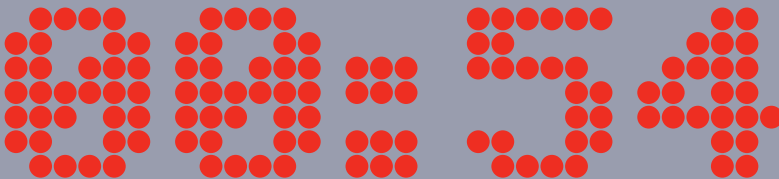




## Contents

4	The VR Group
6	Highlights and Financial Performance
8	Chief Executive's Review
10	Operating Environment
12	Key Goals and Business Concepts
16	Rail Services
16	Passenger Services
18	Freight Services
20	Track Construction and Maintenance
22	Road Services
24	Catering and Restaurant Services
28	Principles for Responsibility
30	Human Resources
32	Environment
34	Safety
36	Board Report and Financial Statements
64	Administration and Management
66	Corporate Governance
	Glossary
	Statistical Information



The Halonen family is going from Lahti on a Saturday shopping trip to Helsinki. The journey takes less than an hour in an Inter-City2 train. Conductor Jari Siitonen makes sure that all are safely on board. In the photo parents Pia and Ville Halonen with 7-year-old Vilja and 1-year-old Sylvia.

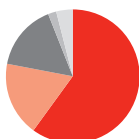
# VR Group

**VR is a broad-based transport sector professional.**



Net turnover by business 2006

● Rail services	55%
● Track construction and maintenance	18%
● Road services	19%
● Catering and restaurant services	2%
● Other	5%



Personnel by business 2006

● Rail services	60%
● Track construction and maintenance	18%
● Road services	16%
● Catering and restaurant services	2%
● Other	4%

## VR Group

The VR Group is a broad-based Finnish transport company providing rail transport and supplementary road transport services. The Group offers track construction and maintenance services as well, and the Group also includes companies that provide catering and restaurant services and telecommunications services.

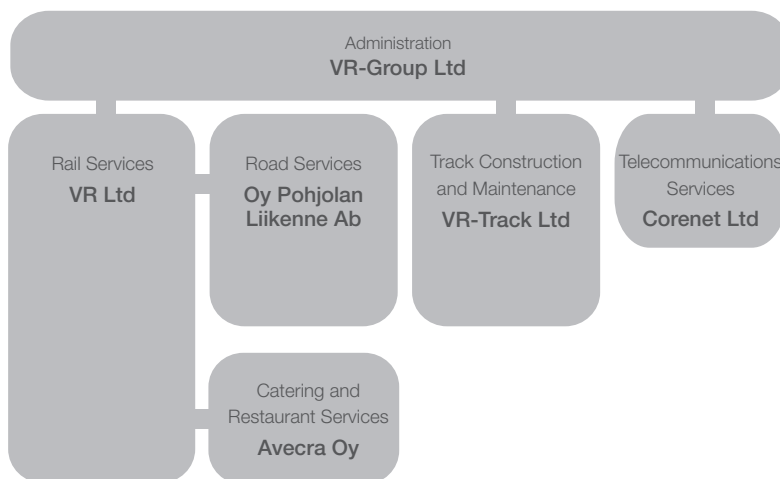
VR-Group's main market area is Finland, but a significant proportion of freight service carryings is international traffic.

VR had a net turnover in 2006 of EUR 1,265 million and employed 12,600 people. The Group consists of altogether 28 companies and just over half of its net turnover comes from rail services.

VR-Group Ltd, the Group's parent company, is a limited liability company owned entirely by the Finnish state. It was incorporated in 1995 to continue the operations of Finnish State Railways (VR).

In the period 1990–1995 VR operated as a state-owned public enterprise and before that as a civil service department. Finnish State Railways were established in 1862.

## Group structure





## Rail Services

- VR Ltd, the Group's largest company, is Finland's leading freight and passenger carrier.
  - The company carried 43.6 million tonnes of freight by rail in 2006. Most of VR Cargo's carryings consist of the raw materials and products of Finland's forest, chemical and metal industries.
  - Some 65.0 million passenger journeys were made in 2006.
- VR provides an average of 320 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 698.9 million. This comprises EUR 358.9 million from freight services and EUR 340.0 million from passenger services.
  - Personnel totals 7,599.



## 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 232.6 million.
- Personnel totals 2,360.



## 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 four companies. Transpoint Oy Ab is a national carrier of general cargo and Combitrans Oy handles partial and full-load carryings. Oy Transuotila Ab specializes in bulk transportation using tanker wagons and SP Transit Finland Ltd Oy in international freight services. Together, these companies carried approximately 9.9 million tonnes of freight in 2006.
- Oy Pohjolan Henkilöliikenne Ab and its subsidiary Oy Pohjolan Kaupunkiliikenne Ab transported some 11.7 million passengers by coach and bus in 2006.
- Road services generate a net turnover of EUR 240.1 million. This comprises EUR 201.5 million from freight services and EUR 38.6 million from passenger services.
- Personnel totals 1,997.



## Catering and Restaurant Services

- AVECRA Oy provides supplementary services for VR's passenger transport operations.
- AVECRA manages cafés and restaurants on long-distance train services and in larger railway stations. It provides daily catering services on 160 trains and has 17 service outlets in stations.
- The international Rail Gourmet Group is a minority shareholder in the company.
- Catering services generate annual net turnover of EUR 26.6 million.
- Personnel totals 252.



## Telecommunications Services

- Corenet Ltd provides telecommunications services for VR's rail transport operations and develops 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 18.3 million from outside the Group.
- Personnel totals 200.



# Highlights and Financial Performance



Minister of Transport and Communications Susanna Huovinen sends off the special train at the opening of the direct Kerava–Lahti line on 1 September.

## 1.2. New sleeping cars into service

The first two of VR's new-style, double-decker sleeping cars started to operate between Helsinki and Rovaniemi at the beginning of February. All 20 of the new sleeping cars ordered from Talgo were taken into service during 2006.

## 15.5. Rail tickets from all R-kiosks

Rail travellers obtained more than 700 new places for collecting tickets in May, when the R-kiosks started a new service in partnership with VR. Tickets can be picked up at all R-kiosks in Finland.

## 18.5. Major works start on Turku–Toijala line

VR-Track began its biggest superstructure work of the summer between Turku and Toijala. The superstructure was reconditioned over a stretch of 50 kilometres of track. The superstructure of the rest of the line will be reconditioned in summer 2007. The work affects altogether almost 130 kilometres of track.

## 23.5. 20 new InterCity coaches for VR

VR signed a contract with OKO Bank Finance and Talgo Oy to lease and build

20 InterCity coaches. The first coaches will come into service at VR towards the end of 2007.

## 15.6. Newer coaches for Sibelius train

The second-class coaches on the Sibelius train, which runs between Helsinki and St Petersburg, were replaced with newer InterCity coaches. The Tolstoi Russian overnight train between Helsinki and Moscow obtained a new business-class coach and a new restaurant car in the summer.

## 3.9. New Train Era begins

The direct Kerava–Lahti line was taken into service and the entire rail service system was reorganized. Journey times were cut in different parts of Finland. Travel to and from eastern Finland was between half an hour and one hour faster.

The direct Kerava–Lahti line and the Lahti–Riihimäki track section were included in commuter services. A new Z-commuter service started operating between Helsinki and Lahti.

VR refurbished more than 100 InterCity coaches during the summer based on customer wishes.

## 27.9. Pohjolan Liikenne acquires half of SP Transit

The Pohjolan Liikenne subgroup purchased 50 per cent of the share stock of SP Transit Finland. SP Transit is a Finnish company in the forwarding and transport sector that has daily general cargo and full-load carryings to Russia and eastern Europe.

## 23.11. VR and Russian railways set up two companies

The rolling stock company Oy Karelian Trains Ltd was set up for high-speed rail services between Helsinki and St Petersburg. The joint company will purchase high-speed trains and maintenance services for the Helsinki–St Petersburg service.

VR and Russian Railways' subsidiary Transcontainer established a sales company to market container services to Russia and other CIS countries.

## 1.12. Expansion of electric rail services

Passenger and freight services with electric trains started between Iisalmi and Oulu and between Kontiomäki and Vartiuss. Electrification speeded up rail journeys between Helsinki and Kajaani by up to about half an hour at the beginning of 2007.

## 7.12. Latest service information on Internet

VR opened a new service on its Internet site that provides up-to-date information about rail services. Travellers can obtain information about long-distance services by entering the name of a station or a train number. The service also provides information about disruptions to commuter and long-distance services.



## The Kerava–Lahti direct line was completed. The New Train Era begins.

### Financial performance

The overall economic situation in 2006 was good, and VR's traffic volumes and net result improved encouragingly. The Group's net turnover rose by 5.7% from the previous year to EUR 1,264.6 million. However direct comparison with the previous year is difficult because the volume of freight traffic that year fell significantly due to the long labour dispute in the forest industry.

The Group's operating profit was EUR 85.2 million, compared with EUR 61.1 million in the previous year. The operating profit was boosted not only by the increase in net turnover but also by profit from the sale of fixed assets. Consolidated net profit after taxes and minority interest was EUR 63.1 (46.0) million.

VR carried a record amount of freight in 2006. The number of rail passengers was also higher than ever before.

The volume of freight carried by rail was 43.6 million tonnes, growth of 7.0%. Domestic traffic accounted for 26.0 million tonnes and international traffic for 17.6 million tonnes. Domestic traffic increased 10.6% and international carryings 2.1%.

Altogether 65.0 million passenger journeys were made by rail, 2.4% more than in the previous year. The number of

journeys increased in both long-distance and commuter services. The direct line from Kerava to Lahti, taken into service in September, increased rail travel towards the end of the year. In connection with the opening of the direct line, VR also increased the number of rail services in different parts of Finland.

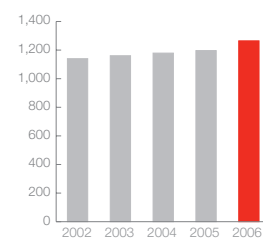
VR-Track Ltd recorded an operating profit of EUR 10.8 (9.3) million. The Pohjolan Liikenne group, which provides road services, had an operating profit of EUR 8.1 (4.0) million. The considerable increase in the group's operating profit was due mainly to one-time profit from the sale of fixed assets.

The price of energy was a particular factor in raising the VR Group's costs. The energy costs for trains alone rose by almost EUR 9 million. On the other hand, pension and accident costs declined from the previous year.

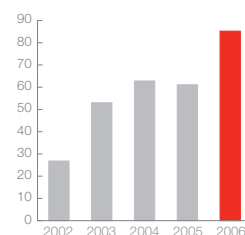
VR Group's capital expenditure totalled EUR 110.3 (210.2) million. More than half of this was for VR Ltd's rolling stock, comprising mainly payments for orders made earlier. The rolling stock series ordered were taken into service during the review year.

No new long-term loans were raised. The Group's financial position and liquidity remained strong.

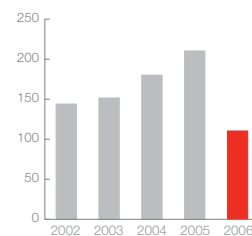
Key accounts	2006	2005	change-%
Net turnover, M€	1,265	1,197	5.7
Operating profit, M€	85	61	39.6
% of net turnover	6.7	5.1	
Net profit, M€	63	46	37.2
% of net turnover	5.0	3.8	
Gross capital expenditure, M€	110	210	-47.6
Return on equity, %	5.2	3.9	
Return on investment, %	7.0	5.4	
Solvency ratio, %	83.6	82.8	
Average number of personnel	12,663	12,791	-1.0



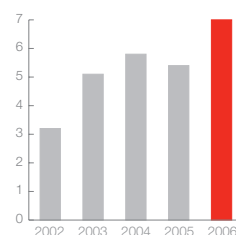
Net turnover  
M€



Operating profit  
M€



Capital expenditure  
M€



Return on investment  
%



# Chief Executive's Review



**Success** in business operations constantly makes more and more demands. We should be able to do everything better and better. Competition is continuously intensifying in every sector, forcing us to squeeze as much as possible out of everything.

When discussing Finnish railway services, the term 'monopoly' crops up almost every time. It is true that at the moment VR is the only operator on the railway lines, but that does not mean we operate outside the scope of competition.

There is no place in Finland that you can get to only by rail. In Finland there is no product that can be transported only by rail. It is always possible to find other ways of travelling and alternative freight services. The same holds good for track construction and maintenance.

Since we face genuine competition, VR has to systematically raise efficiency in its operations and improve its services. This requirement applies to all the Group's business areas.

Rail accounts for about five per cent of all passenger transport in Finland. VR's goal is to increase its market share by

attracting private car drivers to switch to rail. And we have had some success in this, even though the share of all travel accounted for by public transport has fallen. Rail has held its own.

Rail freight services are in a different situation concerning competition than passenger services. As from the beginning of 2007, domestic freight services were opened up to competition, but at least so far no new operators have appeared on the track network.

Rail plays a much bigger role in freight services in Finland than on average in the EU. But it will take a major effort from VR Cargo to increase its roughly 25 per cent market share. It aims to offer customers even better service.

