**

- Freight services 28%
- Passenger services 27%

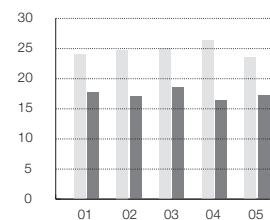


**VR Cargo's carryings by product group 2005**

- Mechanical forest industry 43%
- Metal industry 21%
- Chemical forest industry 20%
- Chemical industry 15%
- Other 1%



VR's goal is to plan transport systems that best meet customer needs. Part of these projects involves developing rolling stock. The picture shows the new version of the ore-carrying wagons used for transporting ore concentrates.



**VR Cargo's carryings**

Million tonnes

- Finland
- International



transportation via Russia's own ports. Carrying of exports from Finland to Russia decreased by 0.7%, mainly due to reduced exports from Finland's forest industry.

Transit carryings via Finland grew by 5.7% on the previous year, amounting to 3.4 million tonnes. Most growth was in carryings of raw materials of the forest industry from Russia to third countries.

Westward carryings via Turku and Tornio, 0.9 million tonnes, declined by 16.7%.

Carryings of sea container freight in Finland amounted to 220,300 TEU. Container freight on the Trans-Siberian line, 100,000 TEU, declined by 20% after several years of sustained growth. TEU (Twenty-foot Equivalent Unit) is a unit of measurement used in container transportation and refers to one 20-foot container.

### New models for cooperation in eastern freight services

In 2005 VR Cargo developed a new partnership-based sales and marketing model for Russia and the CIS countries. VR Cargo also signed a contract introducing the Revontuli container train between Helsinki and Moscow. The contract partner is Transcontainer, the container transportation centre of Russian railway company OAO RZD.

VR Cargo enhanced its cooperation with Russian railway operators, enabling the company to offer a wider range of services to Russia and the CIS countries. A project was also launched during the review period aimed at starting container transportation to China in collaboration with Russia's and China's railways.

Russian Railways designated VR as its best international partner. VR also received the same Partner award in 2004.

### One-stop logistics service

On the domestic market the Group deepened its cooperation with goods transport companies and pursued its policy of providing one-stop logistics services through a series of pilot projects. VR Cargo's Cargo East Terminal (CET) in Kouvolaa, completed in 2004, strengthened its position in the market. The terminal assembles eastbound freight flows into full trainloads, thereby enhancing efficiency.

The terminal for combined transport in the Oritkari district of Oulu completed in 2004 has allowed VR Cargo to substantially boost its volume of carryings. The customer base expanded during 2005, and trains carried altogether 11,650 articulated vehicles and trailers, an increase of 30%. Combined transport

trains travel at night in both directions on the Oulu-Helsinki and Kemi-Helsinki lines.

The importance of information flows in logistics has increased. In 2005 VR Cargo actively developed IT systems supporting cargo transportation. Use of the transport ordering system was extended so that the system was deployed in full at the start of 2006. The aim of the system is to improve customer service, delivery reliability and efficiency.

VR Cargo participated in a number of R&D projects with universities and research centres. One study in 2005 investigated the feasibility of RFID technology in a railway environment.

### Prospects

One future challenge for VR Cargo is to make its operations more customer-oriented and efficient. The guiding principle for development continues to be the Common Carrier approach. The goal for offering one-stop service is to plan a transport system that is most suitable for the specific service package of each customer. One part of these projects often involves developing the rolling stock.

Offering a one-stop service and concentrating the carryings of key customers on specific rail links will strengthen VR Cargo's position in the domestic transport market.

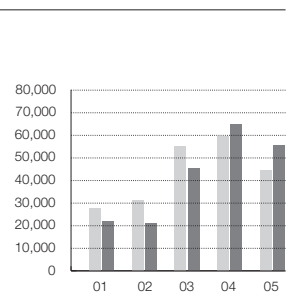
VR Cargo will increase combined transports between Tampere and Northern Finland. Investments in rolling stock will improve the opportunities for carrying even larger articulated vehicles. The company is seeking more efficient models for container carryings in Finland.

In international services VR Cargo will focus on carryings of raw materials imported by Finnish industrial corporations. Other priorities are carryings of eastbound exports and transit carryings through Finland in both directions.

VR Cargo continues to cooperate in developing the existing connections on the Trans-Siberian line. International rail transportation is expanding, especially in carryings to China.

The company is intensifying its use of IT and automation systems. New solutions will be more widely deployed, in particular to manage transport information and the use of resources. Another high priority is the development of automation in marshalling yard activities.

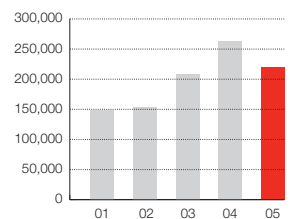
The transportation of freight on Finland's rail network will be opened to competition at the beginning of 2007.



East Asia container traffic

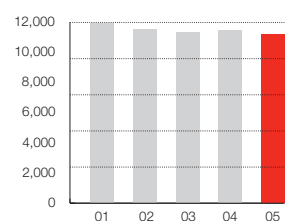
TEU = 20-foot container equivalent

- Imports
- Exports



Sea container carryings

TEU = 20-foot container equivalent



Number of freight wagons

## Trucks travel by train

Combined transports have grown sharply after completion of the Oritkari terminal in Oulu in 2004. The customer base widened in 2005, and road tankers were also carried for the first time between Tampere and Oulu.

Some 30% more articulated vehicles and trailers were carried by train than in 2004. Combined transport trains travel at night in both directions on the Oulu–Helsinki and Kemi–Helsinki lines.





# Track Construction and Maintenance

## Main targets

- Enhancing customer satisfaction
- Raising the competitiveness of services
- Maintaining profitability



Track construction and maintenance, share of VR's net turnover 2005

- Track construction and maintenance 20%

**VR-Track Ltd** and its subsidiaries specialize in track design, construction and maintenance services. The company's customers include the Finnish government, local authorities, ports, industrial companies using the rail network and other main contractors for track maintenance. VR-Track also offers engineering services outside the railway environment, mainly through its subsidiaries.

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.

VR-Track is Finland's leader in track maintenance. 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 400-450 million a year. In addition to this, industrial companies, ports and other owners of private tracks have spent EUR 20-30 million a year on track construction and maintenance.

## Net turnover and main projects

Track Construction and Maintenance generated net turnover of EUR 241.5 million in 2005, an increase of some 2.5% 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 was roughly 45%. The compa-

ny's own production focused on work requiring a high level of expertise in railway engineering. VR-Track's order book for 2006 totalled approximately EUR 187 million on 31 December 2005.

The main railway consulting projects during the year comprised over one hundred different construction planning jobs for maintenance in locations all over Finland. Specialists in track design and geology, and in electrical and signalling equipment participated in the work. The Railway Consulting unit was involved in planning the modernization of the Seinäjoki-Oulu line, and was also responsible for the maintenance and development of the Finnish Rail Administration's property management register.

VR-Track continued performing superstructure work, electrification and installation of signalling equipment on the direct Kerava-Lahti line. The superstructure of the line was completed in November, except for minor finishing work.

The biggest line superstructure projects were on the Tampere-Jyväskylä, Seinäjoki-Oulu, Kirkkonummi-Turku, Siilinjärvi-Viinijärvi and Pieksämäki-Kuopio sections of line. The large superstructure projects upgraded altogether 286 kilometres of railway line, and some 300,000 old sleepers were replaced with new concrete ones.

Altogether 35 kilometres of new track was laid on the Botniabanan line in Northern Sweden during the summer. The work will continue in spring 2006, and the whole contract is scheduled for completion in 2007. VR-Track's partner in this project is Balfour Beatty Rail AB. VR-Track also received smaller com-



**VR-Track commissioned a new type of flash butt welding machine that joins rail ends by heating them with electric current. This new welding method is fast and the welded joint is more durable.**



missions from Sweden during the review period, including one from Blekingebana.

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

In 2005 the geometrical index indicating line superstructure's physical condition again reached its best value yet. The index indicates the success of maintenance work, but only describes the condition of the rail network at that given time.

Defects occurred in the rail network during the spring, especially between Tampere and Jyväskylä. VR-Track replaced rails in the most critical areas in the summer under a commission from the Finnish Rail Administration.

Capacity utilization at the company's own production units remained high. The rail-welding unit in Kaipainen handled some 34,000 tonnes of rails. The track point units in Pieksämäki and Kaipainen manufactured over 170 track points of varying types and reconditioned almost 60 track points and 500 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.

### Profitability remained satisfactory

The decline in the company's net turnover halted in 2005, and the number of personnel stabilized at around 2,300 people. The company's profitability in all its business areas remained at a satisfactory level.

Replacement investments in the Finnish state's rail network remained at broadly the same level as the previous year. Competition for small renovation and marshalling yard jobs, however, intensified. VR-Track's competitors formed consortiums to strengthen their competitive position.

Half of the construction work commissioned by the Finnish Rail Administration was track superstructure work, which was carried out in accordance with the skeleton agreement put out to competitive tender in 2004. The agreement is for five years.

The business operations of Vuorenpeikot Oy were merged with VR-Track. Vuorenpeikot now operates as a profit centre under the construction business.

Other contractors entered the market for maintenance of the rail network, in addition to VR-Track, at the beginning of July. At present this change only affects the North Finland region. VR-Track continued to perform specialized maintenance and sub-contracts in Northern Finland, including the maintenance of track points.

### Customer satisfaction and competitiveness the priorities

VR-Track aims to retain and strengthen its leading position in track maintenance. The main targets for development are customer satisfaction, personnel skills, work procedures and tools.

A survey showed that customer satisfaction with the company remained at a good level. Personnel development focused on safety and technical training as well as on enhancing management skills.

The company introduced a new design system that integrates the design of track, signalling equipment and electrification.

In 2005 VR-Track became the first company in the Nordic countries to deploy mobile flash butt welding equipment. VR-Track's capital expenditure amounted to EUR 6.0 million in 2005, mostly spent on replacing decommissioned track machinery and equipment.

### Prospects

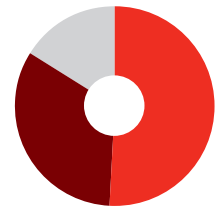
The focus of work to improve the rail network has shifted to Eastern and Western Finland. This will require VR-Track to be more agile as competition in that market is intensifying. Success in foreign markets depends on strong expertise and high efficiency.

The Finnish Rail Administration's action plan will shift the focus of track work during the period 2007–2010 back to repairing and modernizing the old rail network. Compared to its competitors, VR-Track is in an excellent position to compete for this work.

Some major new construction projects will be launched over the next few years, including modernization of the Ilmala marshalling yard, development of the Seinäjoki–Oulu and Lahti–Vainikkala sections of line, and track work for Vuosaari harbour. VR-Track is preparing for competitive bidding for these tenders, which will be invited in 2006.

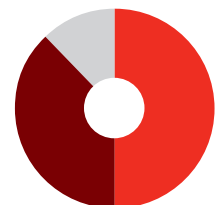
The Finnish Rail Administration's use of external regional track maintenance managers was extended to cover the whole of Finland during the review period. This will change procedures and processes, which is also a challenge for VR-Track. Competitive bidding for track maintenance, which is currently restricted to the North Finland region, will also cover the entire country in 2008.

VR-Track will continue to focus on demanding work that requires technical expertise in railway engineering, special machinery and a thorough understanding of rail safety. Other priorities include the development of civil engineering and export operations.



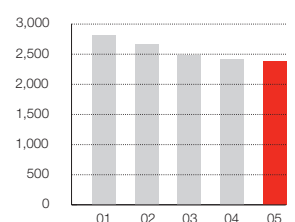
Net turnover 2005

• Maintenance	51%
• Construction	33%
• Engineering, materials and other services	16%



Working hours 2005

• Maintenance	50%
• Construction	38%
• Engineering, materials and other services	12%



Number of employees



# Road Services

## Main targets

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

**Oy Pohjolan Liikenne Ab** is responsible for providing the VR Group's road services through its subsidiaries. Oy Pohjolan Henkilöliikenne Ab and Oy Pohjolan Kaupunkiliikenne Ab provide bus and coach services. Oy Transuotila Ab specializes in road tanker services in Finland and the Baltic countries. Transpoint Oy Ab carries general cargo, while Combitrans Oy handles partial and full-load carryings.