Within VR Group, VR-Track, a construction specialist, has since 1995 had the most direct experience of competition. More and more competitors, Finnish and international, have continuously moved into its field, and continue to do so. To win contracts put out to competitive tender, VR-Track has to be successful in selling its specialist expertise based on experience and modern equipment.

In 2006 VR achieved the financial targets set for it. The Group's net profit was EUR 63 million, compared with EUR 46 million the previous year. We achieved this good result in part because rail passenger numbers rose to an all time high. We also transported more freight than ever before.

However we have no reason to be too satisfied with ourselves. The quality of rail services towards the end of the year failed to meet targets. Problems with rolling stock and the track network weakened the punctuality of services and caused dissatisfaction among customers. Measures to rectify the situation are naturally fully underway.

## New Train Era

The most significant matter for VR's business in the year was the changes in VR's rail service system. The reorganization, launched under the name 'the New Train Era', involved increasing the rail service offering by about five per cent, speeding up services, especially to eastern Finland, and taking all the new rolling stock into service.

Surveys have shown that the most important factors for travellers when choosing their mode of transport are speed and service frequency. An outstanding opportunity to respond to these expectations arose when the Kerava-Lahti direct line was opened at the beginning of September. This cut journey times to Savo and Carelia by up to one hour, and made it possible to increase the number of long-distance services to 320 a day.

The direct line meant that Mäntsälä became a new town with a railway station. Another new station was taken into service at Haarajoki in Järvenpää. Customers found the new service straight away, and passenger volumes on the direct line have exceeded expectations.





## Rail passenger numbers rose to an all time high. We also transported more freight than ever before.

All in all 'the New Train Era' was a big success, since rail services achieved a new passenger record in 2006 of 65 million journeys.

VR's passenger services experienced an unusually eventful year during 2006. New double-decker sleeping cars and refurbished InterCity coaches were taken into service for passengers. New railcar routes were introduced in three areas. Cooperation with the R-kiosks and the expansion of online ticket sales improved the availability of rail tickets. Already about 10 per cent of long-distance tickets are now bought on the Internet.

In November VR and Russian rail company OAO RZD established a joint company called Oy Karelian Trains Ltd, which will purchase rolling stock and related maintenance for services between Helsinki and St Petersburg. VR and RZD will be responsible for the rail services.

VR and RZD's subsidiary Transcontainer established a joint company to market container services for example to Russia, other CIS countries, China and Korea.

VR Cargo, responsible for freight services, worked hard towards the recovery of traffic on the Trans-Siberia line after this had dried up because of Russian pricing policies. VR Cargo was also an active partner in starting up regular container rail services and transportation of private cars by rail to Moscow. During 2007 progress will take place in both projects.

### Money for the track

A vital element in providing rail services is the condition of the track. The more speed and weight restrictions there are on railway lines, the more difficult it is to serve passengers and freight service customers.

Financing of the track network would require a long-term solution to safeguard

the EUR 180 million needed each year for replacement investment in the track network.

Despite the tight situation with State financing, the Kerava-Lahti direct line was completed in 2006. VR-Track had a 20 per cent share of this EUR 330 million project.

VR-Track carried out normal track maintenance in different parts of Finland. The largest project was the start of major works on the Turku-Toijala track section. The work will take three years.

Towards the end of the year an extremely large infrastructure project started up, the refurbishing of the Helsinki depot area and the construction of maintenance sheds at Ilmala. The work will take many years and during this time it is necessary to provide rail services in the middle of a construction site and under conditions that are constantly exceptional. When the work is finally completed, the marshalling yard will meet its handling capacity requirements, and there will be sufficient space for train maintenance.

### Stricter approach makes impact

During the spring a campaign was started to boost the popularity of public transport, aiming to increase the safety of passengers and personnel, and their feeling of safety, on trains and other vehicles and at stations.

The backdrop to the campaign was worrying reports that some customers were afraid to travel by public transport in the evening and at weekends. Surveys showed that people felt that the worst problems were drinking in public, disturbances caused by this, and travelling without a ticket.

The campaign succeeded in improving the situation. The stricter approach has meant immediate intervention in drinking and disruptive behaviour. Personnel have been encouraged to be more

active in tackling problems, and security monitoring and ticket inspections have been increased, and this has brought a change for the better. The response from customers to the stricter approach has been positive.

On behalf of VR and for myself I would like to thank our customers and partners for the confidence they have shown in VR. My thanks also to the Group's employees for a successful year in 2006.

Henri Kuitunen  
President and CEO  
VR-Group Ltd



# Operating Environment



Families, commuters and business travellers are important customer groups for VR.

**The operating environment** for Finland's railways differs from that in many other European countries. The country has a small population, mostly concentrated in southern Finland.

Finland has much primary heavy industry, which favours rail transport. Carrying to other countries in Europe require special rolling stock and in almost all cases marine transport. Set against that, transport connections to Russia are excellent, partly because the two countries share a common rail gauge.

## Customers

VR's largest freight customers are Finnish industrial corporations. More than half of all carryings consists of the raw materials and products of the forest industry. Carrying over the border with Russia account for a substantial proportion of VR's total freight volumes. Railways have about a quarter of all the freight carryings in Finland, a much higher share than the average for EU countries.

Commuter services in the Helsinki metropolitan area account for most of the

passenger journeys on trains in Finland. The commuter area extends from Helsinki to Riihimäki, Lahti and Karjaa. The Helsinki Metropolitan Area Council (YTV) purchases rail services in the Helsinki, Espoo, Vantaa and Kauniainen area, the YTV zone.

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%, slightly below the EU average.

VR-Track's largest customer is the Finnish Rail Administration, an administrative sector of the Ministry of Transport and Communications, which has increased the amount of competitive tendering for track construction and maintenance in recent years. Other customers of the company include local authorities, ports, industrial companies that use the rail network, and other main contractors for track construction.

## Railway regulators and authorities

After VR-Group Ltd was incorporated in 1995, 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.

The VR Group belongs to the business sector controlled by the 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.

The Finnish Rail Administration is responsible for the maintenance and development of railway lines in Finland. The Finnish Rail Agency, established in 2006, monitors and develops railway safety and interoperability and draws up standards for the sector. Both of these government departments are subordinate to the Ministry of Transport and Communications.

## Changes in operating environment

### Market

Volumes of business travel, daily journeys to work and traffic between the towns and cities in southern Finland are increasing, as the population increasingly moves to the southern parts of the country. The railway market for passenger services is developing more favourably than for freight services.

The trend in freight traffic is away from conventional wagon load carryings to combined transport, where transporting



## A quarter of all freight in Finland is transported by rail.

trucks and containers by train is becoming more common. Carrying of light goods over short distances are also on the increase, which creates new growth opportunities for VR's road services.

Combining heavy goods and light goods carryings to form a total service package forms a major competitive edge for VR.

### Competitive environment

The competitive environment is changing most strongly in track construction and in freight transport by rail. Competition is intensifying and smaller and smaller contracts and transport volumes are being put out to competitive tender, as new players enter the field.

### Political and economic changes in Russia

Russia is a major opportunity for freight and passenger services. As a result of the positive developments in society, holiday and business travel by the middle class and freight transport volumes are growing apace.

### Condition and capacity of the rail network

When the State makes sufficient investments in the rail network, the condition of the tracks improves and capacity increases. As a result journey times are cut and the axle weights of freight trains can be raised.

If the condition of tracks deteriorates because of insufficient funding, VR is unable to make effective use of its high-speed rolling stock. Some track sections for freight services have to be cut back, and freight services become less competitive.

### Funding of public transport

Purchases by the Finnish State and the Helsinki Metropolitan Area Council (YTV) have a major impact on overall developments in public transport. If funding decisions are favourable, VR is also able to serve areas outside the centres of growth and maintain a frequent commuter service.

## Division of responsibilities in the railway sector in Finland

### VR Group

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

### Ministry of Transport and Communications

- Railway legislation and licensing
- Commissioning of passenger services

### Finnish Rail Administration

- Administration of the rail network and responsibility for line maintenance and development
- Rail network safety
- Administration of track capacity and traffic control

### Finnish Rail Agency

- Safety regulations and monitoring
- Interoperability of railway systems
- Drawing up standards for the sector



Passenger traffic in Finland 2005

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



Freight transport in Finland 2005

Road	70%
Rail	24%
Water	6%



# Key Goals and Business Concepts



VR aims to make buying tickets as easy as possible.

**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 operating in accordance with the principles of corporate social responsibility.

VR provides safe, high-standard and environmentally benign transport and logistics services for freight customers and public transport 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 in the Greater Helsinki area 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 24 Travel Centres in Finland. VR is working with Russian railways to speed up the Helsinki–St Petersburg route. The target is a journey time of about three hours, with a major increase in the number of travellers.

VR gives high priority to the quality of its customer service and to ease of travel, with the goal of enhancing customer satisfaction. The keys to achieving this are developing new sales channels and reducing journey times. The company is also improving the punctuality of its services and ensuring that the level of safety remains among the highest in Europe.

### 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 by rail 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 eastbound transit carryings, as well as to develop services to 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 speeding up all change processes.



## A key VR value is satisfied customers.

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, which also simplify the purchasing of train tickets. 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, with intensifying competition and ever shorter contracts. Another challenge is managing the sharp variations between seasons, since track work is very restricted during the winter.

### 4. Increasing funding for rail tracks

The condition of tracks has a fundamental impact on the competitiveness of rail services. Finland's rail network needs renovation with a long term perspective and additional capacity.

Investment in the rail network will also enhance VR-Track's business opportunities. The company's goal is to maintain its leading position in track construction and maintenance in Finland. Main focuses are on improving customer satisfaction, strengthening expertise and developing full-service packages.

### Key success factors

- Train speed and efficiency
- Safety and punctuality
- Environmental friendliness
- Committed, skilled personnel
- Modern rolling stock
- Smoothly functioning links to Russia
- Efficient track maintenance machinery
- The diversity and versatility of a large group

### Values

#### Safety

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

#### Satisfied customers

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

#### Successful together

- When our operations are profitable and meet our customers' needs, that is when we are successful
- We 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.

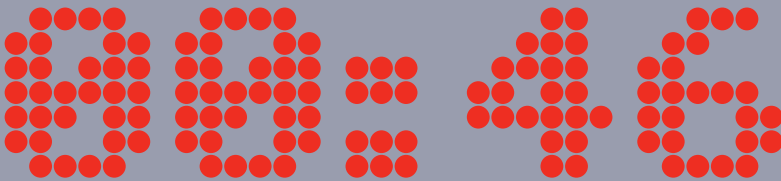
Risk management involves identifying hazards, determining the magnitude of risks and the decision-making needed to eliminate, reduce or bear risks.

Risks are assessed each year 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. In addition separate risk analyses are carried out for major projects or reorganization and changes in operations. Analyses were carried out to assist the decision making process for example in the reorganization of the Ilmala marshalling yard and the major timetable renewal that took place in autumn 2006. Continuous assessment of risks is also carried out for example to improve occupational safety at the work place.

Risk assessments of business areas are reviewed 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 individual officers or supervisors in the Group. The status of risk management is reported to VR-Group Ltd's Board of Directors at least once a year.







The Halonens' seats are close to the play area, where Vilja has found the book 'Felix and the travelling circus'. Sylvia fell asleep in her child's seat as soon as the journey started.

VR Group offers safe, high-quality services in public transport, freight transport and track maintenance.

# Passenger Services



The new direct line boosted rail travel in eastern Finland by 20–30 per cent.

**VR offers** rail passengers a wide range of services on both long-distance routes and commuter lines in the Helsinki metropolitan area. VR provides some 320 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.

Some 65% of rail tickets are purchased at VR's sales outlets, which are located at 53 railway stations. Tickets can also be obtained from automatic ticket machines at stations, on the Internet and on trains. Tickets can as well be ordered from VR's telephone services and collected from R-kiosks.

### Market developments and position in market

Rail has about a 5% market share of all travel in Finland. Private cars account for 85%. Rail transport's share of all public transport is 38%. Rail's share of passenger journeys made on public transport that are longer than 75 kilometres is about 60%.

The volume of rail journeys has been increasing significantly for several years now. In the past few years growth has been higher than the average for all forms of transport. In 2006 rail strengthened its position when

the direct Lahti–Kerava line was completed in the autumn. This reduced journey times to eastern Finland considerably and rail travel there increased at the end of the year by about 20–30% from the previous year. The Helsinki–Turku and Helsinki–Jyväskylä routes also saw clear growth.

In commuter services factors that improved rail's potential to compete with private cars were the direct line to Lahti and also the expansion of the area where YTV tickets can be used to include Kerava. Kirkkonummi joined the new YTV zone (managed by the Helsinki Metropolitan Area Council) at the beginning of 2007.

Important customer groups include families, people travelling to work and business travellers. The needs of each group have been taken into account in train services.

VR received altogether 19,000 items of feedback from customers during 2006, most of which concerned train services, rolling stock and service on trains. VR is continuously developing its services based on the feedback it receives from customers.

### Strengths and goals

Some of the most important competitive factors in passenger services are the speed

and punctuality of rail travel. Another point in its favour is that rail is a safe and environmentally benign form of transport. Passengers also appreciate VR's reliable and service-oriented personnel.

VR has upgraded almost all its rolling stock over the past few years, and has considerably improved passenger comfort on all routes. One focus in the future will be on smooth rail links with Russia, in particular a fast connection to St Petersburg.

The goals for passenger services are to enhance customer satisfaction and to raise market share from its current level. The aim is to cut journey times and increase passenger comfort. Punctuality and safety remain important priorities.

### Net turnover and number of journeys

Passenger Services generated net turnover of EUR 340.0 million in 2006, an increase of 6.1% on the previous year. The number of rail journeys grew by 2.4% from the previous year. Altogether 65.0 million passenger journeys were made by train during the year, an all-time record.

Some 12.8 million passenger journeys were made on long-distance rail services, an increase of 2.8%. A record was also made in the number of rail journeys between Finland and Russia: altogether 337,000 journeys, an increase of 26.1%. Altogether 52.1 million journeys were made on commuter services in the Helsinki metropolitan area. Commuter journeys in VR's commuter zone increased by 8.1% and in the YTV zone by 0.8%.

### Main events in 2006

The opening of the Kerava–Lahti direct line and the complete reorganization of rail services at the beginning of September were the most significant changes in rail services for decades. The reorganization was given the name 'the New Train Era'. Journey times between eastern Finland and the Helsinki metropolitan area were cut by from half an hour up to even an hour. Connections also



## The New Train Era is the most important improvement in rail services in decades.

improved and the number of train services increased. Services to Russia also became faster.

All the new rolling stock ordered by VR in recent years had come into service by the end of the review year. Railcar services were extended to cover four new line sections. An overnight train made up of the new double-decker sleeping cars came into service on the Rovaniemi route. In addition, alterations were made to more than one hundred InterCity coaches based on the wishes of customers. For example the children's playrooms and space for passengers travelling with pets were enlarged. Services also improved for passengers with reduced mobility.

VR signed an agreement for leasing and building 20 double-decker InterCity coaches with OKO Bank Finance and Talgo Oy. The coaches will be delivered in 2007–2008. VR is a shareholder in Metropolitan Area Rolling Stock Ltd, which ordered 32 city trains from Swiss-based Stadler Bussnang AG for services in the YTV zone. The trains will be delivered in 2009–2014.

Towards the end of the year VR and Russian railways established a joint rolling stock company, Oy Karelian Trains Ltd, which will purchase high-speed trains suitable for services between Helsinki and St Petersburg. The company will initially purchase four trainsets.

The availability of rail tickets improved significantly when all the more than 700 R-kiosks in Finland became collection points for tickets in May. The combined service network covers the whole country. VR's online sales also expanded its range of services and increased the available methods of payment. Online sales accounted for 9.0% of long-distance ticket sales in 2006.

The punctuality of services fell slightly short of its targets. In long-distance service, 89% of trains arrived at their destination on time, where the target is 90% punctuality.

Passenger information about service disruptions improved towards the end of the

year when VR opened a new service on its Internet site that gives up-to-date information about train services. The service information is also available on teletext.

### Prospects

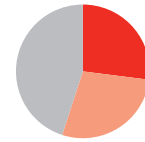
VR is continuing to develop the 'New Train Era' in 2007. This will include reviewing the timetables on the basis of the experience obtained and customer feedback. Raising punctuality to the target level and improving customer information in exceptional circumstances are other key development areas.

Passenger traffic between Finland and Russia is estimated to be one of the fastest growing areas for VR in the next few years. The goal is to cut the travelling time from Helsinki to St Petersburg to three hours during the decade after 2010. The number of services on this route would then increase considerably.

VR signed long-term agreements in 2006 with the Ministry of Transport and Communications for the purchase of commuter and long-distance services. The agreements are in force until the end of 2011. They safeguard certain important train services that would not be financially viable just with ticket income.

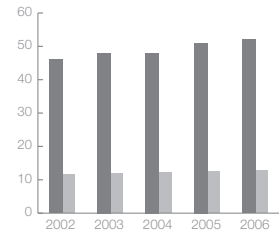
The expansion of the network of travel centres continues. Construction of new centres has started in Vaasa and Mikkeli. Construction of a new station tunnel has begun in Tampere as part of the travel centre.

The work on renewing the Ilmala marshalling yard, which is extremely important for passenger services throughout Finland, will continue for the next four years. The investments will fundamentally improve the reliability of services especially in winter. New tracks will be built in central Pasila in the next few years and services for car train operations.



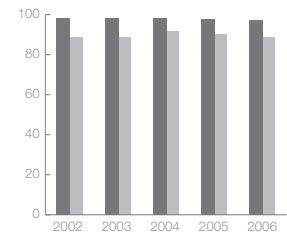
Rail services, share of VR's net turnover 2006

- Passenger services 27%
- Freight services 28%



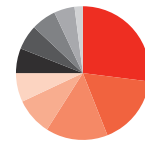
Passenger journeys by rail million

- Commuter services
- Long-distance services



Punctuality of rail traffic %

- Commuter services
- Long-distance services



Feedback on passenger services 2006

- Traffic services 27%
- VR's in-train services 17%
- Rolling-stock 15%
- Other station services 9%
- Station ticket sales 7%
- Internet pages and online sales 6%
- Tickets, prices and sales systems 6%
- VR's operations in general 6%
- Avecra's in-train services 5%
- Telephone service 2%



# Rail Services

## Freight Services



Combined transport volumes increased by almost a third from the previous year.

**VR Cargo** is the main freight carrier for Finland's forest, metal and chemical industries in both domestic and international freight transportation. The company provides safe, punctual, environmentally friendly services that are designed for its customers. VR Cargo's operating method involves close links with customers and partners.

The service network formed by VR Cargo and its partners covers all of Finland as well as international routes. Some 500 freight trains are in service every day in Finland, with a particularly high level of services in south-eastern Finland.

### Market developments and position in market

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 16% 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.

Major changes took place in the market during 2006. Imports of pulp wood from Russia fell. Sawmill investments by the

forest industry in Russia in turn increased imports of woodchips. Carryings of oil products to Finland increased significantly but gas carryings declined due to problems with availability. Transit carryings of iron pellets recorded the biggest growth.

VR Cargo retained its strong market position in carryings of conventional bulk goods, but it did not yet manage to benefit from growth in container transport of more expensive goods and in transporting private cars.

Growth in VR's carryings to and from Russia was still weakened by the tariff policy of Russian railways, which favoured traffic to ports in Russia. Container traffic to the Far East almost stopped completely due to a price rise on the Russian section of track.

VR Cargo's biggest customers are major Finnish Industrial companies. More than 60% of all carryings are the raw materials and products of the forest industry. Metal industry goods account for the next largest amount carried by rail. The third largest customer group is the chemical industry.

Some 40% of carryings are services to and from Russia and the CIS countries.

Most of this is round timber and other raw materials needed by industry. The most important partner in services to and from Russia is Russian railways RZD.

### Strengths and goals

VR Cargo is a reliable partner that is able to transport large volumes efficiently and in an ecofriendly way. The volume of freight conveyed by train each year is the equivalent of more than one million truck and trailer loads. VR can also offer customers total service packages that include not just rail transport but also for example road transport, warehousing and forwarding.

One of VR's strengths is its long-standing relationship with Russian railways, which has chosen VR Cargo as its best international partner for the past three years.

VR Cargo's goal is to strengthen its role in customer logistic solutions. It aims to provide a broader service that gives the customer a stronger competitive edge. In services to and from Russia VR Cargo is developing new services and building up its partner network. It is working to further improve punctuality and delivery reliability.

### Net turnover and freight volumes

Freight Services generated net turnover of EUR 358.9 million in 2006, some 7.6% more than in 2005. VR Cargo carried a record total of 43.6 million tonnes of freight, an increase of 7.0% from the previous year.

VR carried 26.0 million tonnes in domestic services, which is 10.6% more than in the previous year. Domestic carryings in 2005 were reduced by the labour dispute in the forest industry. Freight carryings between Finland and Russia increased 3.1% to a total of 16.8 million tonnes. Transit carryings via Finland rose 25%, but exports and imports declined slightly.



## VR Cargo is a reliable partner.

The growth in combined transports in Finland continued. Trains carrying trucks travel at night in both directions on the route Oulu–Tampere–Helsinki. These 'truck-trains' carried 15,200 units in 2006, an increase of more than 30% from the previous year.

The number of containers transported was altogether 127,500 TEU. Container freight on the Trans-Siberian line declined considerably to 8,100 TEU. TEU (Twenty-foot Equivalent Unit) is a unit of measurement used in container transportation and refers to one 20-foot container.

The number of private cars transported via Finnish ports to Russia tripled from the 2005 level. In all almost 15,000 private cars were transported by rail to Russia.

Westward carryings via Turku and Tornio declined 16.4 % to 0.8 million tonnes.

### Main events in 2006

In 2006 VR Cargo continued to develop the partnership-based sales and marketing model for Russia and the CIS countries. A joint company was established for container services with Russian railways subsidiary Transcontainer. The joint company will focus on marketing, selling and organizing container services. A new joint project is transporting private cars via Finland to Russia and CIS countries.

In response to increasing demand for rail transport for trucks, VR obtained new wagons that can transport 4.20 metre high articulated vehicles. During the review year a new model of round wood wagon was tested and the first series of this will be built in 2007. The decision was also taken to recondition 600 round wood wagons. Design of a new wagon type for transporting metal industry products also got underway during the review year.

The transport ordering system was deployed in full at the start of 2006. The benefits of the new system are improved

customer service, increased delivery reliability and greater efficiency.

During 2006 VR Cargo participated in a number of R&D projects with universities, research centres and customers. One of these is a study into the feasibility of using RFID technology in a railway environment. This project continued during the review year and two pilot projects were started in cooperation with customers.

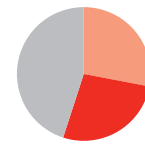
### Prospects

As key customer companies concentrate their traffic and the total service model becomes more popular, this strengthens VR's position in domestic freight services. Customer train systems are increasing for the largest freight flows. A train then consists entirely of wagons for a single customer and the timetable for the train is arranged to fit the schedule of the production plant and the port.

In international freight services VR is developing its carryings of raw materials imported for Finnish industrial corporations and also its eastbound carryings of exports. Another priority is transit carryings through Finland.

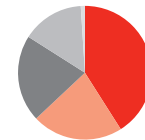
When the container rail service to and from Moscow has established itself, the service will be extended to trailers. The volume of private cars transported is expected to rise considerably, and the goal is to introduce a regular, scheduled transport system towards the end of 2007. VR aims to increase container transportation on the Trans-Siberian line. International operations are being expanded into China.

The company is continuing to increase use of IT and automation systems in freight services. New technology will be more widely deployed in managing transport information and the use of resources. Another priority is utilizing automation in developing marshalling yard activities.



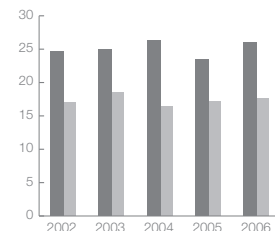
Rail services, share of VR's net turnover 2006

- Freight services 28%
- Passenger services 27%



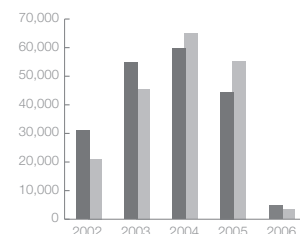
Carryings by product group 2006

- Mechanical forest industry 41%
- Chemical forest industry 22%
- Metal industry 21%
- Chemical industry 15%
- Other 1%



VR Cargo's carryings million tonnes

- Finland
- International



East Asia container traffic TEU = 20-foot container equivalent

- Imports
- Exports



# Track Construction and Maintenance



VR-Track's biggest superstructure project of the year was on the Turku to Toijala line.

**VR-Track Ltd** and its subsidiaries Megasiirto Oy, Insinööritoimisto Arcus and AS VR-Track in Estonia form the VR-Track group. This specializes in track design, construction and maintenance services. The group provides civil engineering services and also carries out earthworks and electrical contracting outside the railway environment.

VR-Track offers customers a total package, including design, construction and maintenance. It also signs contracts with customers for individual services, such as bridge design or turnouts for a private railway track.

## Market developments and position in market

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. Work commissioned by the Finnish Rail Administration accounts for more than 90% of net turnover.

In the past few years the Finnish Rail Administration has spent EUR 400–450 million a year on the track network. 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.

In 2006 the amount of replacement investment in the track network was distinctly less than in the previous year, about EUR 140 million. The main projects for development investments were the Kerava–Lahti direct line and electrification in Northern Finland, both of which were completed during the review year. The declining market situation hindered the effective use of VR-Track's resources early in the year.

VR-Track had a 55% market share in 2006 of the contracts commissioned by the Finnish Rail Administration in the Group's business sector.

## Strengths and goals

VR-Track is the only company in the Finnish track maintenance market that can offer a full service package, from design to maintenance. VR-Track's strength lies in its expertise and knowhow in the entire railway system. The company has long experience in both railway technical systems and traffic systems.

In its projects the company utilizes technical expertise in different fields, skills in rail safety, and powerful special machinery.