In 2005 the company had 291 buses. Altogether 190 trucks, 450 trailers and 978 swap-bodies were in service during 2005. The company's fleet also included 72 road tankers and 97 tanker trailers. Some 800 trucks owned by subcontractors were also used during the year.

### Net turnover, passenger and freight volumes

Road Services's net turnover grew by 5.7% compared to 2004, amounting to EUR 209.1 million. Freight services generated 14% of net turnover, EUR 172.9 million, and passenger services 3%, EUR 36.1 million.

Freight volumes, 9.1 million tonnes, grew by 2.8% on the previous year. General cargo declined 3.5% while partial and full load carryings grew 7.4%. The

total tonnage of road tanker carryings declined by 5.5%.

Passenger services carried 11.9 million passengers by road, 17.5% more than in 2004.

### Improved profitability

Overall the Pohjolan Liikenne companies showed a considerably improved profit for 2005. Operating profit grew by 11.5%. Considering the prevailing market conditions, the profit level was satisfactory, although it was depressed by high fuel prices and industrial unrest in the paper industry.

Carryings of general cargo, partial loads and bulk cargoes generated an improved net profit for the year, while profit from road tanker carryings declined due to lower energy consumption and intense competition. Higher fuel costs also weakened the competitiveness of general cargo customers and thus reduced the volumes of carryings.

The profitability of bus and coach services remained satisfactory when compared to the average financial performance of the bus and coach sector, and especially to average profits from chartered services in the Helsinki metropolitan area.

Transpoint has given very high priority to the reliability of transportation and to customer satisfaction.





### Decline in long-distance passenger volumes halted

The opening of the Kamppi terminal in Helsinki in June 2005 halted the decline in long-distance passenger volumes, at least for the time being. A new and more modern policy planned for marketing the ExpressBus services is expected to entice entirely new customers to bus and coach services.

In other respects Pohjolan Henkilöliikenne's operations were affected by the sharp rise in fuel prices. In addition, passenger volumes continued to decline, especially in Imatra, Savonlinna and Kotka. Consequently, the companies continued to adjust their operations to match demand.

Pohjolan Kaupunkiliikenne's operations almost doubled compared to the previous year, thanks to new operating contracts. Surveys of chartered services conducted by contractors indicated that the quality of services continued to be as high as in previous years.

### Wider range of transport services, new customer segments

Transpoint's highlight for the year was joining an international transport network when the company started cooperating with Varova Oy in the autumn. Transpoint will handle the terminal operations of Varova's trailers and related carryings of general cargo in Finland. Varova is one of the largest international transport companies in Finland.

Transpoint improved its profitability by enhancing efficiency. The company also adjusted its pricing to better correspond to current costs. The new pricing is based on the quantities purchased and the agreed quality of service. The price restructuring also meant shedding customer relationships that were not economically viable.

Transpoint gave high priority to the reliability of deliveries and customer satisfaction during the year. The company also broadened its range of service offerings to new customer segments and business sectors. The company further focused on enhancing personnel skills and working capabilities as well as on ensuring an adequate supply of labour in the future.

The goal for Combitrans in 2005 was to boost its share of carryings of the forest and construction industries' products. Another aim was to increase the company's offerings of service packages and to deepen cooperation with customers. One sign of success in this field is that Combitrans is now involved with the customer's delivery process at an earlier stage than previously.

Transuotila's new Head Office and depot in Lieto were commissioned in autumn 2005. The new unit is expected to enhance customer service as well as improve the monitoring and maintenance of the transport fleet.

The main targets for development, as in 2004, were safety and environmental activities. These aspects are especially important in road tanker transportation.

### Prospects

The common targets for the Pohjolan Liikenne companies for 2006 are improving safety, personnel training, enhancing the atmosphere at the workplace and collaborating with customers in developing service products. The profitability of the Pohjolan Liikenne companies is expected to improve in 2006.

The future prospects for freight transport are very favourable despite intense competition. Transpoint aims to profitably increase its net turnover by expanding its service offering.

The main target for Combitrans in 2006 is to enhance the efficiency of information, ordering and delivery processes and to develop the one-stop services the company offers. Another goal is to utilize the transport services of the Group's different companies, thereby improving the customer's competitiveness in the supply chain.

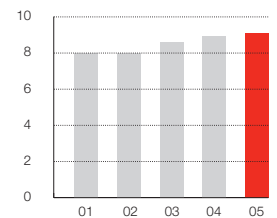
The financial situation for road tanker carryings is expected to remain unchanged or to slightly improve during the year. Growth in net turnover is likely to come mainly from the Baltic countries. Light oil carryings based on old contracts will increase during 2006.

The outlook for bus and coach services is cautiously optimistic. Profitability is expected to improve slightly during the current year. Operations are being continuously adapted to changing demand and this will continue.

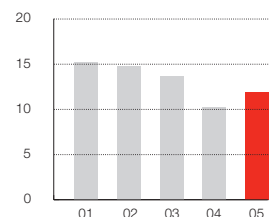


Road services, share of VR's net turnover 2005

• Road services 17%



Freight volumes by road  
Million tonnes



Bus and coach journeys  
Millions

# Catering and Restaurant Services

## Main targets

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

**Avecra Oy** provides catering and restaurant services on long-distance passenger trains and at railway stations. On trains, Avecra offers restaurant and trolley catering services. The company provides daily services on some 130 trains, covering 80% of all long-distance trains. The main changes in train restaurant services over the last few years have been related to the increase in the number of InterCity2 and Pendolino trains.

Avecra has altogether 16 restaurants or kiosk outlets at six railway stations providing catering services. The most important location is Helsinki central railway station, where Avecra has nine units. Avecra's service outlets at stations mainly compete with fast-food providers of food and beverages.

2005 was a challenging year for the entire catering sector. Volumes of food sales grew but sales of alcoholic beverages continued to decline slightly. This decline levelled out towards the end of the year but there are still no signs of growth. The total volume of sales increased by roughly 3% during the year.

## Net turnover and sales

Net turnover from Catering and Restaurant Services amounted to EUR 25.6 million in 2005, an increase of 0.3% on the previous year.

Net turnover from sales on trains grew by 1.2%, largely due to an increase in the number of customers, especially on long-distance routes, a comprehensive range of food products and an increase in the average size of purchases.

Net turnover from restaurants decreased by 1.5%, mainly as a consequence of a marked decline in sales of beer and other alcoholic beverages, a common trend throughout the catering sector. The company also closed a service outlet in Oulu.

## Working to improve profitability

The company continued to monitor costs intensively during 2005. Avecra made some changes in services on those trains on which passenger volumes were too low in terms of economic viability. Avecra also continued to minimize wastage and improve the terms and conditions of procurement. Other targets for development were the pricing structure and the activation of sales efforts.

Personnel costs and sales margins were closely scrutinized during the year. High priority was also given to the business concepts and sales efforts of restaurants.

## Active customer service

The theme in 2005 with regard to internal communication and the sales training of personnel was active customer service. Marketing activities and the personnel's own campaigning produced good sales results.

Family travel grew considerably during the review period. Avecra designed its own 'Ilpo the Lynx' character especially for children, and during the summer sold 'Ilpo the Lynx' entertainment packages and booklets, which were highly popular among younger passengers.

## Support for supervisory tasks

One priority during 2005 was strengthening the supervisory skills of staff. The regular supervisor seminars included training sessions addressing themes such as interpersonal skills, managerial capabilities, risk management and analysis of financial indicators.

Around ten of Avecra's supervisors took 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

The completion of the direct Kerava-Lahti line in autumn 2006 will also pose some significant challenges for the restaurant and catering business. Avecra is streamlining its logistics operations and updating and harmonizing services on trains to meet these challenges. The target is to simplify customer service and improve profitability.

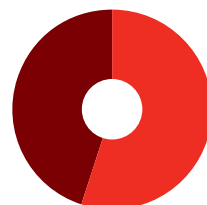
The biggest challenge in the restaurant business is to boost net turnover. This calls for careful monitoring and analysis of customer behaviour, continuous development of existing services and reviewing the opportunities for new business locations. Competition is steadily intensifying, especially in Helsinki, so pro-active measures are necessary.

In 2006 Avecra is launching a major ICT project aimed at ensuring reliable operation of control and monitoring systems as well as effective support of operational activities.



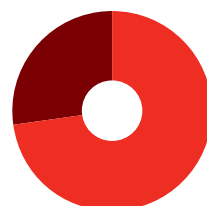
**Catering and restaurant services, share of VR's net turnover 2005**

- Catering and restaurant services 2%



**Net turnover 2005**

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



**Personnel 2005**

- Restaurant services in trains 73%
- Restaurants at stations 27%



grandi

Iipo-Ilves - lasten paras matkakaveri  
Lasten  
ikio  
puuhavikko

grandi

Iipo-Ilveksen  
puuhavikko  
lapsille

Iipo-Ilveksen  
puuhavikko  
lapsille

# Human Resources

## Main targets

- Developing supervisory activities
- Preparing for growing recruitment needs
- Enhancing expertise through training

The main targets for VR Group's human resource strategy are to develop personnel management, manage the change in personnel structure and re-inforce personnel skills. Another essential goal is to improve cost efficiency.

In 2005 the VR Group employed an average 12,791 people, some 3.6% fewer than in 2004.

At the end of the year altogether 97.4% of the entire Group's personnel were permanent employees, with part-time employees accounting for 3.6%. An average of 280 people were employed in seasonal track construction and maintenance work during the summer.

Some 85.2% of VR Group's personnel were male. The average length of service was 23 years. The average age of personnel at the end of 2005 was 46.5 years.

Absence due to sickness has remained at broadly the same level for a number of years now, although the average age of personnel has risen. In 2005 the sick leave rate was 6.5%, approximately 17 days per employee.

Altogether an average EUR 464 per employee was spent on occupational health services.

## Better supervisory work

VR Group has enhanced its human resources management in recent years, adopting a more systematic method for personnel planning, recruitment and internal reporting.

The company has also harmonized its procedures for appraisal discussions and improved the supervision of personnel with limited working capabilities.

Systematic monitoring of human resources continued during the review year, and 120 people were invited to a resource review. The review aims to ensure that the Group will also have skilled people for management and supervisory jobs in the future.

Extensive training sessions were arranged for supervisors in some Group companies, including VR Ltd and VR-Track Ltd.

In autumn 2005 VR completed its equal opportunity plan in collaboration with trade unions. The plan proposes action for promoting equal opportunities, and also describes how progress towards equal opportunities will be monitored and how to proceed in cases of discrimination.

Personnel satisfaction is measured with a Group-wide questionnaire at 3-year intervals. The most recent survey was conducted in 2003. Many Group companies conduct follow-up reviews in the intervening years, and apply the results to annual performance monitoring within the company.

New research data on the ability of personnel to continue working was obtained from a three-year study completed by VR and the UKK Institute. The aim of the study was to develop an effective model for self-help in the rehabilitation of back problems and to prevent the re-occurrence of back pains. The rehabilitation model used has proved to be effective.

## Recruitment growing

Group companies recruited altogether 510 permanent employees during 2005. Most new employees, 200 people, were hired by VR Ltd. The greatest need for recruitment continued to be in the basic railway professions, for conductors, drivers and marshalling yard workers.

The need for recruitment is growing every year as an increasing number of employees is reaching retirement age.

For successful recruitment, it is imperative that the VR Group has a good reputation as an employer, and studies indicate that the company has improved its image as an employer over the last few years.

## Training in different career stages

The need for personnel skills is reviewed in appraisal discussions, during which a personal or a personnel group development plan is made.

The VR Training Centre is responsible for basic and supplementary vocational training in railway work on Finland's railways.

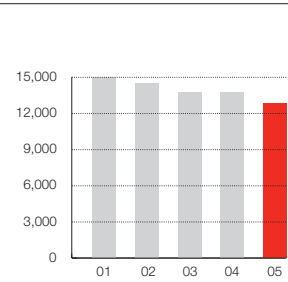
Altogether 40 drivers, 40 conductors and 133 marshalling yard employees graduated from the VR Training Centre in 2005, and some 1,500 people took part in rail construction training.

Supplementary training averaging 2.2 days per employee was provided by the VR Training Centre and external training enterprises during the review period.