VR-Track aims to maintain its leading position in track maintenance and to strengthen this position. Its main goals and areas for development relate to raising customer satisfaction and competitiveness. VR-Track aims to improve job satisfaction among personnel and their commitment to targets by developing the work of supervisory staff.

## Net turnover and main projects

Track Construction and Maintenance generated net turnover of EUR 232.6 million in 2006. Net turnover declined from the previous year by about 3.7% because the amount of civil engineering declined. At the end of 2006 VR-Track's order book totalled about EUR 118 million. The company maintained a satisfactory level of profitability in all areas of business.

The main railway consulting projects in 2006 were for the Kerava–Lahti direct line and the Ostrobothnia track.

VR-Track's largest superstructure project was on the Turku to Toijala line. Other extensive worksites were on the Uimaharju–Lieksa, Seinäjoki–Oulu and Rovaniemi–Kemijärvi track sections. Major improvements were made to altogether 230 kilometres of track. The superstructure and electrification projects and the installation of signalling equipment on the Kerava–Lahti direct line was completed during the review year. The line was taken into use at the beginning of September.

The biggest individual marshalling yard projects were in Vaasa and Imatra. The Ilmala marshalling yard will be a major project, and VR-Track already had work relating to the start of this during the review year. VR-Track installed traffic telematic systems on the E18 motorway.



## VR-Track has in-depth knowhow of the entire railway system.

Altogether 42 kilometres of new track were laid on the Bothnia Line in Northern Sweden during the summer. The whole contract is scheduled for completion in 2007. VR-Track's partner in this project is Balfour Beatty Rail AB. Other work in Sweden included Blekingebanan and the Mjölby marshalling yard. In Estonia, VR-Track AS continued its ballast cleaning project, commissioned by RT-Ehitus AS, for the seventh year.

In the spring the geometric index indicating the physical condition of the track superstructure network was lower than usual due to the hard frost, and this required extra work in the summer. The index rose in the autumn to the target level but failed to reach the record level of 2005.

The problems with cracks in rails that had affected the track network in 2005 were sorted out satisfactorily during the summer. Exceptionally high levels of damage to electrified track occurred during the review year. VR-Track replaced components on the electrified track under commission from the Finnish Rail Administration and adjusted its structures.

Capacity utilization at the production units remained high. The rail-welding unit in Kaipiainen handled some 35,500 tonnes of rails. The track point units in Pieksämäki and Kaipiainen manufactured 177 track points and reconditioned 53 track points and 538 units of turning gear. Production at the Haapamäki wood impregnation plant amounted to about 26,000 cubic metres of impregnated timber, almost two-thirds of which was sleepers.

### Main events in 2006

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 most important development project connected with VR-Track's rolling stock was the building of a new instrument car that is able to measure track geometry and the track electrical structures while travelling at a speed of 200 kilometres an hour. The car will be taken into service in spring 2007.

VR-Track invested EUR 12.8 million in 2006, mainly on replacing decommissioned track machinery and equipment. These investments in modern rolling stock will ensure the company continues to be competitive in track construction and maintenance.

New products produced as the result of VR-Track's own R&D included marshalling yard safety equipment and a warning device for level crossings.

### Prospects

The Finnish Rail Administration's action plan will shift the focus of track work during the period 2007–2010 to repairing and modernizing the old rail network. This is the area in which VR-Track is best placed to compete for work.

Several major track construction projects are currently getting underway, including the modernization of the Ilmala marshalling yard and development of the Seinäjoki–Oulu and Lahti–Vainikkala sections of line. In addition the company is carrying out the installation contract for a major telematic system in Vuosaari harbour in 2007.

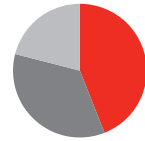
Other development priorities for VR-Track include civil engineering and export operations.

The maintenance organization is prepared for competitive bidding for maintenance in 2007.



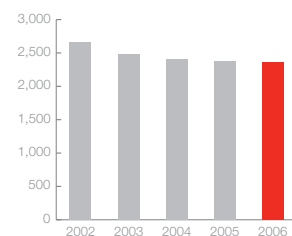
Track construction and maintenance, share of VR's net turnover 2006

● Track construction and maintenance 18%



Net turnover 2006

● Construction 44%  
● Maintenance 35%  
● Engineering, materials and other services 21%



Number of personnel



# Road Services



Combitrans's goal is to improve customer satisfaction.

**Oy Pohjolan Liikenne Ab** is responsible for providing the VR Group's road services through its subsidiaries. Transpoint Oy Ab is a versatile logistics service company that carries general cargo. Combitrans Oy handles bulk carryings and storage. Oy Transuotila Ab specializes in road tanker services in Finland and the Baltic countries. SP Transit Finland Ltd Oy specializes in international freight services.

Oy Pohjolan Henkilöliikenne Ab and Oy Pohjolan Kaupunkiliikenne Ab provide bus and coach services. Their express services are part of the national ExpressBus system. In addition the companies have regular long-distance, regional and local services. They also provide contract and charter services in Finland and abroad.

## Market developments and position in market

Transpoint's general cargo market grew during the review year. However it was difficult to obtain skilled workers and subcontractors, which significantly intensified cost pressures. Favourable trends in the forest and construction industries and the need to outsource logistic functions boosted the business of Combitrans.

Transuotila is the biggest fuel transport company by road in Finland. Its domestic market is in a state of upheaval as service station chains change owner and the size of transport companies grows due to increasingly strict regulations and the high cost of vehicles. The growth by the service station chains has increased Transuotila's transport volumes.

The international transport market in eastern Europe is growing rapidly, which improves prospects for SP Transit. The company's growth in the Baltic countries has stabilized but growth remains strong in Russia.

Passenger volumes in bus and coach services have been slowly declining for many years. Pohjolan Liikenne's position on the market remained unchanged.

The customers for freight services are exporting and importing companies needing logistics services. Transpoint has in the past been a carrier for industry but in future it aims to expand its customer base increasingly in the commercial sector. Combitrans's customers are mainly companies in the forest and construction industries. Transuotila's customers are oil companies. SP Transit mainly serves

major Finnish export companies and the retail trade.

Passenger services have a diverse customer base, including the State, local authorities, businesses and companies, as well as private consumers.

## Strengths and goals

The strength of the Pohjolan Liikenne companies lies in its service model, in which the customer obtains all the necessary logistics services through a single partner. In freight services particular attention has been paid to developing electronic supplementary services and to added value services for storage logistics.

Transpoint has an extensive range of transport services, a wide choice of electronic services, and a nationwide transport network. Combitrans's strengths lie in the planning, implementation and scheduling of bulk distribution processes. Both companies have effective information management processes.

The competitive factors for Transuotila are the quality of its vehicles and the professional skills of its personnel. SP Transit's strength lies in its knowledge of eastern Europe.



## Customers obtain all logistic services from a single partner.

Passenger services have skilled, highly motivated personnel, good areas where they provide services, and modern information systems.

Common goals for all the freight service companies in Pohjolan Liikenne group are increasing profitability and customer satisfaction.

Transpoint is focusing on raising its market share and improving its image especially among potential customers. Combitrans's goals are to improve delivery reliability and customer satisfaction and to expand its range of services.

The priorities for development in Transuotila's tanker services are total service and cost-efficiency. SP Transit's strategy is geographical expansion in central eastern Europe and broadening the product selection.

The goal for passenger services is controlled growth in its market share in contract services.

### Net turnover and transport volumes

Road Services's net turnover grew by 14.8% compared to 2005, amounting to EUR 240.1 million. Freight services generated 84% of net turnover, EUR 201.5 million, and passenger services 16%, EUR 38.6 million.

Freight volumes grew by 8.3% on the previous year to 9.9 million tonnes. General cargo and partial and full load carryings grew 7.9%. The total tonnage of road tanker carryings increased by 10.2%.

Passenger services carried 11.7 million passengers by road, 2.3% fewer than in 2005.

### Main events in 2006

In the autumn Pohjolan Liikenne group purchased 50% of the share stock of SP Transit Finland. The company is a Finnish forwarding and transport business that

has good connections to central eastern Europe and Russia. It has subsidiaries in Estonia, Latvia, Lithuania and Poland.

Transpoint's strategy and organizational structure were revised in 2006. Combitrans and Transuotila focused on customer relationships and increasing efficiency in operations.

In bus and coach services, long-distance services were adjusted in line with declining demand. The service and repair systems for the vehicles were reorganized, and regular training was started for drivers.

### Prospects

Transpoint is renewing its customer services and making them more dynamic and pro-active. It aims to provide a secure transport chain through better information management. The company will launch new services towards the end of the year.

Combitrans' goal is to grow faster than the market as partner of the forest and construction industries. The company aims to significantly raise its share of forest industry carryings. The most visible growth in the construction sector is in the prefabricated element industry and in logistics management for builders.

The common goal for Combitrans and Transpoint is to develop the most modern IT management system in the sector during 2007.

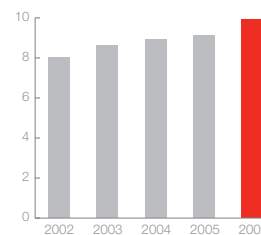
SP Transit is harmonizing its business model and IT system with the Pohjolan Liikenne companies during 2007. It aims to expand operations in eastern Europe.

Pohjolan Liikenne's bus and coach companies aim to maintain their current position in the long-distance market and increase their share of contract services in the Helsinki metropolitan area.

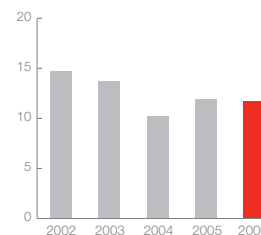


Road services, share of VR's net turnover 2006

● Road services 19%



Freight volumes by road million tonnes



Bus and coach journeys millions



# Catering and Restaurant Services



The product selection in the restaurant car has something for the younger members of the family.

**Avecra Oy** is a company owned by VR Ltd and the international Rail Gourmet Group that provides catering and restaurant services on long-distance passenger trains and at railway stations. The company's train catering unit, A-Catering, provides services daily on about 160 trains, offering restaurant and trolley catering services.

Avecra has altogether 17 restaurants or kiosk outlets at six railway stations providing catering services. The most important location is Helsinki railway station, where Avecra has nine units.

## Market developments and position in market

2006 turned out to be an outstanding year for the entire restaurant sector. Growth in total sales is estimated at more than 5%. Food sales saw the biggest growth. Avecra competes especially with quick service providers in the restaurant sector. The general growth in the sector and the increase in rail passengers contributed to Avecra's good performance during the review year.

Avecra's target groups are rail passengers and other customers at railway

stations. Some 55% of sales come from long-distance trains and the remainder from the outlets at stations. Families and business travellers have been growing customer segments in recent years. The most popular products are hot snacks and sandwiches.

## Strengths and goals

Success factors in the quick service market are sufficient sales volumes, cost-efficiency and effective process management. It is also necessary to have the right business locations and customer-driven changes in concepts.

Avecra's strengths in its business are specializing in the quick service market and indepth knowhow in this area. The company's specialist knowhow in train catering, well chosen locations for restaurants, a diverse and changing service offering, and effective business models lay a sound foundation for success.

Avecra's priorities are to increase net turnover through active sales efforts, to develop business concepts, to create everyday special experiences for passengers, and long-term personnel development to improve job satisfaction.

Avecra's goal is to be the leading expert in the quick service market in in-train and restaurant operations.

## Net turnover

2006 was a successful year for Avecra. The business area's net turnover was EUR 26.6 million, which is 4.3% more than in the previous year. Restaurant sales increased 3.2%. Growth at the restaurants was steady in all product groups apart from beer, for which sales again declined slightly.

A-Catering's sales on trains increased 3.1%. Factors contributing to this were the increased customer potential and exploiting this, and developing the product selections. Sales of food portions grew in particular, by more than 15%.

## Main events in 2006

The biggest change affecting train services was VR's timetable reorganization in the autumn. Journey times and the time that trains stand at terminal stations were cut, the timetables were completely changed and the number of Pendolino trains increased. This significantly changed all of A-Catering's





## Avecra aims to give customers everyday special experiences.

operations, goods logistics and personnel planning.

In the autumn A-Catering introduced a new theme in the Prego restaurants on Pendolino trains, 'A piece of Italy on your journey'. At the same time the company located all services in the restaurant car to improve profitability and the product selection. It also opened a new logistics centre in Oulu in the autumn.

The 'Ilpo the lynx' character designed in 2005 for restaurant cars and related products achieved international success in 2006. The package for children won the 'Most Innovative Caterer' award at an international congress attended by all the major train catering companies in Europe.

During the review year system development started of restaurant operations. The Pullman Bar at Helsinki railway station received a new look and a new product selection with the theme 'the English lounge at the station' and the product selection at the Ooster wine bar was revised. The operating methods and product selection at the four units in the Baguette & Co. chain were harmonized. These efforts brought improved results.

A major change in internal operations was the introduction of a new system for cash desk, stock and reporting. The new system helps ensure effective support for business operations.

### Prospects

The growth in restaurant services is expected to continue in the next few years, but the rate of growth will slow down somewhat. The outlook for lower price restaurants with an emphasis on drinks remains poor. In contrast food sales will increase considerably, and growth in restaurant sales of alcoholic drinks also looks promising.

The challenge for Avecra remains to achieve sufficient growth in net turnover

while making processes more efficient. This requires precise daily management, continuous analysis of operations and a fast response to changes in demand.

The concepts for train restaurant cars are being changed. The Pendolino Prego restaurant car was renewed during the review year, and the other types of restaurant car will receive a new look and a new product selection during 2007. Avecra will also continue to develop the station restaurants and the 'Ilpo the lynx' character will also take on new aspects.



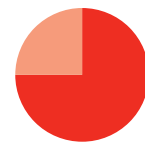
Catering and restaurant services, share of VR's net sales 2006

● Catering and restaurant services 2%



Net turnover 2006

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

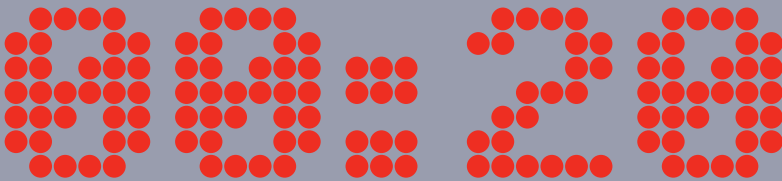


Personnel 2006

● Restaurant services in trains 75%  
● Restaurants at stations 25%







VR's values  
lay the foundation  
for everyday activities.

During the trip Vilja found some friends to play with. The renovated play area has room for several children. The alterations carried out in the summer gave four times as much space.

# Principles for Responsibility



VR's quality requirements make train journeys safe.

**VR Group's** common values are safety, satisfied customers, successful together and responsibility. The values create the basis for the way to act in everyday work. The State expects the companies it owns to operate effectively, competitively and profitably. These are the requirements for responsible operations.

Key success factors for VR include the safety and punctuality of services, environmental sustainability and skilled personnel. Developing these areas helps the Group achieve its commercial strategic targets.

- Personnel who are committed to goals form a success factor for VR. Long-term development of personnel supports business operations and wellbeing. A key goal of human resources management is to control the change in the personnel structure.
- VR's environmental action boosts the competitiveness of its operations by reinforcing the general image of eco-efficient transport and related services. Increasing the market share of railway services improves the eco-efficiency of the entire public transport system.

- Safety is VR's most important value. Safety enables continuity and smooth, uninterrupted operations. Managing safety properly ensures that operations do not cause damage to the environment or property or injury to customers or employees.

## Human resources policy and management

The key elements of VR's human resources management are given in the human resources guidelines, which the employer and personnel representatives have drawn up together.

As is stated in the guidelines, the know-how and high motivation of personnel, openness, and effective cooperation between employer and employees make a major contribution to achieving the company's goals. VR values highly the way personnel take on responsibility, achieve results, and show initiative.

VR is renewing its operations, as an employer acts systematically and with a long-term perspective, and takes responsibility for and looks after its employees. For skilled professionals with a desire to develop, VR offers many opportunities in different parts of Finland.

Human resources management is coordinated by VR-Group's human resources unit. It is responsible for HR management policies, represents VR as employer and serves Group companies in HR issues. The Group's subsidiaries are each independently responsible for the operative administration of their human resources.

## Environmental policy and management

As stated in its environmental policy, VR's goal is to provide services that are environmentally benign, safe and of high quality.

The Group operates in a way that is safe for human beings and for nature and with the minimum possible environmental load. Personnel are trained to take environmental issues into account in their work.

Environmental activities are benchmarked against the best practices in the sector and the Group aims at active cooperation with stakeholder groups. One particular goal is to continually improve the safety of carryings of hazardous substances.

VR's environmental management system is based on the ISO 14000 series of standards. Each company is individually responsible for environmental issues.

The companies' operations are directed by the Group's common environmental policy and the objectives defined in this. The management of each company approves annually an environmental programme in which the goal is the continuous improvement of operations.

## Safety policy and management

VR's safety policy stresses the vital importance of safety for business operations. Managing safety properly ensures that VR Group's operations do not cause damage to the environment or property or injury to customers or employees. The safety policy stresses the importance of

## Responsibility supports the success of business operations.

systematic monitoring of safety, identifying and controlling risks, and the principle of continuous improvement.

Clear requirements and goals have been set for safety management. These help to maintain a high level of safety and develop operations.

According to the safety policy, responsibility for managing safety and for organizing safety issues lies with the president and CEO and with the managing directors of the companies. The business area managers, managers in charge of business units and supervisory staff are responsible for implementing the policy in practice. VR-Group's safety unit develops and coordinates the Group's safety activities. Each VR employee shares responsibility for safety.

### VR and stakeholders

VR's key stakeholder groups include customers, present and future personnel, the owner, the authorities and other partners.

Through the employee organizations personnel are in a key position and in close contact with the employer VR. Representatives of personnel organizations participate for example in the work of the Board of Directors of Group companies and in the Group's train safety and occupational health and safety committees.

A requirement for success in environmental and safety activities is smooth cooperation with the authorities, in particular with the Finnish Rail Administration responsible for the track network, with the Finnish Rail Agency responsible for rail safety and the Ministry of Transport and Communications representing the State-owner.

The most important channels for interaction with stakeholders are personal contacts and online communications.

The most frequent subjects of feedback about VR Ltd's passenger services in

2006 concerned train services, rolling stock and service on trains. VR Ltd and VR-Track also carry out regular customer satisfaction surveys.

For major projects VR arranges meetings for the general public. In 2006 VR Ltd and the Finnish Rail Administration held a residents' meeting concerning the renovation of the Ilmala marshalling yard.

VR Group published its first corporate responsibility report and renewed its Internet website in 2006. The site has a section about responsibility.

### Requirements for partner companies

In its cooperation with other companies, VR Group's goal is long-term partnership. Partners, such as rolling stock manufacturers and goods suppliers, are chosen as a rule through competitive tender. VR sets demands concerning safety, the environment and quality on partners.

It is part of VR's principles that partners must operate safely and responsibly and must show that they meet requirements before starting to work together. VR monitors their performance to see that they meet requirements in the work they do for VR.

Partners are required to have an environmental management system. VR's trains and locomotives have to meet environmental requirements. Manufacturers must assess how rolling stock will impact the environment during its life cycle and provide an environmental report about the ready product.

VR sets separate quality requirements for each item being purchased. The requirements relate for example to reliability, availability and ease of service. Some of the quality requirements relate to instructions and regulations imposed by the authorities.

### Consolidated cash flows 2006, M€

Passenger services	378.6	Personnel costs	580.6
Freight services	560.4	Other costs	476.7
Track maintenance	232.6	Capital expenditure	110.3
Other	134.6	Track usage fee, taxes and dividends paid	106.3



# Human Resources



Skilled personnel are very pleased to help at different points in the journey.

**VR is** a major employer. VR Group had on average 12,663 employees during 2006 and most of these are permanent employees. The largest age group is the 50–59 year-olds.

Many employees have had a long career with VR. The average length of service is about 23 years.

## Human resources strategy

VR-Group's human resources strategy was updated in 2006. The strategy defines the goals for the use and development of human resources as well as the main action to be taken by 2010. The strategy derives from the Group's common business strategy, the individual company strategies and the Group's values.

The strategy sets three key areas for development during this period: effective, flexible allocation of human resources, ensuring the Group has high level skills and knowhow, and motivated personnel that are committed to goals.

During this strategy period VR will improve its practices in human resources planning and its communications relating to the employer image. It is also important for VR to be successful in recruiting new

personnel and monitoring recruitment and to build good relationships with colleges and students.

Studies are being made into the obstacles that prevent the effective use of personnel resources and the obstacles are being removed. One goal for example is to clarify the structure of collective labour agreements.

## Recruitment

Some 15% of VR's personnel will reach retirement age by 2010. Since the workforce is ageing quickly, the Group is preparing for large-scale recruitment in the next few years.

The Group is competing in an intensifying labour market for skilled and committed workers and is making every effort to ensure that potential job applicants have an accurate and sufficiently attractive image of VR as an employer.

VR Group's Internet site has a section containing the job opportunities available in the Group. During 2006 VR also prepared for future recruitment fairs.

## Competence development

VR makes sure that its personnel possess high-level skills and knowhow

and develops these competences systematically. This work is based on development plans for individuals and groups of personnel.

Priorities in competence development during the new strategy period are vocational skills, customer relations skills and the work of supervisory staff and management. VR also arranges initial training for new personnel, provides basic and supplementary training for those working in the railway sector, and ensures that those working in jobs connected with rail safety have the qualifications required by the authorities.

## Supervisory staff and management

In its supervisor activities VR is developing the assessment of performance and skills and its feedback practices. High standard training courses are one means used to improve supervisory and management skills.

During 2006 VR-Track, VR Ltd and Corenet each carried out their own development programmes for the work of supervisory staff. New common training courses were planned for supervisors and management for the whole Group, and these will start up in 2007.

VR wishes to make sure that sufficient persons develop within the Group who are suitable for key positions in the future. The company will reach this goal through more systematic development of management skills and career and successor planning.

For example, a new training programme has been developed for the Group in business management. The first group will start the programme in spring 2007.

Various indicators are used to monitor personnel satisfaction and the quality of management. In 2006 the work atmosphere was examined with a personnel survey of the whole Group. The survey shows that personnel are happy



## VR's personnel has confidence in its skills and knowhow.

at their work, have confidence in their skills and have a positive attitude to their employer.

The study revealed that the challenge for VR is to clarify the business goals so that each employee knows the goals for their own job and their own role in achieving targets. It can also strengthen the 'Successful together' value for example by improving internal communications and cooperation at the work place.

During 2007 a revised personnel compensation scheme is being introduced at VR-Group, VR Ltd, VR-Track and Corenet. The views of personnel representatives have been taken into account in preparing the scheme.

### Training

The VR Training Centre is responsible for training in railway work on Finland's railways. For example it works with customers to develop job guidance and will in future link this more closely with theoretical training for the railway sector. The 2006 customer survey revealed these as areas needing development.

Altogether 60 new drivers, 50 conductors and 80 marshalling yard employees graduated from the VR Training Centre in 2006. The Centre provided supplementary training for many current employees in areas such as train safety, products, customer service and occupational health and safety.

### Wellbeing at work

The ageing of personnel and in particular the need to ensure the safety of rail services make it necessary for VR to

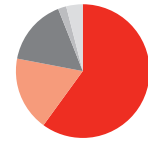
monitor work fitness and actively develop means that support wellbeing. A key goal for VR is to keep the work fitness of personnel at a high level throughout their working life. Challenges in this area include encouraging younger employees to control their life habits and improving the work fitness of ageing personnel.

The indicators measuring wellbeing at work have shown a positive trend at VR, even though the average age of personnel is high. Monitoring of sick leave was modified in 2006 and it is now possible to distinguish between absences due to sickness, accidents or rehabilitation. This makes it possible to target measures to support work fitness more precisely.

During 2006 VR introduced new physical examinations that comply with government regulations. Supervisory staff were given training in discussing problems with work fitness and absences from work with the persons concerned at as early a stage as possible and in looking for solutions with them. The supervisory staff receive support from work fitness coordinators, who help them where necessary in difficult situations.

One goal for VR in the near future is to further develop its work fitness improvement schemes, and to spread successful working models to all the companies in the Group.

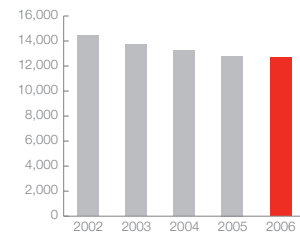
Length of employment in VR Group									
Years	under 1	1-4	5-9	10-14	15-19	20-29	30-39	40-	Total
No. of employ. contracts	676	1,256	978	478	563	4,277	4,239	281	12,748
% of all employ. contracts	5.3	9.9	7.7	3.7	4.4	33.6	33.3	2.2	100



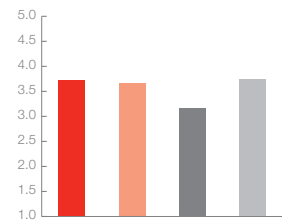
Personnel by business 2006	
Rail services	60%
Track construction and maintenance	18%
Road services	16%
Catering and restaurant services	2%
Other	4%



Age structure of personnel 2006	
-29 years	9%
30-39 years	10%
40-49 years	35%
50-59 years	42%
60+ years	4%



Personnel on average



How well values are achieved in VR Group according to 2006 personnel survey

Safety	3.72
Satisfied customers	3.66
Successful together	3.16
Responsibility	3.73

Average marks on a scale of 1-5 (disagree - agree)



# Environment



Electric trains conserve nature since they use energy efficiently.

**VR's strategy** is to turn the environmental friendliness of rail transport into a competitive advantage and so promote the success of its business operations. VR aims to be the safest and most eco-friendly partner for customers and society.

The biggest environmental advantages of rail transport are that trains use energy efficiently and generate low levels of carbon dioxide emissions. This is particularly true of electric train services. Other success factors for VR are the safety of transport, the effective reduction of harmful impact and emissions, and the expertise of personnel and their sense of responsibility.