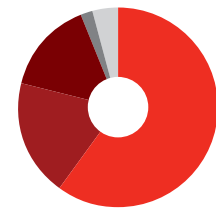
## Prospects

The main priorities for VR Group's human resources management over the next few years will continue to focus on developing supervisory activities, managing the change in personnel structure and enhancing personnel skills.

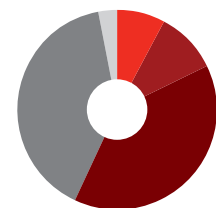
The importance of a good working atmosphere is increasing, and job satisfaction is measured with surveys conducted on a regular basis. Extensive recruitment must be correctly timed. Training and inducting new employees will also be a big challenge. The nature of many jobs is changing, and for that reason continuous supplementary training and re-training will be needed.



Personnel on average



Personnel by business 2005



Age structure 2005



# Safety

## Main targets

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

**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 in 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 for the period. The programme is revised each year to set specific targets for each VR sector.

### No serious accidents in rail traffic

VR's main safety target for 2005, preventing major accidents, was achieved as no serious accidents occurred in rail traffic. Two cases of injuries to passengers were recorded, in both cases the reason was falling over in the train. These cases did not involve a traffic accident or an error in rail transport.

The number of accidents at level crossings, altogether 64, increased compared to 2004 when the comparable figure was 52. Eight people died in accidents at level crossings, and 19 were injured. Most public attention focused on the accident in Kemi, Lapland, where two people died when a dog-drawn sleigh was run over by an express train.

Safety at level crossings has declined over the last few years. In 2002 there were 42 accidents, and the safest year to date was in 1998, when 39 accidents occurred.

In autumn 2005, the Accident Investigation Board, at VR's instigation, launched an extensive investigation into how to improve safety at level crossings.

### Constant work to improve safety

In addition to accidents, VR has for many years now given high priority to reducing less serious threats and hazards. Careful assessment of these, and a reduction in their occurrence, will improve the level of rail safety.

One high priority is to reduce errors in traffic control and in rail transport. The number of errors in providing safe passageways for trains declined sharply compared to 2004. Unauthorized passing of stop signals also declined substantially.

A newly updated rail safety regulation was introduced at the beginning of June, marking one of the main safety highlights of the review period. The new regulation will ensure that harmonized and safe traffic control methods are used throughout the country.

A law concerning rail safety tasks on the railway system entered into force at the beginning of the year, which also specifies the health status requirements for employees doing these jobs. VR-Group Ltd's own doctors, who specialize in railway-related matters, will provide statements on the suitability of VR personnel for these jobs. The state of health of employees will be monitored in regular examinations.

### Prospects

The focus for safety will continue to be maintaining the skills of rail safety personnel. During 2006 personnel will receive supplementary training on safety issues, in addition to standard refresher courses.

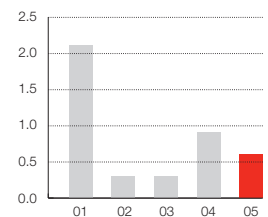
High priority is given in safety training to the importance of prompt and correct working methods. The main focus is on situations where radiophones are used in railway communications.

Many employees working in jobs involving rail safety will be retiring over the next few years, which will present VR with a major challenge. The company aims to ensure the availability of skilled staff for demanding jobs on Finland's rail network.

The modernization of the railway radio system did not progress as planned in 2005. The pan-European system, which is based on the GSM-R standard, still contains numerous technical problems. VR is cooperating with the Finnish Rail Administration, which is responsible for the system, to resolve these problems. Completion of the new system will, however, probably last for another few years.

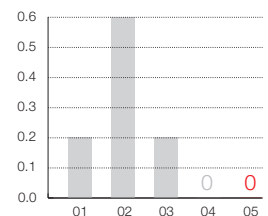


**VR's goal is to continuously improve the standard of rail safety. The requirement for zero-defect performance is particularly important in traffic control and in driving trains.**



**Fatalities and seriously injured rail passengers**

Per billion passenger-km



**Collisions in rail traffic**

Per 10 million train-km

# Environment

## Main targets

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

**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 improves the eco-efficiency of the entire transport system.

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. VR Group trains personnel to address environmental issues in their day-to-day work. A special priority is safety in the transport of hazardous substances.

The Group's environmental management system is based on the ISO 14000 series of international standards. The Group's operations covered by environmental certification expanded in 2005 when all of the operations of VR Ltd obtained certification in December.

Some 87% of the Group's personnel works in business units that have environmental certification. All Group companies prepare an environmental programme each year, which is based on the principle of continuous improvement.

### Electrified services reached record level

Electric traction's share of all rail transport rose in 2005 to 80.3%. Growth was 3.9 percentage points in passenger services. Since passenger volumes rose considerably, the specific consumption of energy by passenger services declined.

Rail transport consumed in total 581 GWh of electrical energy, compared to 566 GWh in 2004. Consumption of liquid fuels in 2005 amounted to 48 million litres, a decrease of 7%.

The Group's road services continued their training in economical driving and developed the monitoring of the fuel consumption of individual drivers. Road services consumed a total of 42 million litres of liquid fuels.

Transport's average consumption declined 0.1 l/100 km, even though capacity usage increased 2%. Combitrans average consumption declined 0.3 l/100 km. Fuel consumption by Corenet's vehicles declined 10% thanks to remote maintenance and the modernization of the fleet.

### Emissions reduced

Rail transport produced 255,000 t of carbon dioxide emissions in 2005, 9% less than in the previous year. Compared to 1990, rail transport emissions were 17% lower, even though tonne-kilometrage had risen 15%. The increase in electrified services and changes in the specific emissions from electricity

generation were the main causes of this favourable development.

During the year the Group's rail services carried a total of 5.0 million tonnes of hazardous substances. Altogether 13 leaks occurred in rail services, of which one necessitated soil decontamination. In addition, 8,000 litres of fuel oil spilled on the track in Vartius due to the breakdown of a locomotive.

Pohjolan Liikenne increased the number of engines in its transport fleet meeting Euro 2 and Euro 3 engine low-emission standards. The Group's road services transported 1.4 million tonnes of hazardous substances. A total of 37 incidents causing environmental damage occurred in the Group's road services during 2005, resulting in 3,000 kilograms of emissions.

VR spent altogether EUR 260,000 million on soil surveys and soil decontamination in 2005. Instead of major decontamination projects, the focus was on risk assessment and surveys of the areas around former engineering workshops and the Ilmala marshalling yard.

### Increasing recycling

In its rolling stock purchases, the Group takes into account the life-cycle environmental impact. A locomotive washer was taken into use at the Oulu depot that recycles 85% of the water. VR-Track scrapped and recycled 268 rail coaches that had been taken out of use.

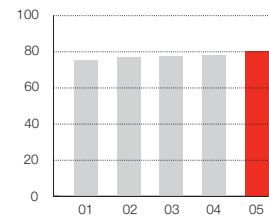
The waste management guidelines were revised at several business units. The collection of electrical and electronic scrap started in accordance with the new EU directory.

The Group enhanced use of materials and reduced the amount of waste by cutting the selection of chemicals and other products kept in stock. For example Avecra's total waste as a proportion of net turnover has fallen in three years to almost a half, and now stands at 1.3%.

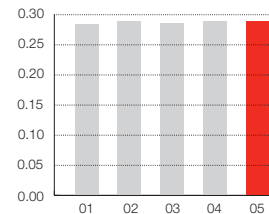
### Prospects

VR will continue to focus its environmental management activities on enhancing efficiency in the use of energy. Electric traction's share of rail transport will rise still further.

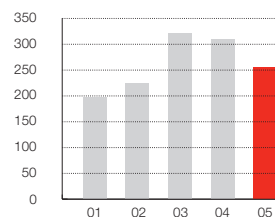
Eco-efficiency in transport will also be improved by increasing train capacity utilization, train sizes and axle loads. One major challenge is to continue to reduce specific energy consumption in passenger services. The Group will further reduce the number of different chemicals in use over the next few years and optimize the use of chemicals.



**Electric traction, share of total train-km**  
%



**Energy consumption by total transport volume**  
MJ/(tonne-km + passenger-km)



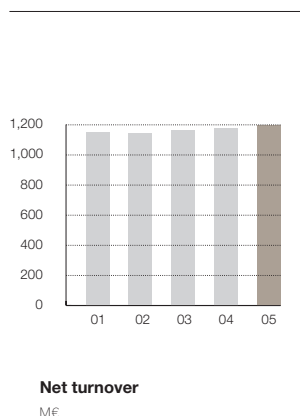
**Carbon dioxide emissions in rail services**  
1,000 tonnes



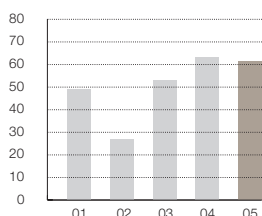
**Report by the Board of Directors  
and Financial Statements**

2005





Net turnover  
M€



Operating profit  
M€

### Market conditions and operating environment

During the first months of the review year, growth in industrial output slowed down distinctly from the high figures recorded at the end of the previous year. A more significant negative factor than this was the labour dispute in the paper industry. This started in April and continued into June and had an impact on the volumes transported for the entire forest industry.

During this time rail carryings for the sector fell to less than half their normal level. Forest industry carryings account for more than 60% of VR's freight services. During the autumn the economic situation improved encouragingly and industrial output rose from the corresponding period in the previous year, but even this could not compensate for the lost carryings in early summer.

According to preliminary estimates, the industrial production index for the forest and paper industry declined 9.7% during the review year, and the figure for pulp, paper and paper products included in this fell 11.6%. The metal and mechanical engineering index, excluding electrotechnical products, rose 2.6% and the chemical industry index improved 2.2%. Production volumes in these industrial sectors are of decisive importance to VR's freight transport business.

The production index for all industry declined 2.5%, according to preliminary estimates. The losses in freight transport volumes resulting from the fall in domestic output was partially compensated by the growth in freight services between Finland and Russia.

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 economic trends, since it is also affected by Russia's own trade practices and the level of rail fees. This holds true for goods that stay in Finland as well as transit traffic via Finland to third countries. It is more difficult to make reliable predictions about the transport volumes to and from Russia than about domestic transport.

Normal fluctuations in the economic situation do not have such a clear and direct impact on the volume of passenger services as they have on freight services. Passenger services are more strongly affected by the general level of wealth, consumer habits, the regional distribution of the population, and developments in the infrastructure for different forms of transport.

One factor that continues to limit growth in rail passenger services is the fact that the standard of the rail network does not 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 1,196.6 million, having been EUR 1,178.9 million in the previous year. The decrease in forest industry carryings reduced net turnover for freight services, and as a result for the whole Group, by some EUR 20 million, and this in turn reduced the operating profit by almost the same amount. Net turnover from passenger services and from track construction and maintenance for the government increased.

Costs rose in particular due to the rise in the prices of electricity and diesel fuel. Energy costs for providing rail services were some EUR 10 million higher than in the previous year, despite the fall in the volume of freight services. One factor worth mentioning that reduced costs was the revised depreciation periods for rolling stock decided on in the previous year to make them conform more accurately to actual service life. Depreciation on rolling stock was in total EUR 14 million less than in the previous year.

The operating profit was EUR 61.1 (62.8) million and the net profit for the period was EUR 46.0 (51.7) million.

VR Ltd posted an operating profit of EUR 22.6 (28.1) million and VR-Track Ltd EUR 9.3 (15.5) 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 4.6 (7.3) million. No new external long-term loans were raised during the year.

Liquid assets, which here are taken to include cash in hand and at banks, securities and bonds, totalled EUR 112.6 (217.1) million at the end of the year. A dividend of altogether EUR 21.5 million was paid.

### 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.

VR Cargo's carryings decreased by 4.6% from the previous year, to 40.7 million tonnes. Of this total, 23.5 million tonnes came from domestic traffic and 17.2 million tonnes from international traffic. Domestic traffic decreased 10.6% and international traffic increased 5.1%. International traffic refers to rail traffic crossing Finland's borders. Most of this com-

prises traffic between Finland and Russia or transit traffic via Finland to third countries.

Within domestic traffic, carryings in the largest segment, the forest industry, fell by 12.0% due to the labour dispute mentioned above. Carryings in the metal industry declined 7.8% and in the chemical industry declined 4.4%. These two segments are the largest freight categories after the forest industry.