VR has an impact on the environment by consuming energy, generating emissions and producing municipal and hazardous waste. Traffic, the construction of railway lines and marshalling yard activities also cause noise and vibration.

In addition, the transport of hazardous substances, refuelling and the storage of fuel, and the use of chemical and other materials contain environmental risks. These are controlled through precise instructions and training.

The objectives of VR's environmental activities are to reduce the disturbance caused by traffic, control the risks related to transporting hazardous substances, make more effective use of energy, materials and chemicals, apply the life cycle approach to rolling stock, and increase the recycling of used parts and material. Other environmental activities include monitoring the environmental impact of operations and creating a positive corporate image using various forms of communications and marketing.

## Energy efficiency

VR is making efforts to use energy more efficiently. Raising the filling rate of trains and road vehicles and increasing the proportion of electric trains in service helps in this. Other ways include making drivers aware of economic driving methods, doing as little shunting as possible, and avoiding running trains and road vehicles when empty.

During 2006 electric traction's share of all rail transport by kilometre was 79.9%. The number of train services increased in the autumn when VR Ltd revised the timetable structure for passenger services.

Passenger numbers increased at the same time.

Specific energy consumption for rail services was 0.274 MJ/tonne-kilometre + passenger-kilometre, which was 4.9% less than in 2005. In road services, 125 drivers participated in training in economical driving. A similar training package was drawn up for engine drivers.

Further improving energy efficiency and reducing greenhouse gas emissions are major challenges for VR for the future.

Increasing rail traffic helps slow down climate change. Some 16 % of Finland's greenhouse gas emissions are produced by traffic. The target of the Ministry of Transport and Communications is to reduce greenhouse gas emissions from traffic to the level of 1990 by 2010. Achieving this target requires encouraging the use of energy-efficient forms of transport such as rail.

VR will continue to increase the number of electric trains. In the near future it will also examine the possibilities of using biodiesel in diesel engines.

Road services generate less and less emissions to the air as vehicles are replaced. The carbon dioxide emissions





## Increasing rail traffic slows down climate change.

from the vehicles are also cut by reducing fuel consumption.

### Materials and chemicals

Chemicals and other materials are also used in the maintenance of trains and vehicles and in track work, and this may involve environmental risks. VR's goal is to make more effective use of these substances so that it needs less of them.

More effective use is made of materials when the lifecycle approach is applied to vehicles and rolling stock, when chemicals are monitored more precisely, and when materials are recycled more. The disturbance and emissions levels are reduced by controlling the risks: VR is geared up for the risks arising from refuelling and from storing fuels and other chemicals and trains its personnel to take these risks into account. Emissions are also reduced when trains and vehicles are replaced with more modern versions and existing equipment is kept in good shape.

In 2006 the control of chemicals improved when VR-Track started to use software for this purpose that is also used by VR Ltd.

### Noise and vibration

Rail and road services and activities at marshalling yards may cause local noise and vibration. According to an estimate by the Ministry of the Environment, some 49,000 people in Finland live in areas affected by noise from rail services and 750,000 people in areas affected by noise from road traffic.

At low speeds the source of the noise from rail traffic is the motors in the engine. As speed picks up the noise accounted for by the motor is small and the noise level is determined by the rolling noise from the wheel touching the track. The factors affecting the noise level are then the speed, the track structure and the condition of the wheels.

VR is reducing the noise and vibration caused by rail traffic by sending defective wheels as early as possible for reconditioning. During 2006 5,190 goods wagon wheel flats or other wheel defects were reconditioned by machining.

Many local authorities are rezoning areas beside railway lines for new buildings. This increases pressure on VR to reduce the noise and vibration from rail traffic.

Most of the track network in Finland is single track, and some freight services and related marshalling yard operations have to be carried out at night. Reducing noise and vibration requires close cooperation with the Finnish Rail Administration and local authorities.

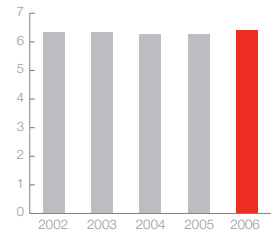
### Certification of environmental management systems

All the operations of VR Ltd and the main business areas of VR-Track are covered by environmental management systems certified to ISO 14001 standards. In addition, Transpoint, Combitrans and Pohjolan kaupunkiliikenne in the Pohjolan Liikenne group have environmental certification.

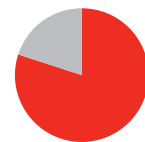
Certification expanded in 2006 so that it also covers the operations of VR-Track's rolling stock services and the Vuorenpaikot business unit. Some 87% of the Group's personnel work in units that have environmental certification.

During 2006, in connection with the internal audits that are part of the environmental management system, VR-Track arranged for measurement of indexes describing the level of environmental protection in the company. Altogether 45 measurements were taken. The indexes had an average value of 81.5, compared with a target of 85.

During 2006 VR was granted an environmental permit for the construction project in the Ilmala marshalling yard. Application was also made for a permit for operations at the Haapamäki impregnation plant.

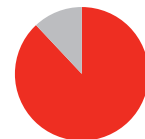


Group's energy consumption PJ



Electric traction, share of total train-km 2006

● Electric traction 80%

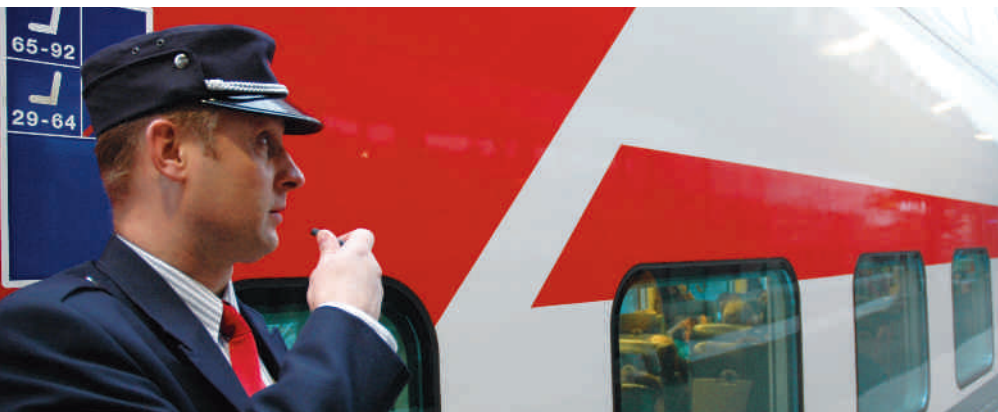


Share of certified units in total net turnover

● Certified units 88%



# Safety



Well trained personnel and modern rolling stock are key factors in rail safety.

**Safety** is extremely important for VR. If proper attention is paid to safety, VR Group's operations do not cause injury to customers or employees, harm to the environment or damage to property. VR systematically monitors the level of safety and aims to continuously improve this.

Safety management requires continuous assessment of risks. When risks are identified in time, it is possible to control them. An important underlying principle for safety activities is in fact evaluating in advance factors that threaten operations and taking steps to be prepared for them.

The risks to VR Group's key operations are assessed each year. The biggest safety risks are connected with rail services, and these risks are assessed many times a year. A model developed by the Technical Research Centre of Finland (VTT) is used in risk management.

## Safety management

There are many components in safety activities and their task is to support business operations. In the past, safety at VR Group has meant mainly just rail safety, and this still plays a key role. Rail safety means the safety of all rail traffic,

ie. passenger and freight services and shunting activities. Other key areas of safety at VR are occupational safety, data security, preparedness for emergencies and rescue functions, and environmental safety.

## Rail safety

When rail safety is managed properly, VR's core business can continue undisturbed. During 2006 no serious accidents occurred in rail services and the number of dangerous situations was kept at a low level. In December a passenger on the overnight express from Helsinki to Kolari was killed after falling from the moving train between Pännäinen and Kokkola. The police are investigating the causes of the event.

Rail safety has been improved by stressing the importance of work methods and communication. Observing correct work methods and providing accurate communications about services are common safety targets for everyone in 2006.

VR supported efforts to meet safety targets by training personnel and through stricter control of how instructions are observed. Management reviews and

internal audits ensured that the train safety management system functioned properly.

VR, YTV, the Ministry of Transport and Communications, the police and local authorities launched a major campaign in the spring of 2006 in response to the concern expressed by passengers about the safety of public transport, especially during the evening and at night. Stricter supervision and ticket inspections were used to reduce disturbances on trains, to increase passenger safety and reduce the number of people travelling without a ticket.

The campaign achieved its goal of a change in this trend during its first months. It has established itself as permanent practice in public transport in the Helsinki metropolitan area. Passengers gave much positive feedback about how the campaign was conducted.

A key future challenge for VR is to keep train safety among the highest in Europe.

Future priorities in rail safety will be ensuring that personnel have the necessary expertise and that locomotives, coaches and wagons and track maintenance equipment are maintained properly. Emphasis continues to be laid on the importance of correct, safe work methods for personnel, so that train and occupational safety will improve.

## Occupational safety

By paying proper attention to occupational safety, VR helps prevent employees from having accidents or suffering health problems because of their work. The emphasis in occupational safety is on preventive activities, such as risk assessment, effective job guidance and planning of work conditions.

During 2006 work began on developing the occupational safety reporting system. The revised system will be gradually introduced from the beginning of 2007.

Guidelines have been created for VR Group about the design of workstations



## Safety requires continuous assessment of risks.

and alterations to them. The guidelines have been utilised for example in the design of ticket offices.

In job guidance particular attention has been paid to correct work methods. During 2006 questionnaires and audits were used to examine the level of occupational safety, and at the same time ideas were collected for developing operations.

In the future it must be possible to prevent serious accidents at work at the same time as creating the conditions for monitoring more effectively safety hazards and work accidents.

### Data security

By paying proper attention to data security, the information needed in VR's operations is available, it does not get altered, and important information does not get into the hands of external parties. The systems important for the Group's business operations are then protected from external and internal disruption.

In 2006 for the first time VR Group carried out an assessment conforming to international ISF standards of the level of data security in the Group. This will continue in coming years as part of other continuous assessment of data security activities.

Developing data security is one of the biggest challenges for VR in the future.

### Rescue functions

Thanks to being prepared and its rescue functions VR's operations can continue during disruptions and emergencies.

VR's internal guidelines, which concern action in railway accidents, were updated in 2006 to bring them in line with revised legislation and changes in the organization of the relevant authorities.

VR holds an emergency exercise every year in a key place in its operations. In 2006 the exercise was held at the Joensuu marshalling yard.

The exercise demonstrated that the area is well prepared for an emergency.

The exercise also produced suggestions for improvements that can be used for further developing rescue functions.

In previous years major exercises have been held at the Ilmala depot in Helsinki, at the workshops in Pieksämäki and Hyvinkää and at the Group's head office. Smaller exercises are held regularly at several locations.

### Environmental safety

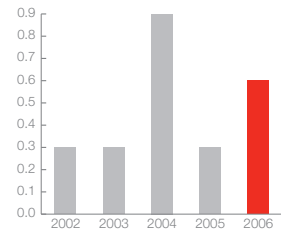
The objective of environmental safety is to prevent carryings of hazardous substances and other VR operations from harming the environment. In addition the Group ensures that personnel act in ways that impose minimum load on the environment in accordance with the principles of sustainable development.

Accidents when transporting hazardous substances and the resulting emissions into the water system, soil or air can have a significant impact on the environment. VR seeks to prevent accidents by complying with official regulations and guidelines in its transportation, by training personnel and by inspecting wagons.

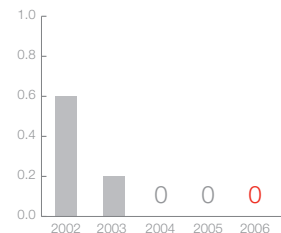
VR conveyed 5.4 million tonnes of hazardous substances by rail and 1.5 million tonnes by road in 2006. This was an increase of 7.4% in rail traffic and 9.7% in VR's road traffic. There were 11 leaks in rail traffic that did not cause environmental damage and 24 leaks in road traffic.

VR monitors the transport of hazardous substances very closely. The wagons are inspected many times during transport.

For example the level of loading of wagons coming from Russian is measured at the border, so that risks associated with thermal expansion can be controlled. The condition of the wheels and chassis of the wagons is also inspected, and the sealing of all valves and hatches is checked.



Fatalities and seriously injured rail passengers per billion passenger-km



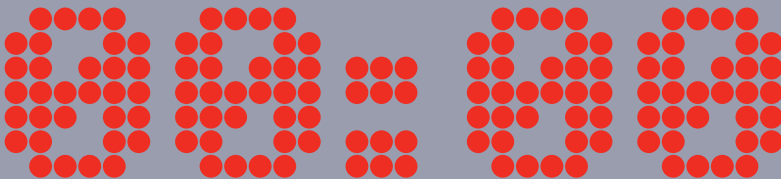
Collisions in rail traffic per 10 million train-km





## Board Report and Financial Statements

38	Report by the Board of Directors
44	Consolidated Profit and Loss Account
45	Consolidated Balance Sheet
46	Consolidated Cash Flow Statement
47	Parent Company Profit and Loss Account
48	Parent Company Balance Sheet
49	Parent Company Cash Flow Statement
50	Notes to the Financial Statements
62	Board's Proposal on the Distribution of Profit
62	Auditors' Report
63	Statement by the Supervisory Board



Sylvia wakes up just  
before the train  
arrives in Helsinki  
and is bright and  
alert to watch the  
hustle and bustle in  
the station.