Traffic between Finland and Russia, including transit traffic via Finland to third countries, totalled 16.3 million tonnes, an increase of 6.7%. More than half of this total consisted of raw timber imports into Finland, over a quarter comprised chemical industry products, and the rest was made up almost entirely of metal industry products. Timber carryings increased by 15.0%, whereas chemical industry carryings declined 10.7%. Metal industry carryings in services to and from Russia increased 15.0%. Traffic between Finland and Russia also includes traffic between Finland and East Asia (principally South Korea, Japan and China), which is container traffic. This segment fell 19.6% after the strong growth in the previous two years and totalled 99,700 TEU (1 TEU, twenty foot equivalent unit, is the nominal capacity of one 20-ft long container).

Transit traffic via Finland to third countries, included in the figures for traffic between Finland and Russia, totalled 3.4 million tonnes, an increase of 5.7%. Most of this was composed of Russian exports of raw materials to western Europe. Chemical carryings, principally petroleum products, accounted for over 50% of total transit traffic. This freight category decreased by 17.5%, whereas metal industry products, which represented 40% of total transit traffic, increased by 65.8%.

Direct rail traffic between Finland and western Europe declined 16.7%, from 1.1 million tonnes to just over 0.9 million tonnes. Part of the reason for this decline was the labour dispute in the paper industry, which caused the cancellation of product deliveries in the paper sector. Just over half of the western-bound rail freight traffic was carried by ferry from Finland to Germany and Sweden. Virtually all the rest was transported via Tornio in northern Finland.

VR-Cargo's non-consolidated net turnover totalled EUR 336.0 (349.7) million. VR Cargo's operating profit, based on VR Ltd's internal accounts, was EUR 5.1 (12.3) million. The average transport distance increased from 236 kilometres to 238 kilometres. No information is available about any change in rail's market share of freight traffic, since the statistics for road transport are not ready yet. In recent years rail has had a 24–25% share of all freight transport in Finland.

The number of journeys in passenger traffic totalled 63.5 million, an increase of 5.6%. Long-distance journeys showed an increase of 3.1% to 12.5 million passenger journeys. The average length of a long-distance journey was 219 kilometres, with no significant growth in this from the previous year. Long-distance traffic comprises all journeys other than those made in commuter services in the Greater Helsinki area, regardless of the journey length. A total of 267,300 passenger journeys were made between Finland and Russia, up 6.2%.

A total of 51 million passenger journeys were made in commuter traffic in the Greater Helsinki area, an increase of 6.2% on the previous year. The number of journeys in the zone administered by the Helsinki Metropolitan Area Council (YTV = Helsinki, Vantaa, Espoo, Kauniainen) was 40.9 million, an increase of 7.0%. Commuter traffic outside this zone grew 3.2% to 10.1 million journeys.

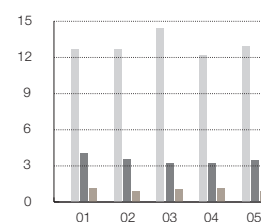
Rail increased its market share of public transport.

Non-consolidated net turnover from passenger services amounted to EUR 320.9 (304.9) million. The operating profit of passenger services, based on VR Ltd's internal accounts, was EUR 28.5 (15.1) 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 mainly full-load carryings of bulk goods. Oy Transuotila Ab specializes in carrying liquid fuels in Finland and to a small extent also in the Baltic countries. The Pohjolan Liikenne companies carried a total of 9.1 million tonnes of freight, an increase of 2.8% on the previous year. Pohjolan Liikenne companies owned 260 trucks during the review year and employed an average of some 800 trucks owned by subcontractors.

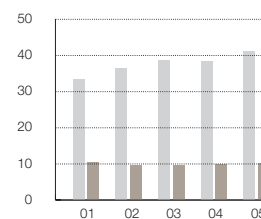
Passenger services in the Pohjolan Liikenne group are organized around two companies. Oy Pohjolan Henkilöliikenne Ab is responsible for regular and charter coach services mainly in southern and eastern Finland. Oy Pohjolan Kaupunkiliikenne Ab manages contract traffic in the Greater Helsinki area. Particularly strong features of operations during the review year were the sharp rise in fuel prices and the decline in passenger numbers especially in rural services, which is typical of the sector. These companies carried a total of 11.9 million passengers, an increase of 17.5% on the previous year. This was due to the expansion of contract traffic in the Greater Helsinki area from the previous year. There were some 290 coaches in service.



VR Cargo's international rail carryings

Million tonnes

- Eastern traffic
- Transit traffic
- Western traffic



Journeys in commuter traffic

Millions

- Helsinki metropolitan area
- Other

Net turnover of the Pohjolan Liikenne companies was EUR 211.2 (199.3) million, 83% of which was derived from freight and 17% from passenger traffic.

### Track construction and maintenance

VR-Track Ltd's net turnover in 2005 was EUR 232.4 (225.9) million, over 90% of which was commissioned by the Finnish Rail Administration. VR-Track Ltd handles some 45% 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 185 million.

Half of VR Track's construction work was track superstructure work commissioned by the Finnish Rail Administration in accordance with the skeleton agreement put out to competitive tender in 2004. The agreement is for five years.

Other contractors took over responsibility for basic maintenance of the rail network in Northern Finland at the beginning of July. VR-Track continues to perform specialized maintenance and subcontracts in Northern Finland, including the maintenance of track points.

VR-Track continued the superstructure work, electrification and installation of signalling equipment on the direct Kerava-Lahti line. The superstructure of the line was completed in November, except for minor finishing work.

The biggest line superstructure projects were on the Tampere-Jyväskylä, Seinäjoki-Oulu, Kirkkonummi-Turku, Siilinjärvi-Viinijärvi and Pieksämäki-Kuopio sections of line. Defects appeared in the rails and track electrical structures of the rail network and as a result the Finnish Rail Administration ordered work to replace rails and catenaries, which was carried out in the areas with damage mainly during the summer.

Major superstructure projects upgraded altogether 286 kilometres of railway line, and some 300,000 sleepers were replaced.

The Railway Consulting unit was involved in consultancy for improving the level of service of the Seinäjoki-Oulu line, in the maintenance and development of the Finnish Rail Administration's property management and service register, and in construction planning for track maintenance work commissioned separately.

Altogether 35 kilometres of new track superstructure was laid on the Botniabanan line in Northern Sweden during the summer, in a contract being carried out with Balfour Beatty Rail AB. The work will continue in spring 2006, and the whole contract is scheduled for completion in 2007. VR-Track also received smaller commissions from Sweden during the review period,

including one from Blekingebanan. A branch outlet was established for operations in Sweden. In Estonia, VR-Track AS's ballast cleaning project, commissioned by RT-Ehitus AS, entered its sixth year.

Capacity utilization at the company's own production units remained high. The rail-welding unit in Kaipainen handled some 34,000 tonnes of rails. The track point units in Pieksämäki and Kaipainen manufactured over 170 track points of varying types and reconditioned almost 60 track points and 500 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.

VR-Track's subsidiary Megasiirto Oy has specialized mainly in moving railway bridges and other heavy objects. The company had a net turnover of EUR 8.7 (9.7) million. The business operations of Vuorenteikot Oy were merged with VR-Track in November and Vuorenteikot now operates as a profit centre under the construction business.

### Investments

The Group's capital expenditure amounted to EUR 210.2 (180.0) million, which included EUR 172 (140.9) million covering rolling stock for VR Ltd. This amount is considerably above the long term average, but is in line with previously made plans. Capital expenditure consisted mainly of payments for previously decided investments.

A total of 15 car carrier wagons for passenger services were ordered in 2003 and 13 of these were completed during the year and all 15 were in service by the end of the review year. The first of the 20 double-decker sleeper cars ordered in 2003 were built towards the end of the year, and the entire series will be ready during 2006. The last eight of the 20 city trains ordered in 2002 were completed. Five Pendolino trains were delivered and nine of the 16 railcars ordered in 2001.

VR-Track Ltd's investments amounted to EUR 7.0 (5.7) million, most of which comprised replacements of track machinery and wagons retired from use.

The Pohjolan Liikenne group's investments totalled EUR 10.8 (12.6) million and principally covered spending on new vehicles.

### Development of services

The replacement of passenger rolling stock continued as planned. Commercial services started in May with the first of the new railcars. At the start of the new timetable period at the beginning of June, certain train services between Helsinki and eastern Finland became Pendolino or InterCity services. Some

adjustments were made to the timetables at the same time. Some fairly small expansions or reductions in the rail service offering were made in line with demand.

To improve the availability of rail tickets, VR Ltd and Rautakirja Corporation signed a Letter of Intent that will allow R-Kiosks to issue train tickets. It is planned to implement the arrangement during 2006.

At the end of the year the Helsinki Metropolitan Area Council (YTV) and VR Ltd signed a 12-year contract for providing rail services in the YTV zone and for related services, maintenance and the use of rolling stock.

The punctuality rate in passenger services remained in line with targets. 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 90.0% (91.7%) and in commuter traffic 97.6% (98.4%). Despite the slight decline from the previous year, these figures can be considered high by international standards.

In freight services, the priority in improving services was in developing logistics solutions and supporting information systems for them. Use of the transport ordering system was extended, aiming to have the system deployed in full in the first half of 2006. The aim of the system is to improve customer service, delivery reliability and efficiency. VR Cargo participated in a number of R&D projects with universities and research centres.

VR Cargo enhanced its international cooperation in freight services to and from Russia, developing a new partnership-based sales and marketing model for Russia and the CIS countries. VR Cargo and Russia's railways also improved container train services between Moscow and Finland. A project was also launched aimed at starting container transportation to China in collaboration with Russia's and China's railways.

### Corporate agreements

The business operations of Vuorenpeikot Oy were merged in November with those of its parent company VR-Track Ltd.

The first stage of the agreement signed in 2004 by VR-Group Ltd and YIT Construction Ltd concerning the purchase of the land in the Pasila Workshops area was implemented as planned.

### Safety

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. Safety is the most important of the values that VR has itself adopted. 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 2005, avoiding major accidents. The number of errors in risk situations when providing safe passageways for rail services decreased significantly from the previous year. The number of cases of unauthorized passing of stop signals also continued to decline. Overall rail safety has improved consistently for several years and the figures for 2005 again meet VR's target of being among the best in the EU.

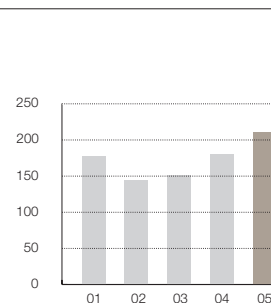
The number of accidents at level crossings increased from the previous year to 64 (52), in which 8 (7) people died and 19 (12) were injured. Viewed over a period of several years, the number of accidents at level crossings has been increasing. As recently as 2002 the number of these accidents was 42. To date, the fewest level crossing accidents have occurred in 1998, when there were 39 accidents. Although legislation classifies level crossing accidents as road accidents, they almost always involve a railway-related risk. In autumn 2005, the Accident Investigation Board Finland, at VR's instigation, launched an extensive investigation into safety at level crossings, and this is expected to make recommendations to improve safety.

The fully revised Rail Safety Regulation, produced under the guidance of the Finnish Rail Administration, was introduced at the beginning of June. Introduction of this regulation required induction training for all rail safety personnel, which was carried out in the first part of the year.

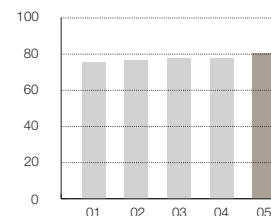
Rail's most important safety system technically, the ATP (Automatic Train Protection) system, already covers 3,856 kilometres of Finland's rail network and almost 90% of rail services. During 2005 ATP was extended to cover the Iisalmi-Ylivieska and Joensuu-Uimaharju track sections. However, another major technology development project, the introduction of the GSM-R railway radio system, did not progress as planned due to technical problems in the system.

### The environment

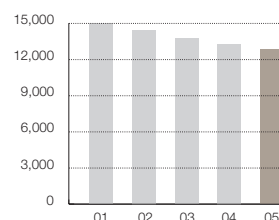
The central objectives for VR Group's environmental management activities are to improve efficiency



Investments  
M€



Electric traction,  
share of total train-km  
%



Personnel on average

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.

Electric traction's share of all rail transport rose in 2005 to 80.3% from 77.8% in the previous year. Growth was 3.9 percentage points in passenger services. Coupled with the growth in passenger volumes, this meant that the specific consumption of energy by passenger services, which had been rising for several years, started to decline.

Rail transport consumed in total 581 GWh (566 GWh) of electrical energy. Consumption of liquid fuels amounted to 48.0 (51.7) million litres. Electricity generated by water or wind power accounted for 3.8% of the energy consumption of railway services. Carbon dioxide emissions from rail traffic declined from the previous year to 255,000 tonnes. VR's operations are not covered by the EU's internal emissions trading that started at the beginning of 2005.

VR spent altogether EUR 260,000 on soil surveys and soil decontamination in 2005. The main areas surveyed were the areas around the Pasila and Turku engineering workshops and the Ilmala marshalling yard. A provision of EUR 300,000 was made in connection with the sale of the Turku engineering workshop area for future soil decontamination. The soil surveys at the Ilmala marshalling yard are in connection with preparations for the expansion of the long-distance train shed and the environmental permit required for this.

Altogether 13 leaks occurred in the transport of hazardous substances by rail, and only one of these necessitated soil decontamination. A total of 37 minor incidents causing environmental damage occurred in the Group's road services during 2005, resulting in 3,000 kilograms of emissions.

An internal assessment was made of VR's environmental management. Based on its recommendations, the scope of environmental training and communications within the Group are being improved. The environmental risks from the Group's business operations were assessed as part of a broader risk survey.

The international ISO 14001 standard has been revised. The transition period lasts until the end of 2006. Combitrans Oy was the first Group company to obtain certification in accordance with the new standard. The Group's operations covered by environmental certification expanded in 2005 when all of the operations of VR Ltd obtained certification in December. Some 87% of the Group's personnel works in business units that have environmental certification.

## Assessment of business risks and uncertainties

The greatest risks faced by the Group in the future relate to the opening up of the track network to other service operators. In freight services, it will be possible for new operators to use the track network in 2007. It is estimated that initially other operators will only win a small market share, but this may increase in future years. Other risks for freight traffic include the uncertainty in the volumes of combined transport to and from Russia and on Trans-Siberian services, and long-term developments in the output volumes of Finland's primary heavy industry and their impact on the net turnover of freight services.

No decision has so far been made about opening up passenger services to other operators. If this takes place at some time in the future, these operators are expected to be mainly interested in commuter services in the Greater Helsinki area. VR has, however, an agreement with the Helsinki Metropolitan Area Council (YTV) that is in force until 2017. One risk especially for long-distance services is that the standard of the track network will only permit the train speeds that are expected of modern train services on a small part of the network.

Less than half of all the contracts for track maintenance work awarded by the Finnish Rail Administration have gone to VR-Track Ltd. Over the years the company's market share has fallen, and it is possible that this trend will continue.

## Personnel

The number of employees in VR Group has declined at an annual rate of 3–4% for many years now 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 3.6% during the review year. The Group had 12,791 (13,264) employees on average during the year. The largest personnel reductions took place in VR Ltd.

The average age of personnel during the review year was 46.5 (46.6) years. Some 79% (81.3%) of personnel were in the 40–59 years age group. Women accounted for 14.8% (16.3%) of the workforce and men for 85.2% (83.7%). During the year the Group completed an equal opportunities plan, working in collaboration with trade unions.

The priorities in VR's human resources policy have been defined as developing human resources management and management of the change in the personnel structure due to the ageing and retirement of personnel. In practice this means developing the work of supervisory staff and professional

skills, aiming at improved workforce performance, and management of recruitment. These are essential to improve VR's overall competitiveness and also because the track network is being opened up in the near future for other rail operators to use.

Recruitment of new personnel has increased. During 2005, the Group recruited 510 (470) people to permanent positions, and 200 (160) of these joined VR Ltd. To improve the recruitment process, VR has trained supervisory staff and introduced an electronic job application system. The company also prepared common induction material for new personnel during the year.

Since it is difficult to recruit quickly from outside the company management and supervisory resources that possess the required special railway skills, VR aims to ensure that it has sufficient potential personnel within the Group for these tasks. With this in mind, VR has developed the monitoring and assessment of certain key personnel resources, with the aim of also encouraging job rotation and providing opportunities for this.

VR Group has given higher priority to well-being at work and work fitness by, for example, appointing work fitness coordinators to support supervisory staff and by carrying out surveys into these matters. The sick leave rate in 2005 was 6.5%. The amount of sick leave did not increase during the year.

The VR Training Centre is responsible for professional railway training in Finland. In addition to providing basic training for the railway sector, the Centre also gives separately planned supplementary and specialist training. The Centre is increasingly providing training for personnel from outside VR.

### Management and audit

The parent company's annual general meeting on 30 March 2005 re-elected the following to the Board of Directors: Martin Granholm (chairman), Kari Kallio, Eija Malmivirta, Kirsti Lehtovaara-Kolu, Antti Remes, Veli-Matti Ropponen and Jukka Ruuska. Pekka Hurtola was elected as a new member of the Board and he served as a Board member until 27 December 2005. The Board elected Antti Remes as its deputy chairman. The Board re-elected Martin Granholm as chairman of the appointment and remuneration committee and Antti Remes as chairman of the audit committee.

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

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.

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.

### Prospects in 2006 and major events after the end of the fiscal year

In March 2006 the forest industry announced extensive restructuring measures that will have an impact on the volume of rail carryings. The volume of freight tonnage carried by VR is expected to rise from the low level of 2005 but to fall somewhat short of the 2004 level. Traffic to and from Russia is expected to stay more or less at the same level as in the previous year. The number of passenger journeys is expected to continue to rise, and the opening of the direct line between Kerava and Lahti in the autumn is expected to contribute to this. VR raised its passenger service prices in line with inflation at the beginning of January.

The large majority of track construction and maintenance work consists of work ordered by the Finnish Rail Administration. Taking into account the budget allocations available to the Rail Administration, no increase is expected in the volume of track construction and maintenance work carried out by VR.

The amount of capital expenditure will decline considerably from the previous year.

In January VR Ltd's board of directors authorized the company's operative management to lease 20 InterCity coaches for 25 years. The Board of VR-Group Ltd also approved the solution. The coaches will be built by Talgo Oy in Finland. The decision on leasing became possible after the Ministry for Transport and Communications made a commitment to purchase InterCity services from VR under a long-term agreement of intent.

VR-Group Ltd and the Russian railway company RZD signed a letter of intent in March with the goal of establishing a rolling stock company for high-speed passenger services between Helsinki and St Petersburg. The task of the rolling stock company is to purchase the high-speed trains and maintenance services required for the service. It is aimed to establish the company by the end of June and to make the decision about who will provide the trains by the end of this year.

## Consolidated Profit and Loss Account

(1,000 €)	Note	1 Jan.–31 Dec. 2005	1 Jan.–31 Dec. 2004
<b>Net turnover</b>	1	<b>1,196,638</b>	1,178,945
Change in stocks of finished goods and work in progress		<b>1,033</b>	844
Production for own use		<b>32,422</b>	25,804
Profits from associated companies		<b>-117</b>	-12
Other operating income	2	<b>27,369</b>	15,874
Materials and services	3	<b>346,673</b>	319,281
Personnel expenses	4	<b>571,309</b>	556,791
Depreciation	5	<b>98,058</b>	112,641
Other operating expenses	6	<b>180,253</b>	169,959
Expenses, total		<b>1,196,294</b>	1,158,673
<b>Operating profit</b>	7	<b>61,052</b>	62,781
Financial income and expenses	8	<b>4,642</b>	7,286
<b>Profit before extraordinary items and taxes</b>		<b>65,694</b>	70,067
Income taxes	11	<b>-17,434</b>	-15,831
Minority interest		<b>-2,276</b>	-2,487
<b>Profit for the year</b>		<b>45,984</b>	51,750

## Consolidated Balance Sheet

(1,000 €)	Note	31 Dec. 2005	31 Dec. 2004
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	12	9,513	12,402
Goodwill on consolidation		4,108	5,510
Tangible assets	12	1,205,876	1,095,252
Investments	13		
Holdings in Group companies		0	42
Holdings in associated companies		4,569	4,645
Other investments		57,503	94,273
<b>Fixed assets, total</b>		<b>1,281,570</b>	1,212,124
<b>Current assets</b>			
Stocks	14	61,603	57,563
Long-term receivables	15	2,472	1,825
Current receivables	15	108,544	118,420
Securities	16	50,330	122,381
Cash at bank and in hand		7,117	4,635
<b>Current assets, total</b>		<b>230,065</b>	304,824
<b>Assets, total</b>		<b>1,511,635</b>	1,516,948
<b>Capital and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	17	370,013	370,013
Share premium account		525,761	525,761
Other reserves		339	339
Retained earnings		296,458	264,708
Profit for the year		45,984	51,750
<b>Shareholders' equity, total</b>		<b>1,238,556</b>	1,212,572
<b>Minority interest</b>		<b>10,989</b>	10,328
<b>Provisions</b>	19	<b>2,792</b>	1,316
<b>Liabilities</b>			
Deferred tax liability	20	43,609	43,918
Long-term liabilities		2,979	3,944
Current liabilities		212,711	244,870
<b>Liabilities, total</b>		<b>259,299</b>	292,732
<b>Capital and liabilities, total</b>		<b>1,511,635</b>	1,516,948



## Consolidated Cash Flow Statement

(1,000 €)	1 Jan.–31 Dec. 2005	1 Jan.–31 Dec. 2004
<b>Cash flow from operating activities</b>		
Operating profit	61,052	62,781
Adjustments to operating profit <sup>1)</sup>	82,480	96,404
Change in net working capital	-43,328	10,770
Interest received	5,497	7,923
Interest paid and other payments	-950	-689
Dividends received	95	37
Taxes paid	-21,961	-11,134
<b>Net cash from operating activities</b>	<b>82,884</b>	<b>166,093</b>
<b>Cash flow from investing activities</b>		
Subsidiaries acquired	-263	-274
Capital expenditure on fixed assets	-191,144	-148,943
Other fixed assets disposals	24,462	7,456
Change in other long-term investments	34,933	-10,074
Change in long-term receivables	252	
<b>Net cash from investing activities, total</b>	<b>-131,761</b>	<b>-151,576</b>
<b>Cash flow before financing activities</b>	<b>-48,877</b>	<b>14,516</b>
<b>Cash flow from financing activities</b>		
Long-term loans made, repayments	858	0
Long-term loans, repayments	-78	-76
Dividends paid	-21,472	-41,770
<b>Net cash used in financing activities, total</b>	<b>-20,692</b>	<b>-41,846</b>
<b>Change in cash reserves</b>	<b>-69,569</b>	<b>-27,330</b>
<b>Cash reserves on 1 Jan.</b>	<b>127,016</b>	<b>154,346</b>
<b>Cash reserves on 31 Dec.</b>	<b>57,447</b>	<b>127,016</b>

<sup>1)</sup> 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. 2005	1 Jan.–31 Dec. 2004
<b>Net turnover</b>	1	<b>50,350</b>	48,937
Other operating income	2	<b>15,742</b>	7,364
Materials and services	3	<b>12,410</b>	13,023
Personnel expenses	4	<b>13,450</b>	12,990
Depreciation	5	<b>11,091</b>	11,746
Other operating expenses		<b>11,909</b>	10,426
Expenses, total		<b>48,861</b>	48,185
<b>Operating profit</b>		<b>17,231</b>	8,116
Financial income and expenses	8	<b>22,955</b>	20,982
<b>Profit before extraordinary items</b>		<b>40,186</b>	29,098
Extraordinary items	9	<b>12,450</b>	25,000
<b>Profit before taxes</b>		<b>52,636</b>	54,098
Change in depreciation difference	10	<b>1,446</b>	403
Income taxes	11	<b>-13,516</b>	-15,567
<b>Profit for the year</b>		<b>40,566</b>	38,934