# Report by the Board of Directors

## Market conditions and operating environment

During the review year, the indicators showing the performance of Finland's economy, such as the gross national product and industrial production volume, developed positively. The index for industrial production, excluding the production of electrotechnical products, rose 7.7% according to preliminary estimates. For the forest and paper industry the index rose 11.3%. In the previous year production figures had fallen due to the labour dispute in the sector. The metal and mechanical engineering index, excluding electrotechnical products, rose 9.5% and the chemical industry index improved 5.0%. Carrying for these industrial sectors are of decisive importance to VR's freight transport business.

The continuing sharp rise in the price of energy cast a shadow over the performance of the economy, and this in turn affected the financial performance of transport companies. Despite the high energy efficiency of rail services, the energy used by trains accounted for about 8% of the costs of providing transport services.

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 volume of carryings 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. Changes in these are relatively slow but continuous.

Domestic and foreign analyses and experience all demonstrate that fast timetables and punctual services are the most important means of raising demand for long-distance train services. One factor that continues to limit growth in rail passenger services is the fact that the standard of most of the Finnish 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.

## Consolidated turnover, result and liquidity

The Group's net turnover totalled EUR 1,264.6 (1,196.6) million. Combined net turnover for freight and passenger services rose by EUR 45.1 million. Total revenues were boosted not only by the higher net turnover but also by the profit from the sale of property, which was EUR 5.1 million more than in the previous year.

The continuing rise in the prices of electricity and diesel fuel raised costs in the review year. Energy costs for providing rail services were some EUR 8.6 million higher than in the previous year. Depreciation on rolling stock was EUR 6.2 million more than in the previous year, mainly due to the changes in the rolling stock. Reductions of EUR 3.5 million in accident costs and EUR 3.8 million in pension costs from the previous year were items that reduced costs.

The operating profit was EUR 85.2 (61.1) million and the net profit for the period was EUR 63.1 (46.0) million.

VR Ltd posted an operating profit of EUR 35.3 (22.6) million and VR-Track Ltd, including its subsidiaries, of EUR 12.6 (8.2) 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 4.0 (4.6) million positive. 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 116.8 (112.6) million at the end of the year. A dividend of altogether EUR 24.7 million was paid.

The other financial indicators are given in Note 24.

## Rail services

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 increased by 7.0% from the previous year, to 43.6 million tonnes. Of this total, 26.0 million tonnes came from domestic traffic and 17.6 million tonnes from international traffic. Domestic traffic increased 10.6% and international

traffic increased 2.1%. International traffic refers to rail traffic crossing Finland's borders by rail or rail ferry. Most of this comprises traffic between Finland and Russia or transit traffic via Finland to third countries.

Within domestic traffic, carryings in the largest segment, the forest industry, increased by 17.4%. The next largest freight segments were carryings for the metal and chemical industries. Carryings in the metal industry declined 7.6% and in the chemical industry declined 1.7%.

Traffic between Finland and Russia, including transit traffic via Finland to third countries, totalled 16.8 million tonnes, an increase of 3.1%. Almost half of this total consisted of round timber imports into Finland, just under 30% comprised chemical industry products, and the remaining roughly 25 % were carryings of metal industry products. Forest industry carryings declined 10.3%, whereas chemical industry carryings increased 9.2%. Metal industry carryings in services to and from Russia increased 34.8%.

Traffic between Finland and Russia here also includes traffic between Finland and East Asia (principally South Korea, Japan and China), which is container traffic. Following several years of strong growth, traffic declined for the second year in a row and now totalled 8,100 TEU (1 TEU = 20 foot container). The previous year's volume was 99,700 TEU. The reason for the decline was the sharp rise in prices for the track section in Russia.

Transit traffic via Finland to third countries, included in the figures for traffic between Finland and Russia, totalled 4.2 million tonnes, an increase of 25.3%. Most of this is Russian exports of industrial raw materials to western Europe. Metal industry products represented 59% of transit traffic, increasing by 71.3%. The remainder in practice was entirely chemical carryings, principally petroleum products. These declined 6.6%.

Direct rail traffic between Finland and western Europe declined 16.4% from almost 0.9 million tonnes to just under 0.8 million tonnes. 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 362.0 (336.3) million. VR Cargo's operating profit, based on



VR Ltd's internal accounts, was EUR 16.7 (5.1) million. The average transport distance increased from 237 kilometres to 254 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 steady 24–25% share of all freight transport in Finland.

The number of journeys in passenger traffic totalled 65.0 million, an increase of 2.4%. Long-distance journeys showed an increase of 2.8% to 12.8 million. The average length of a long-distance journey was 220 kilometres, with no significant growth in this from the previous year. Long-distance traffic comprises all rail journeys other than those made in commuter services in the Greater Helsinki area, regardless of the journey length. A total of 337,000 passenger journeys were made between Finland and Russia, up 26.1%.

A total of 52.1 million passenger journeys were made in commuter traffic in the Greater Helsinki area, an increase of 2.3%. The number of journeys in the zone administered by the Helsinki Metropolitan Area Council (YTV = Helsinki, Vantaa, Espoo, Kauniainen) was 41.2 million, an increase of 0.8%. Commuter traffic outside this zone grew 8.1% to 10.9 million journeys.

No information is available at the moment about any changes in the market share of public transport in Finland held by rail, since official statistics will only be ready at a later date. In 2005 rail increased its market share by one percentage point to 31.8%.

Non-consolidated net turnover from passenger services amounted to EUR 340.9 (320.9) million. The operating profit of passenger services, based on VR Ltd's internal accounts, was EUR 35.2 (28.5) million.

### Road services

VR's road transport operations are handled by the subsidiaries of Oy Pohjolan Liikenne Ab. Transpoint Oy Ab focuses on general cargo services and Combitrans Oy handles carryings and storage of bulk goods. Oy Transuotila Ab specializes in carrying liquids in Finland and the Baltic countries. The newest company SP Transit Finland Ltd Oy, which joined the Group in September, specializes in international freight services.

Oy Pohjolan Henkilöliikenne Ab and Oy Pohjolan Kaupunkiliikenne Ab provide bus and coach services. The companies provide

regular services as well as charter and contract services.

Freight carryings increased 8.3% from the previous year to 9.9 million tonnes. Growth in general cargo and in partial and full load carryings was 7.9%. The tonnage carried in tanker services increased 10.2%. Pohjolan Liikenne companies owned about 180 trucks during the review year and employed an average of some 800 trucks owned by subcontractors.

Road services carried a total of 11.7 million passengers, 2.3% less than the previous year. There were 294 coaches in service.

Net turnover of the Pohjolan Liikenne group increased by 14.8% to EUR 242.4 (211.2) million. Freight services accounted for 84% (83%) of this and passenger services for 16% (17%). SP Transit Finland Ltd Oy accounted for EUR 10.8 million of the EUR 31.2 million increase in net turnover.

### Track construction and maintenance

VR-Track Ltd's (VR-Track) net turnover in 2006, including its subsidiaries, was EUR 239.2 (246.5) million, over 90% of which was commissioned by the Finnish Rail Administration. VR-Track handled some 55% of the contracts in its business sector awarded by the Finnish Rail Administration. Most of the company's own production involved work requiring specialist rail track expertise. The order book at the close of the review year totalled roughly EUR 118 (187) million.

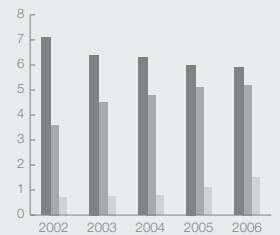
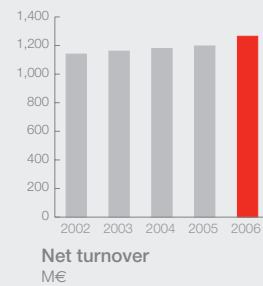
Half of VR-Track's construction work was track superstructure work commissioned by the Finnish Rail Administration in accordance with the skeleton agreement put out to competitive tender in 2004. The agreement is for five years.

The superstructure work, electrification and installation of signalling equipment were completed on the direct Kerava–Lahti line.

Major superstructure projects upgraded altogether about 230 kilometres of railway line. The biggest projects were on the Turku–Toijala, Uimaharju–Lieksa, Seinäjoki–Oulu, Misi–Kuusivaara, Pännäinen–Pietarsaari, Haviseva–Orivesi and Pihlajavesi–Myllymäki track sections.

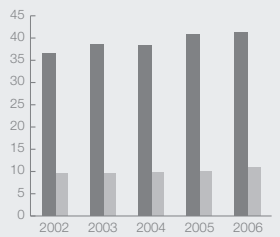
The biggest marshalling yard projects were in Vaasa and the Imatra goods yard, where refurbishment continues in 2007.

During the review year the company repaired a considerable number of rail defects and damage to electrified track that had disrupted rail services.



Long-distance journeys by type of train (millions)

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



Commuter journeys in Helsinki metropolitan area (millions)

- YTV zone
- Other



As well as actual construction work, another area worth mentioning is railway consulting and planning for more than one hundred separate jobs. This has involved planning signalling equipment and electrified track as well as actual planning for track construction and refurbishment.

Work continued as planned on the Bothnia Line in Northern Sweden, in partnership with Balfour Beatty Rail AB, and during the summer 42 kilometres of new track were completed. The work will continue in 2007. Other work in Sweden included the Blekingebanan and the Mjölby marshalling yard. The ballast cleaning project in Estonia, commissioned by RT-Ehitus AS, continued for the seventh year.

Capacity utilization at the company's own production units remained high. The rail-welding unit in Kaipiainen handled some 35,500 tonnes of rails. The track point units in Pieksämäki and Kaipiainen manufactured 177 track points of varying types and reconditioned more than 50 track points. Production at the Haapamäki wood impregnation plant amounted to about 26,000 cubic metres of impregnated timber, and almost two-thirds of this was sleepers. These production figures are roughly at the same level as the previous year.

## Investments

The Group's capital expenditure amounted to EUR 110.3 (210.2) million, which included EUR 58.7 (172.0) million covering rolling stock for VR Ltd. Capital expenditure consisted mainly of payments for previously decided investments. The rolling stock included in these orders were taken into service during the review year. The final deliveries were of sleeper cars, car carrier wagons and railcars.

VR-Track Ltd's investments amounted to EUR 12.5 (7.0) million. As well as replacing decommissioned track machinery and equipment, the company also acquired a new instrument car.

The Pohjolan Liikenne group's investments totalled EUR 13.0 (10.8) million on new vehicles and on purchasing the shares of SP Transit Finland Ltd Oy.

Investments by the Group's parent company totalled EUR 14.8 (12.3) million. These consisted mainly of normal renovation of property. Towards the end of the year construction started of the train depot shed in Ilmala.

VR Ltd and OKO Bank plc signed a leasing agreement in May for 20 Intercity

coaches. The coaches will be built by Talgo Oy and will be delivered in 2007–2008. No leasing payments were incurred from the leasing agreement during the review year.

## Development of services

### Freight services

In freight services, the priority in improving services is in working with customers to develop full service solutions and supporting information systems. Information systems have become more and more important. As a major, nationwide carrier, VR Cargo is well placed to respond to this trend. The new transport ordering system was fully deployed in the first half of 2006. The aim of the system is to improve customer service, delivery reliability and efficiency.

During the review year VR Cargo participated in a number of R&D projects with universities and research centres.

During the year a system was tested for adjusting the axle width of freight wagons for the different rail gauge between Tornio in Finland and Haparanda in Sweden.

Work continued on developing international cooperation with Russia and the CIS countries, in particular in transporting containers.

### Passenger services

At the beginning of September major changes were made to passenger service timetables. The changes were connected with the opening of the Kerava–Lahti direct line, which cut rail journey times from eastern Finland and St Petersburg to the Helsinki area by between half an hour and one hour. The number of rail services also increased.

Railcar services were expanded to the Karjaa–Hanko, Tampere–Haapamäki, Parikkala–Savonlinna and Seinäjoki–Jyväskylä track sections.

A pair of overnight trains consisting entirely of double-decker sleeper cars started operating between Helsinki and Rovaniemi in September. The new sleeper cars are fitted out to a much higher standard than the old ones.

At the beginning of June the coaches of the Sibelius train, which operates between Helsinki and St Petersburg, were replaced with Intercity coaches, which improved the level of service and passenger comfort. The upgrading of rolling stock in domestic services made travel easier especially for passengers with reduced mobility.

Since February it has been possible to load a new 3-zone Helsinki metropolitan area (YTV) season ticket on the YTV travel card. The new ticket entitles the holder to travel on services within Kerava, to make the main journey by rail, and to connect to public transport in the YTV zone. In December the agreement was expanded so that as from the beginning of 2007 it covered not only season tickets but also single journey and stored value tickets and the municipality of Kirkkonummi also joined the scheme.