## Parent Company Balance Sheet

(1,000 €)	Note	31 Dec. 2005	31 Dec. 2004
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	12	960	970
Tangible assets	12	217,542	222,268
Investments	13		
Holdings in, and receivables from, Group companies		698,741	567,956
Other investments		58,807	92,670
<b>Fixed assets, total</b>		<b>976,051</b>	883,864
<b>Current assets</b>			
Long-term receivables		930	2,932
Current receivables	15	119,159	89,472
Securities	16	50,330	122,381
Cash at bank and in hand		885	1,769
<b>Current assets, total</b>		<b>171,303</b>	216,553
<b>Assets, total</b>		<b>1,147,354</b>	1,100,417
<b>Capital and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	17	370,013	370,013
Share premium account		525,754	525,754
Retained earnings		79,736	60,803
Profit for the year		40,566	38,934
<b>Shareholders' equity, total</b>		<b>1,016,069</b>	995,503
<b>Accumulated appropriations</b>	18	270	1,716
<b>Provisions</b>	19	723	0
<b>Liabilities</b>			
Long-term liabilities	20	221	193
Current liabilities		130,072	103,006
<b>Liabilities, total</b>		<b>130,293</b>	103,199
<b>Capital and liabilities, total</b>		<b>1,147,354</b>	1,100,417

## Parent Company Cash Flow Statement

(1,000 €)	1 Jan.–31 Dec. 2005	1 Jan.–31 Dec. 2004
<b>Cash flow from operating activities</b>		
Operating profit	17,231	8,116
Depreciation according to plan	11,091	11,746
Other non-payment-related income and expenses	-14,463	-7,257
<b>Cash flow before change in net working capital</b>	<b>13,859</b>	12,605
Change in current receivables	2,708	3,556
Change in current liabilities	-273	-778
<b>Change in net working capital</b>	<b>2,436</b>	2,777
Interest paid	-2,508	-2,475
Dividends received	1,584	1,826
Interest received from operating activities	15,180	20,885
Taxes paid	-16,910	-7,951
<b>Cash flow from financial items and taxes</b>	<b>-2,656</b>	12,285
<b>Net cash from operating activities</b>	<b>13,639</b>	27,667
<b>Cash flow from investing activities</b>		
Capital expenditure on fixed assets	-12,345	-10,141
Sale of fixed assets	21,250	5,333
Change in other long-term investments	34,933	-10,074
<b>Net cash from investing activities, total</b>	<b>43,837</b>	-14,882
<b>Cash flow before financing activities</b>	<b>57,476</b>	12,785
<b>Cash flow from financing activities</b>		
Long-term receivables, increase	-206,375	-100,980
Long-term receivables, decrease	40,202	55,467
Group contributions received	25,000	20,000
Dividends paid	-20,000	-40,000
Change in funds transferred to Group accounts	30,761	24,860
<b>Net cash used in financing activities, total</b>	<b>-130,411</b>	-40,653
<b>Change in cash reserves</b>	<b>-72,935</b>	-27,868
<b>Cash reserves on 1 Jan.</b>	<b>124,150</b>	152,018
<b>Cash reserves on 31 Dec.</b>	<b>51,215</b>	124,150

### 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 shown as a separate item.

##### Associated companies

Associated companies are consolidated using the equity method. The Group's share of the results of associated companies 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€ 32.4 (25.8) were produced by the company itself and include M€ 4.9 (3.9) 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	2004	Parent company	2004
	2005		2005	
Rail services				
Freight services	<b>333,397</b>	348,154		
Passenger services	<b>320,396</b>	304,443		
Road services				
Freight services	<b>172,949</b>	166,319		
Passenger services	<b>36,121</b>	31,468		
Track construction and maintenance	<b>241,486</b>	235,833		
Catering and restaurant services	<b>25,558</b>	25,482		
Other services	<b>66,731</b>	67,247	<b>50,350</b>	48,937
<b>Total</b>	<b>1,196,638</b>	1,178,945	<b>50,350</b>	48,937

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 (50).

2 Other operating income (1,000 €)	Group	2004	Parent company	2004
	2005		2005	
Profits on sale of fixed assets	<b>20,248</b>	7,497	<b>15,657</b>	7,274
Other	<b>7,121</b>	8,377	<b>85</b>	89
<b>Total</b>	<b>27,369</b>	15,874	<b>15,742</b>	7,364

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	2004	Parent company	2004
	2005		2005	
Materials and supplies (goods)				
Purchases during the year	<b>177,860</b>	164,003	<b>6,126</b>	6,036
Change in stocks	<b>-3,199</b>	-5,103	<b>0</b>	0
External services purchased	<b>172,013</b>	160,381	<b>6,285</b>	6,987
<b>Total</b>	<b>346,673</b>	319,281	<b>12,410</b>	13,023

<b>4 Personnel and personnel expenses</b>	<b>2005</b>	2004
The Group's average number of personnel during the year was distributed as follows:		
VR-Group Ltd	267	277
VR Ltd	7,713	8,113
VR-Track Ltd	2,325	2,358
Pohjolan Liikenne group	1,936	1,906
Avecra Oy	289	351
Corenet Ltd	204	210
Others	57	49
<b>Total</b>	<b>12,791</b>	13,264

<b>Personnel expenses (1,000 €)</b>	<b>Group</b>		<b>Parent company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Wages and salaries	429,026	429,207	10,473	10,484
Pension expenses	97,175	85,836	1,910	1,550
Other social expenses	45,109	41,747	1,067	955
<b>Personnel expenses in the P&amp;L account</b>	<b>571,309</b>	556,791	<b>13,450</b>	12,990

<b>Management remuneration (1,000 €)</b>	<b>Group</b>		<b>Parent company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Presidents	2,148	1,777	518	465
Members of Boards of Directors	296	270	190	161
Supervisory Board	74	98	74	98
<b>Total</b>	<b>2,518</b>	2,145	<b>782</b>	724

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

<b>5 Depreciation (1,000 €)</b>	<b>Group</b>		<b>Parent company</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
Planned depreciation				
Intangible assets	4,448	4,098	247	209
Buildings and structures	9,082	9,145	8,349	8,445
Tractive and rolling stock	54,079	67,990	0	0
Other machinery and equipment	26,306	27,346	1,874	2,529
Other tangible assets	2,974	2,928	620	563
Amortization of goodwill on consolidation	1,169	1,134		
<b>Total</b>	<b>98,058</b>	112,641	<b>11,091</b>	11,746

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	30 years	straightline
Electric trains	25 years	straightline
Rolling stock	15–20 years	straightline
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.

<b>7 Operating profits of the Group's principal companies (1,000 €)</b>	<b>2005</b>	<b>2004</b>
VR-Group Ltd	<b>17,231</b>	8,116
VR Ltd	<b>22,616</b>	28,103
VR-Track Ltd	<b>9,310</b>	15,451
Pohjolan Liikenne group	<b>3,966</b>	3,556
Avecra Oy	<b>1,928</b>	1,670
Corenet Ltd	<b>5,760</b>	6,841

<b>8 Financial income and expenses (1,000 €)</b>	<b>Group 2005</b>	<b>2004</b>	<b>Parent company 2005</b>	<b>2004</b>
<b>Dividend income</b>				
From Group companies	<b>0</b>	0	<b>1,500</b>	2,535
From associated companies	<b>0</b>	0	<b>0</b>	0
From others	<b>95</b>	52	<b>84</b>	37
<b>Dividend income, total</b>	<b>95</b>	52	<b>1,584</b>	2,572
<b>Interest income from long-term investments</b>				
From Group companies	<b>0</b>	0	<b>18,430</b>	13,179
From others	<b>4,071</b>	4,077	<b>4,071</b>	4,077
<b>Other interest and financial income</b>				
From Group companies	<b>0</b>	0	<b>168</b>	74
From associated companies	<b>91</b>	139	<b>89</b>	139
From others	<b>1,336</b>	3,707	<b>1,123</b>	3,417
<b>Interest expenses and other financial expenses</b>				
To Group companies	<b>0</b>	0	<b>2,455</b>	2,439
To others	<b>950</b>	689	<b>54</b>	35
<b>Financial income and expenses, total</b>	<b>4,642</b>	7,286	<b>22,955</b>	20,982

## 9 Extraordinary items

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

<b>10 Appropriations (1,000 €)</b>	<b>Parent company 2005</b>	<b>2004</b>
Difference between planned depreciation and depreciation booked for tax purposes		
Change in depreciation difference (increase +, decrease -)		
Intangible assets	<b>9</b>	26
Buildings and structures	<b>52</b>	-157
Tractive and rolling stock	<b>-1,687</b>	-546
Other tangible assets	<b>180</b>	274
<b>Total</b>	<b>-1,446</b>	-403

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.

<b>11 Income tax (1,000 €)</b>	<b>Group 2005</b>	<b>2004</b>	<b>Parent company 2005</b>	<b>2004</b>
Income tax on extraordinary items	<b>0</b>	0	<b>3,237</b>	7,250
Income tax on operating activities	<b>17,744</b>	20,089	<b>10,279</b>	8,317
Change in deferred tax liability	<b>-309</b>	-4,259	<b>0</b>	0
<b>Total</b>	<b>17,434</b>	15,831	<b>13,516</b>	15,567



## Notes to the Balance Sheet

### 12 Fixed assets (1,000 €)

Group 2005	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. 2005	21,972	11,116	18,398	51,485	63,081	263,576	1,515,184	42,238	73,597	1,957,678	2,009,164
Increases	997	0	312	1,309	390	9,037	187,366	1,151	276,088	474,032	475,341
Decreases	-3	-5,171	-9,020	-14,194	-1,516	-5,497	-30,783	-1,826	-262,053	-301,675	-315,869
Transfers between items	0	0	0	0	0	0	0	0	0	0	0
Acquisition cost 31 Dec. 2005	22,966	5,945	9,690	38,600	61,955	267,116	1,671,767	41,563	87,632	2,130,035	2,168,636
Accumulated depreciation 1 Jan. 2005	9,570	10,163	13,841	33,574	0	102,894	737,138	23,060	0	863,093	896,666
Accumulated depreciation in decreases	0	5,181	9,032	14,213	0	1,993	26,633	2,081	0	30,707	44,919
Depreciation during year	3,882	566	1,169	5,617	0	9,082	80,356	3,002	0	92,440	98,058
Accumulated depreciation 31 Dec. 2005	13,452	5,548	5,978	24,978	0	109,983	790,861	23,981	0	924,826	949,805
Revaluations	0	0	0	0	8	659	0	0	0	667	667
Book value 31 Dec. 2005	9,514	397	3,711	13,622	61,963	157,792	880,907	17,582	87,632	1,205,876	1,219,498

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	1,795,579	1,841,327
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

Parent company 2005	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. 2005	1,731	0	0	1,731	61,206	234,348	39,644	10,022	2,542	349,492	349,492
Increases	237	0	0	237	367	6,870	2,258	54	12,530	22,316	22,316
Decreases	0	0	0	0	-1,515	-2,930	-24,473	-29	-9,971	-38,918	-38,918
Acquisition cost 31 Dec. 2005	1,968	0	0	1,968	60,058	238,288	17,429	10,047	5,101	332,890	332,890
Accumulated depreciation 1 Jan. 2005	761	0	0	761	0	91,199	31,467	2,829	0	126,256	126,256
Accumulated depreciation in decreases	0	0	0	0	0	1,534	21,424	28	0	22,986	22,986
Depreciation during year	247	0	0	247	0	8,350	1,874	648	0	11,118	11,118
Accumulated depreciation 31 Dec. 2005	1,008	0	0	1,008	0	98,015	11,917	3,449	0	114,388	114,388
Book value 31 Dec. 2005	960	0	0	960	60,058	140,273	5,512	6,598	5,101	218,502	218,502

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	0	0	1,497	61,567	229,579	38,729	9,323	965	341,163	341,163
Increases	234	0	0	234	11	6,594	1,000	724	10,603	19,166	19,166
Decreases	0	0	0	0	-372	-1,825	-85	-25	-9,026	-11,333	-11,333
Acquisition cost 31 Dec. 2004	1,731	0	0	1,731	61,206	234,348	39,644	10,022	2,542	349,492	349,492
Accumulated depreciation 1 Jan. 2004	552	0	0	552	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	0	0	209	0	8,445	2,529	563	0	11,745	11,745
Accumulated depreciation 31 Dec. 2004	761	0	0	761	0	91,199	31,467	2,829	0	126,255	126,255
Book value 31 Dec. 2004	970	0	0	970	61,206	143,149	8,177	7,193	2,542	223,277	223,277

**13 Investments (1,000 €)**

	Shares			Receivables			Total
	Group companies	Associated companies	Other companies	Group companies	Associated companies	Other companies	
<b>Group 2005</b>							
Acquisition cost 1 Jan. 2005	42	4,645	1,241	0	2,932	90,100	98,960
Increases	0	48	2	0	70	0	120
Decreases	-42	-124	-121	0	-1,788	-34,933	-37,008
Intragroup item	0	0	0	0	0	0	0
Acquisition cost 31 Dec. 2005	0	4,569	1,122	0	1,214	55,167	62,072
<b>Group 2004</b>							
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
<b>Parent company 2005</b>							
Acquisition cost 1 Jan. 2005	288,021	1,600	1,015	279,935	0	90,054	660,626
Increases	0	28	0	206,375	1,144	1,986	209,533
Decreases	0	0	-102	-75,590	0	-36,919	-112,611
Acquisition cost 31 Dec. 2005	288,021	1,628	914	410,720	1,144	55,121	757,548
<b>Parent company 2004</b>							
Acquisition cost 1 Jan. 2004	288,021	1,600	1,024	233,682	0	79,980	604,308
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	0	90,054	660,626

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

	Group		Parent company	
	2005	2004	2005	2004
Repurchase cost	<b>57,086</b>	93,461	<b>57,086</b>	93,461
Book value	<b>55,121</b>	90,054	<b>55,121</b>	90,054
Difference	<b>1,965</b>	3,407	<b>1,965</b>	3,407

## Group and parent company shares

	Group holding %	Parent company holding %
<b>Group companies</b>		
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	100	0
Insinööritoimisto Arcus Oy, Turku	70	0
Asfalttiriihi Oy, Helsinki	100	0
VR-Track AS, 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
<b>Associated companies</b>		
Oy Railtrans Ltd, 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 2005	2004	Parent company 2005	2004
<b>14 Stocks (1,000 €)</b>				
Materials and supplies	<b>56,670</b>	53,639	<b>0</b>	0
Work in progress	<b>4,931</b>	3,730	<b>0</b>	0
Advance payments	<b>2</b>	194	<b>0</b>	0
<b>Total</b>	<b>61,603</b>	57,563	<b>0</b>	0

<b>15 Receivables (1,000 €)</b>	<b>Group 2005</b>	2004	<b>Parent company 2005</b>	2004
<b>Long-term receivables</b>				
Receivables from associated companies	<b>930</b>	0	<b>930</b>	0
Receivables from other companies	<b>1,542</b>	1,825	<b>0</b>	0
<b>Current receivables</b>				
Receivables from Group companies				
Accounts receivable	<b>0</b>	0	<b>1,043</b>	1,224
Loans receivable	<b>0</b>	0	<b>64,675</b>	54,427
Prepaid expenses and accrued income	<b>0</b>	0	<b>48,321</b>	25,808
Receivables from associated companies				
Accounts receivable	<b>709</b>	635	<b>0</b>	0
Receivables from other companies				
Accounts receivable	<b>91,076</b>	84,206	<b>327</b>	362
Loans receivable	<b>2</b>	0	<b>0</b>	0
Other receivables	<b>3,490</b>	3,386	<b>769</b>	927
Prepaid expenses and accrued income	<b>13,267</b>	30,194	<b>4,024</b>	6,724
<b>Current receivables, total</b>	<b>108,544</b>	118,420	<b>119,159</b>	89,472

#### Main items in prepaid expenses and accrued income

The main items under Group prepaid expenses and accrued income are interest receivables M€ 2.0 and allocations M€ 2.0. Parent company prepaid expenses and accrued income includes Group contribution receivables totalling M€ 12.5 (M€ 25.0).

<b>16 Securities (1,000 €)</b>	<b>Group 2005</b>	2004	<b>Parent company 2005</b>	2004
Repurchase cost	<b>50,525</b>	122,410	<b>50,525</b>	122,410
Book value	<b>50,330</b>	122,381	<b>50,330</b>	122,381
<b>Difference</b>	<b>195</b>	29	<b>195</b>	29

Securities comprise bank certificates and depository receipts, Commercial Papers, and corporate and state bonds purchased in public trading that mature in less than one year.

<b>17 Shareholders' equity (1,000 €)</b>	<b>Group 2005</b>	2004	<b>Parent company 2005</b>	2004
Share capital on 1 Jan.	<b>370,013</b>	370,013	<b>370,013</b>	370,013
Share capital on 31 Dec.	<b>370,013</b>	370,013	<b>370,013</b>	370,013
Revaluation reserve 1 Jan.	<b>339</b>	339	<b>0</b>	0
Change in revaluation reserve	<b>0</b>	0	<b>0</b>	0
Revaluation reserve 31 Dec.	<b>339</b>	339	<b>0</b>	0
Share premium account 1 Jan.	<b>525,761</b>	525,761	<b>525,754</b>	525,754
Increase during the year	<b>0</b>	0	<b>0</b>	0
Share premium account 31 Dec.	<b>525,761</b>	525,761	<b>525,754</b>	525,754
Retained earnings 1 Jan.	<b>316,458</b>	304,785	<b>99,736</b>	100,803
Dividend distribution	<b>-20,000</b>	-40,000	<b>-20,000</b>	-40,000
Changes in Group structure	<b>0</b>	-77		
Retained earnings 31 Dec.	<b>296,458</b>	264,708	<b>79,736</b>	60,803
Profit for the year	<b>45,984</b>	51,750	<b>40,566</b>	38,934
<b>Shareholders' equity, total</b>	<b>1,238,556</b>	1,212,572	<b>1,016,069</b>	995,503

<b>Calculation of distributable funds (1,000 €)</b>	<b>Group 2005</b>	2004	<b>Parent company 2005</b>	2004
Retained earnings	<b>296,458</b>	264,708	<b>79,736</b>	60,803
Profit for the year	<b>45,984</b>	51,750	<b>40,566</b>	38,934
Total	<b>342,442</b>	316,458	<b>120,302</b>	99,736
Accumulated depreciation difference and voluntary provisions in shareholders' equity	<b>-123,427</b>	-124,372		
<b>Distributable funds, total</b>	<b>219,015</b>	192,086	<b>120,302</b>	99,736

## 18 Accumulated appropriations

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

<b>19 Provisions (1,000 €)</b>	<b>Group 2005</b>	2004	<b>Parent company 2005</b>	2004
<b>Voluntary provisions</b>				
Housing provision	<b>980</b>	834	—	—

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€ 2.8 (M€ 1.3) comprise expected warranty costs of M€ 1.2 on long-term construction projects, future costs of M€ 0.9 from dismantling a radio network, and environmental provisions of M€ 0.7.

The parent company's obligatory provisions consist of environmental provisions.

<b>Impact of voluntary provisions and depreciation difference on the balance sheet</b>	<b>Group 2005</b>	2004
Voluntary provisions	<b>980</b>	834
Depreciation difference	<b>166,745</b>	168,082
	<b>167,726</b>	168,916
Transfer to shareholders' equity	<b>123,427</b>	124,372
Deferred tax liability	<b>43,609</b>	43,918
Minority interest	<b>690</b>	626
	<b>167,726</b>	168,916
<b>Impact of voluntary provisions and depreciation difference on the profit and loss account</b>	<b>Group 2005</b>	2004
Change in voluntary provisions	<b>146</b>	230
Change in depreciation difference	<b>-1,336</b>	2,880
	<b>-1,190</b>	3,110
Change affecting profit for the year	<b>-945</b>	7,134
Change in deferred tax liability	<b>-309</b>	-4,259
Change affecting minority interest	<b>64</b>	235
	<b>-1,190</b>	3,110

<b>20 Liabilities (1,000 €)</b>	<b>Group 2005</b>	2004	<b>Parent company 2005</b>	2004
<b>Long-term liabilities</b>				
Loans from financial institutions	<b>2,283</b>	2,361	<b>0</b>	0
Other long-term loans	<b>249</b>	967	<b>0</b>	0
Advances received	<b>447</b>	616	<b>221</b>	193
<b>Long-term liabilities, total</b>	<b>2,979</b>	3,944	<b>221</b>	193
<b>Liabilities due after five years</b>				
Loans from financial institutions	<b>813</b>	886	<b>0</b>	0
<b>Current liabilities</b>	<b>2005</b>	2004	<b>2005</b>	2004
Debt to other companies				
Loans from financial institutions	<b>73</b>	73	<b>0</b>	0
Advances received	<b>1,603</b>	13,895	<b>260</b>	254
Accounts payable	<b>65,958</b>	78,478	<b>3,416</b>	3,566
Other liabilities	<b>31,903</b>	36,900	<b>733</b>	322
Accrued expenses and prepaid income	<b>113,174</b>	114,443	<b>3,348</b>	6,737
Debt payable to Group companies				
Advances received	<b>0</b>	1,081	<b>4</b>	4
Accounts payable	<b>0</b>	0	<b>2,186</b>	2,762
Other liabilities	<b>0</b>	0	<b>120,122</b>	89,361
Accrued expenses and prepaid income	<b>0</b>	0	<b>2</b>	0
<b>Current liabilities, total</b>	<b>212,711</b>	244,870	<b>130,072</b>	103,006

The largest item in accrued expenses and prepaid income is holiday pay M€ 90.

21 Contingent liabilities (1,000 €)	Group	2004	Parent company	2004
	2005		2005	
Debt covered by mortgages				
Loans from financial institutions	<b>1,235</b>	2,333	<b>0</b>	0
Mortgages	<b>1,646</b>	3,808	<b>0</b>	0
Other contingent liabilities	<b>59,556</b>	64,774	<b>59,327</b>	60,307
<b>Contingent liabilities, total</b>	<b>61,202</b>	68,582	<b>59,327</b>	60,307
Commitments given on behalf of				
VR Group	<b>61,202</b>	68,582	<b>0</b>	0
VR subsidiaries	<b>0</b>	0	<b>59,327</b>	60,307
	<b>61,202</b>	68,582	<b>59,327</b>	60,307
Leasing commitments				
Due for payment in next financial year	<b>1,028</b>	645	<b>8</b>	0
Due for payment in later years	<b>5,829</b>	5,001	<b>19</b>	0
Total	<b>6,857</b>	5,646	<b>27</b>	0
Future payments for long-term rental agreements	<b>4,886</b>	6,405	<b>0</b>	0

The Group has made commitments related to fixed assets acquisitions totalling M€ 109 in the years 2006–2010. VR-Track Ltd obtained the superstructure work contract for the Botniabanan 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 Disputes

A Group subsidiary's accounts receivable include an 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.

A Group subsidiary's accounts receivable include an M€ 4.0 receivable (including VAT) from Steveco Oy which Steveco Oy has disputed. The matter was taken to the court of arbitration on 29 December 2005 and the proceedings are still in progress.

A Group subsidiary has a dispute with Skanska Tekra concerning a VT6 project handed over in the middle of 2004.

The insurance brokers JL Insurance Partners Oy has claimed M€ 0.8 from the Group's parent company, which VR-Group Ltd has disputed as being not based on the contract and in itself unfounded. The issue has been taken to the district court.

## 23 Group key indicators

		2005	2004	2003	2002	2001
<b>Scope of operations</b>						
Net turnover	M€	<b>1,197</b>	1,179	1,160	1,140	1,151
Balance sheet total	M€	<b>1,512</b>	1,517	1,466	1,450	1,515
Gross capital expenditure	M€	<b>210</b>	180	151	144	178
– as % of net turnover	%	<b>17.6</b>	15.3	13.1	12.6	15.4
Average number of employees		<b>12,791</b>	13,264	13,746	14,426	14,938
<b>Profitability</b>						
Operating profit	M€	<b>61</b>	63	53	27	49
– as % of net turnover	%	<b>5.1</b>	5.3	4.6	2.3	4.3
Net profit	M€	<b>46</b>	52	41	22	42
Return on investment (ROI)	%	<b>5.4</b>	5.8	5.1	3.2	5.2
Return on shareholders' equity (ROE)	%	<b>3.9</b>	4.5	3.6	2.2	3.7
<b>Solvency</b>						
Solvency ratio	%	<b>82.8</b>	81.5	83.1	82.9	79.1
<b>Liquidity</b>						
Quick Ratio		<b>0.8</b>	1.0	1.4	1.5	1.5

## Calculation of key indicators

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



## Board's Proposal on the Distribution of Profit

The Group's distributable funds were	EUR 219.0 million.
The parent company's distributable funds were which included a net profit for the year totalling	EUR 120.3 million, EUR 40.6 million.

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

To be distributed as dividend	EUR 23,000,000,
and to be retained under shareholders' equity	EUR 97,302,362.

Helsinki, 20 March 2006

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

## Auditors' Report

### To the shareholders of VR-Group Ltd

We have audited the accounts, the financial statements, report by the Board of Directors and the corporate governance of VR-Group Ltd for the period 1 January to 31 December 2005. The Board of Directors and the CEO have prepared the Board report and the financial statements, which include the consolidated and parent company profit and loss accounts, balance sheets, cash flow statements and notes to the financial statements. Based on our audit we express an opinion on the financial statements and Board report 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 Board report and 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 and Board report, 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 Board of Directors of the parent company and the CEO have complied with the Companies Act.

In our opinion, the financial statements and Board report have been prepared in accordance with the Accounting Act and other rules and regulations governing the preparation of financial statements and Board reports in Finland. The financial statements and Board report 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 Board report is consistent with the financial statements. The financial statements with the consolidated financial statements can be adopted and the members of the Supervisory Board and Board of Directors of the parent company 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, 20 March 2006

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 of VR-Group Ltd

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 2005 and the auditors' report.

The Supervisory Board proposes to the Annual General Meeting that the profit and loss account and the balance sheet, and the consolidated profit and loss account and balance sheet, be confirmed and that the net profit be disposed of in the manner proposed by the Board of Directors.

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

The following are in turn for retirement from the Supervisory Board: Eero Akaan-Penttilä, Jaakko Lehtonen, Katariina Poskiparta and Harri Rumpunen.

Helsinki, 21 March 2006

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
Jarmo Nyberg	Lauri Oinonen	Katariina Poskiparta
Erkki Rantala	Timo Rautajoki	Harri Rumpunen
Kalervo Sipi	Satu Taiveaho	Raija Vahasalo



## Administration and Management

### Board of Directors

#### 1 Martin Granholm, Chairman

- Born 1946, MSc (Eng.), Industrial Counsellor, DSc (hc)
- Chairman of the Board, VR-Group Ltd 1 July 1995–25 March 2003 and 3 July 2003–
- Deputy Chairman of the Board: German-Finnish Chamber of Commerce, Finnish-American Chamber of Commerce, ICC Finland and The Foundation for the University of Turku
- Member of the Board: Oy Rettig Ab and Oy Algol Ab

#### 2 Antti Remes, Deputy Chairman

- Born 1947, MSc (Econ. and Bus. Admin.)
- Managing Director, Cooperative Tradeka Corporation, Tradeka Group Oy and Tradeka-kiinteistöt Oy
- Member of the Board of VR-Group Ltd 9 September 1997–25 March 2003 and 3 July 2003–
- Chairman or Deputy Chairman of the Board: Tradeka Oy, Restel Oy, the Finnish Food Marketing Association, Taskukirja Loisto Oy and Inex Partners Oy (vice chairman)
- Member of the Board: The Federation of Finnish Commerce and Trade, The Federation of Finnish Commerce, Tradeka Group Oy, Tradeka-kiinteistöt Oy and Metsä Tissue Corporation

- Member of the Supervisory Board: Luottokunta (the Finnish Credit Card Institution, chairman) and Varma Oy

#### 3 Pekka Hurtola

- Born 1959, LL.M
- Development and Quality Manager, Civil Aviation Administration
- Member of the Board of VR-Group Ltd 30 March–27 December 2005

#### 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.)
- Member of the Board of VR-Group Ltd since 26 March 2003
- Member of the Board: Suomen Erillisverkot Oy

#### 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 Board: Kemira Oyj
- Member of the Board: National Emergency Supply Agency, Kemira Oyj 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: Finnish Tennis Federation

#### 8 Jukka Ruuska

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



## 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  
1 February 2005–31 January 2006

### 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  
Jarmo Nyberg  
Lauri Oinonen, MP  
Katariina Poskiparta  
Erkki Rantala  
Timo Rautajoki  
Harri Rumpunen  
Kalervo Sipi  
Satu Taiveaho, MP  
Raija Vahasalo, MP

## Auditors

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

**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 68 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 fundamental 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 2005 and the attendance rate was 81%.

### 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 seven 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 68<sup>th</sup> 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 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 11 times during the review year and the attendance rate was 90%.

### 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 Ropponen and Jukka Ruuska. The committee convened 3 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 until 30 March 2005, Pekka Hurtola 21 April–27 December 2005, 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, Development, and the Director, Corporate Communications & PR, 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.

### Management remuneration

The fees paid to members of the Board of Directors are decided by the Annual General Meeting. During the fiscal year, in accordance with the decision of the AGM held on 30 March 2005, the Chairman of the Board was paid a monthly fee of EUR 2,800, the Deputy Chairman was paid EUR 1,800

and other members EUR 1,600 a month. In addition, the Chairman, Deputy Chairman, other members of the Board and the Chairman of the Supervisory Board who attends Board meetings are paid a meeting fee of EUR 300 per meeting.

During the fiscal year, in accordance with the decision of the AGM, the Chairman of the Supervisory Board was paid a monthly fee of EUR 470, the Deputy Chairman was paid EUR 340 and other members EUR 260 a month. In addition, all the above are paid a meeting fee of EUR 300 per meeting.

Salaries and fees paid to the President of VR-Group Ltd, who serves as Chief Executive Officer of the Group, totalled EUR 330,340 in the review year.

### Incentive schemes

During 2005 VR introduced 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 on 2–3 personal targets, and the long-term incentive is based on VR Group's return on equity (ROE). During 2006 the scheme has been extended to cover about 80 people.

In addition to this incentive scheme, different Group companies have had personnel bonus schemes that are based on elements such as meeting targets, the level of service and customer satisfaction. These schemes vary from company to company.

### Auditors and risk management

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.

The Group also has an internal audit unit, which employs four people.

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.

The risk management policy confirmed by the Board of Directors of VR-Group Ltd states that the company must ensure that risks do not arise from its operations that could have negative consequences that are out of proportion to the profit from operations or to its risk bearing capacity.

The Chief Executive Officer is responsible for arranging risk management in the Group. The presidents and managing directors of companies are responsible for risk management in their companies. The executive vice president of VR-Group Ltd is responsible for managing Group-wide risks. Risks have been classified under nine areas of risk and annual risk surveys are made of these, which are reported to the Board of Directors of VR-Group Ltd. The comprehensive risk survey carried out in the review year was the second such review.

## Statistical Information

### Freight services

<b>Carryings, 1,000 tonnes</b>	<b>2005</b>	2004	<b>% change<sup>1</sup></b>	2003	2002	2001
By rail	<b>40,722</b>	42,663	<b>-4.6</b>	43,503	41,679	41,678
Finland	<b>23,479</b>	26,255	<b>-10.6</b>	24,980	24,695	23,993
International	<b>17,243</b>	16,408	<b>5.1</b>	18,523	16,984	17,685
East	<b>12,937</b>	12,099	<b>6.9</b>	14,374	12,632	12,631
Transit	<b>3,381</b>	3,199	<b>5.7</b>	3,196	3,461	4,006
West	<b>925</b>	1,110	<b>-16.7</b>	953	891	1,048
By road	<b>9,107</b>	8,861	<b>2.8</b>	8,554	8,169	8,168
<b>Total</b>	<b>49,829</b>	51,524	<b>-3.3</b>	52,057	49,848	49,846

### Tonne-kilometres by rail, million

Finland	<b>6,607</b>	7,197	<b>-8.2</b>	6,760	6,695	6,588
International	<b>3,099</b>	2,908	<b>6.6</b>	3,287	2,969	3,269
East	<b>2,037</b>	2,025	<b>0.6</b>	2,585	2,173	2,170
Transit	<b>806</b>	604	<b>33.4</b>	462	516	772
West	<b>256</b>	279	<b>-8.2</b>	240	280	327
<b>Total</b>	<b>9,706</b>	10,105	<b>-4.0</b>	10,047	9,664	9,857

### Passenger services

#### Journeys, 1,000

By rail	<b>63,493</b>	60,134	<b>5.6</b>	59,909	57,695	54,987
Long-distance	<b>12,503</b>	12,129	<b>3.1</b>	11,915	11,643	11,561
Finland	<b>12,235</b>	11,877	<b>3.0</b>	11,659	11,377	11,321
International	<b>267</b>	252	<b>6.2</b>	256	266	240
Commuter	<b>50,990</b>	48,005	<b>6.2</b>	47,994	46,052	43,426
Helsinki metropolitan area	<b>40,897</b>	38,222	<b>7.0</b>	38,443	36,443	33,166
Other	<b>10,093</b>	9,783	<b>3.2</b>	9,551	9,609	10,260
By road	<b>11,926</b>	10,152	<b>17.5</b>	13,748	14,653	15,248
<b>Total</b>	<b>75,419</b>	70,286	<b>7.3</b>	73,657	72,348	70,235

#### Passenger-kilometres by rail, million

Long-distance	<b>2,744</b>	2,654	<b>3.4</b>	2,642	2,636	2,596
Finland	<b>2,667</b>	2,582	<b>3.3</b>	2,570	2,555	2,531
International	<b>76</b>	72	<b>6.2</b>	72	81	65
Commuter	<b>734</b>	698	<b>5.1</b>	696	682	686
Helsinki metropolitan area	<b>388</b>	363	<b>7.0</b>	365	346	316
Other	<b>346</b>	335	<b>3.1</b>	331	336	370
<b>Total</b>	<b>3,478</b>	3,352	<b>3.8</b>	3,338	3,318	3,282

#### VR Group personnel

<b>12,791</b>	13,264	<b>-3.6</b>	13,746	14,426	14,938
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#### Energy consumption in rail traffic, %

Electric traction	<b>80.3</b>	77.8	—	77.6	76.6	75.4
Diesel traction	<b>19.7</b>	22.2	—	22.4	23.4	24.6

#### Tractive stock, number

Electric locomotives	<b>156</b>	156	<b>0.0</b>	156	148	140
Diesel locomotives	<b>257</b>	258	<b>-0.4</b>	273	279	285
Electric trains	<b>147</b>	129	<b>14.0</b>	119	119	112

#### Rolling stock, number

Wagons in freight traffic	<b>11,162</b>	11,445	<b>-2.5</b>	11,324	11,528	11,933
Coaches in passenger traffic	<b>1,084</b>	1,029	<b>5.3</b>	1,060	1,077	1,056

The book value of freight rolling stock at the end of 2005 totalled M€ 79.1.

#### The Finnish rail network <sup>2</sup>

Length of rail network, line-km	<b>5,732</b>	5,741	<b>-0.2</b>	5,851	5,850	5,850
Length of electrified lines, line-km	<b>2,617</b>	2,619	<b>-0.1</b>	2,400	2,400	2,400
Length of track, track-km	<b>8,587</b>	8,596	<b>-0.1</b>	8,707	8,736	8,734

<sup>1</sup> % change refers to the change from 2004 to 2005.

<sup>2</sup> Owned by the Finnish Rail Administration.

### **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 being built along the east coast of Sweden south of Uumaja.

### **City train**

The latest 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.

### **Common Carrier**

A Common Carrier transport company offers and arranges transport services impartially for anyone who wants them.

### **Environmental certification**

Certification that a company's environmental management system has been audited and shown to conform to the ISO 14001 standard.

### **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](http://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.

### **GSM-R radio system**

A radio system for the European railways that will ensure effective communications for rail traffic. The system is under construction and is scheduled to cover Finland's rail network by 2009.

### **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 joint 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. Kerava became the third zone in the YTV area as from 1 March 2006.

### **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. 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 autumn 2006. Once completed, the fastest journey time from Helsinki to Lahti will be less than 50 minutes.

### **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 first railcars entered service in Finland in May 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.

### **RFID technology**

Radio Frequency Identification. A system that uses radio frequency for identifying and tracking goods, people or for example a train wagon. A label, button or some other form of electronic tag containing an antenna or microcircuit is attached to the object being tracked and RFID readers collect the information from the tag.

### **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.

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