In the spring a joint campaign was started, with the Helsinki Metropolitan Area Council, the Ministry of Transport and Communications and the police, of stricter security monitoring in commuter trains in order to reduce disruptive behaviour by passengers. The campaign achieved the changes it aimed at during its very first months. The measures taken have now become permanent practice in public transport in the Helsinki area. The response from passengers has been positive.

The range of tickets sold on the Internet was increased to include season and multi-journey tickets, sleeping berths, and the summer holiday pass. A wider choice of payment methods was also offered. Online sales grew so that towards the end of the year they accounted for more than 11% of all ticket sales. As from May travellers have been able to collect tickets ordered from VR's telephone services at R-kiosks.

During 2006 VR signed long-term agreements with the Ministry of Transport and Communications for the purchase of train services that are not financially viable but which the State considers it necessary to keep in operation. The new agreements are in force until the end of 2011.

VR Ltd is a partner in the company Metropolitan Area Rolling Stock Ltd, which ordered 32 city trains for service in the Helsinki metropolitan area. The trains will be delivered over the period 2009–2014.

The punctuality target for passenger services was not reached. VR's punctuality rate in long-distance traffic was 88.8% (90.0%), with a target of 90.0%. In commuter traffic the figure was 97.1% (97.6%), compared with a target of 97.5%. 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. By international standards the punctuality of rail services remained at a high level. Towards the end





of the year VR took special steps to reduce in particular the number of late arrivals for which VR itself was responsible. Since December VR's Internet site has provided up-to-date information about how trains are running on time and service updates about any disruptions to services.

### Corporate agreements

In September Oy Pohjolan Liikenne Ab, part of VR Group, acquired 50% of the share stock of SP Transit Finland Ltd Oy. SP Transit Finland is a Finnish company in the forwarding and transport sector that provides haulage services to Russia, the Baltic countries, Poland, Czech Republic, Slovakia and Hungary. With this acquisition Pohjolan Liikenne's Transpoint system is able to build effective transport links and distribution systems to these areas. Pohjolan Liikenne will purchase the remaining 50% of the shares during the next five years.

VR Ltd and Russian railway company OAO RZD established a rolling stock company called Oy Karelian Trains Ltd in October for high-speed passenger rail services between Helsinki and St Petersburg. The company will purchase the trains required for the service and maintenance services for them and will lease them to the owner companies who will operate the service. VR and RZD each own half of the new company. The company's domicile is Helsinki. It is planned to bring the trains into service in 2011.

VR Ltd and Transcontainer, a subsidiary of Russian railway company OAO RZD, established a company called Oy Transcontainer Scandinavia Ltd in November to market full-service packages for transporting containers between Finland and Russia, other CIS countries and East Asia. The partners each own half of the company, whose domicile is Helsinki.

The second stage of the agreement, signed in 2004 by VR-Group Ltd and YIT Construction Ltd, to sell the area known as the Pasila Workshops took place in November as planned.

### Safety

The objective of safety activities at VR is to prevent injuries to customers or personnel and damage to the environment or VR's property and to ensure that business operations proceed without interruption or delay. VR's Safety Policy, confirmed by the Board of Directors, 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 revised each year to set specific targets for each VR sector.

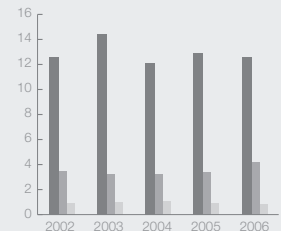
In 2006 VR again achieved its main rail safety target of avoiding major accidents. The number of errors in risk situations when providing safe passageways for rail services increased from the previous year. VR failed to reduce the number of accidents in marshalling yard work to the target level. It also did not quite succeed in meeting its target for improvement in the number of cases of unauthorized passing of stop signals. These risk situations remained however at the same level as the previous year, which can be considered good even by international standards. Overall rail safety can be considered as among the best in the EU, which is VR's goal.

A total of 60 (64) accidents occurred at level crossings, and 4 (8) people were killed and 21 (19) injured in these. It is several years since there has been any improvement in level crossing safety. 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. This should be completed during 2007.

The railway sector in Finland was reorganized when the Finnish Rail Agency started operations on 1 September 2006, as required by EU legislation. The duties of the Agency include monitoring rail safety in Finland and ensuring the railway system meets the requirements for interoperability in Europe. Part of the new arrangement are requirements for VR Ltd to renew the safety certificate it needs and for VR-Track Ltd to have an operating permit for track maintenance. The companies submitted these applications for approval by the authorities to the Finnish Railway Agency in December 2006.

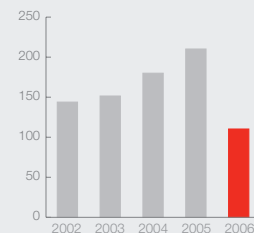
### Environment

VR Group's environmental management system is based on the ISO 14000 series of international standards. The operations that have certified environmental management systems are all of the operations of VR Ltd, the main business areas of VR-Track, and Transpoint, Combitrans and Pohjolan



**VR Cargo's international rail carryings**  
million tonnes

- Eastern traffic
- Transit traffic
- Western traffic



**Capital expenditure**  
M€



**Electric traction, share of total train-km 2006**

● Electric traction 80%



Kaupunkiliikenne in the Pohjolan Liikenne subgroup. In 2006 certification expanded to cover VR-Track's rolling stock services. Some 87% of Group personnel work in units that have environmental certification.

Rail transport is more environmentally benign than most other forms of transport, including the greenhouse gas emissions that destroy the atmosphere. VR also has its own goal of improving energy efficiency in all its operations.

The increase in traffic volumes in the review year was reflected in a reduction in the specific consumption of energy. VR is also improving energy efficiency by increasing the proportion of electric traction, raising the axle weights and train sizes for freight services, and improving shunting operations. The energy efficiency for all rail services improved almost 5% in 2006. Electric traction's share of all rail transport was 80%.

In particular the increase in the number of passenger trains in September raised the consumption of electric energy by rail transport to 610 GW (581 GWh). Consumption of diesel fuel in rail services amounted to 51.2 (48) million litres. The reason for the increase from the previous year was the labour dispute in the forest industry in 2005, when there was little freight traffic using diesel fuel. Fuel consumption in road services totalled 41.8 million litres.

In September VR and the Finnish Rail Administration together obtained the environmental permit needed for the alterations and construction work started at the Ilmala marshalling yard. The permit was needed because of the landfill site previously located there. The provisions of the permit have affected decisions on the structures and materials used in the new long-distance train shed. VR has an obligation to monitor the state of the environment at the former landfill site.

VR spent altogether EUR 1.3 on soil surveys and soil decontamination in 2006. A provision of EUR 0.4 million was made for future costs for soil decontamination at the former engineering workshop area in Pasila.

VR conveyed 5.4 million tonnes of hazardous substances by rail and 1.5 million tonnes by road in 2006. When transporting these substances, there were 11 leaks in rail transport and 24 cases of minor environmental damage in road transport. The leaks

did not have a significant environmental impact.

During 2006 VR published environmental reports on the biggest companies in VR Group and a corporate responsibility report for the entire Group, in which environmental issues had a significant role. The reports were on operations in 2005.

### Assessment of business risks and uncertainties

According to a risk analysis made in the review year, the most significant strategic risks at Group level are related to freight services. In freight services, it is 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. The share of the freight market held by rail in Finland is high compared with the rest of Europe, and this share is hardly expected to rise with the entry of new railway operators. Other risks for freight traffic include changes in production volumes caused by structural changes in 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, even in the EU. 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 strategic 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.

Operational risks, such as those relating to personnel, sub-contractors or unusual changes in the economy, are of less significance than strategic risks. Similarly, financial risks can be considered small at the moment, in part because of VR's high equity ratio and low level of foreign exchange and interest risk. VR has protected itself against normal accident risks with insurance cover appropriate for a company like VR. Particularly close attention is paid to rail safety.

### Personnel

In 2004–2006 the number of personnel and salaries and wages paid were as follows:

Year	2006	2005	2004
Number of personnel	12,663	12,791	13,264
Total salaries and wages, M€	444.23	429.03	429.21

In the long term, the number of personnel has been declining at an annual rate of 3–4%, but in the review year it fell by 1.0%. Most reductions have taken place through natural depletion in consequence of planned improvements in operational efficiency. At the end of the year 97.4% of the entire Group personnel were permanent staff, with 3.0% doing temporary work. The average age of personnel is 47.7 (46.5) years and the average length of service of current employees was 23 years, the same as the previous year. Men accounted for 85.6% (85.2%) and women for 14.4% (14.8%) of personnel.

During 2006, the Group recruited 549 people to permanent positions. The largest professional groups in new employment were marshalling yard workers, locomotive drivers, and conductors in passenger services.

VR Group prepared a revised human resource strategy in 2006. The strategy supports the Group and companies in achieving their business strategies and the Group's values. The human resources strategy sets three areas for development in the Group: effective, flexible allocation of personnel, ensuring the Group has high level skills and knowhow, and motivated personnel that are committed to goals.

VR Group conducts a personnel survey for the whole Group every three years. According to the survey carried out in the review year, the average grade for personnel job satisfaction was 3.32 on a scale of 1–5. The corresponding figure in 2003 was 3.25. According to the results, personnel are happy at their work and consider the company to be a good employer. The work and the expectations for it are clear, and personnel can utilize their own knowhow in their work. The respondents assessed their own fitness for work as good.

One management tool used at VR for several years now has been the individual annual development interview between superior and subordinate. In 2006 58% (43%) of personnel took part in these interviews.

In the review year a total bonus accrued from the previous year of EUR 1.18 million was paid to 1,773 persons (EUR 2.28 million to 5,049 persons).



The wellbeing of personnel and accidents are reflected in the company's business operations and its external image. In 2006 VR changed the content of health examinations in line with the instructions from the Finnish Rail Administration and the Finnish Rail Agency. At the same time the operations of VR Group's own occupational health personnel were reorganized by concentrating the work of specialist doctors at three central locations. Priorities were traffic safety and also on extending and improving work fitness activities at the work place.

The amount of sick leave continued to decline. Calculated as a proportion of regular working hours it was 5.9% (6.2%). The accident frequency rate, calculated as the number of accidents resulting in at least one day's sick leave per million work hours, was 51 (58). Two fatal accidents occurred during the past year, one to a VR employee and one to the employee of a subcontractor. During the previous two years there had been no fatal accidents.

The VR Training Centre provides vocational training for the railway sector in Finland. In 2006 over 220 new railway professionals graduated from the training centre and joined VR. In addition the Centre provided supplementary professional training for current employees in areas such as train safety, customer service and occupational health and safety.

A working group set up by the Ministry of Transport and Communications completed its report in December 2006 on training in safety duties in the railway sector. According to the proposal of the working group, the vocational training provided by the VR Training Centre and funding for this would be transferred to the jurisdiction of the Ministry of Education in accordance with the model for institutes for specialized vocations and vocational institutions. Under the proposal of the working group, the arrangements needed to carry out the transfer will be clarified during 2007, so that the transfer can be made as part of the budget for 2008.

### **Management and audit**

The Annual General Meeting on 30 March 2006 elected the following to the Board of Directors of VR-Group Ltd: Martin Granholm (chairman), Maaret Heiskari, Jorma Hellsten, Leena Kostander, Ritva Ohmeroluoma, Heikki Rusila, Jukka Ruuska and Arja Talma.

The AGM elected Matti Ahde as chairman of the Supervisory Board.

The AGM elected to continue as auditors, on the basis of competitive tenders, the firm of authorized public accountants KPMG Oy Ab, under the supervision of principal auditor Lasse Holopainen, Authorized Public Accountant. The AGM elected Osmo Valtonen, Approved Accountant, Chartered Public Finance Auditor, as second auditor.

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 Ltd.

### **Deputy chairmen of Supervisory Board and Board of Directors and Board committees and meetings**

At its meeting after the AGM, the Supervisory Board elected Pekka Nousiainen as its deputy chairman. At its organization meeting the Board elected Heikki Rusila as its deputy chairman. The Board elected Martin Granholm as chairman of the appointment and remuneration committee and Leena Kostander, Heikki Rusila and Jukka Ruuska as members. The Board elected Arja Talma as chairman of the audit committee and Maaret Heiskari and Ritva Ohmeroluoma as members.

The Supervisory Board met seven times in the review year with an attendance rate of 77%. The Board of Directors met 12 times with an attendance rate of 87%. The appointment and remuneration committee met 6 times and the audit committee 5 times.

### **Prospects in 2007 and major events after the end of the fiscal year**

According to general forecasts, in 2007 the improvement in the economy will slow down slightly after the strong growth in 2006. This will probably have repercussions for rail carryings, but these are however affected more by events that are not linked to economic trends. These relate in particular to freight traffic between Finland and Russia, but forecasting their impact on traffic volumes is very difficult. A major question in this connection is the impact on VR Cargo's carryings of Russia's decision to raise export duties on round timber.

The decision of the Russian party at the end of January to reduce tariffs on container traffic on the Trans-Siberian route will probably cause carryings to the Far East to pick up, but traffic volumes will not rise yet anywhere close to the figures

achieved in recent years. The news of the ending of the transport of iron pellets from Kostamushka to Finland came after the end of the year. This will however reduce volumes carried much more than traffic on the Trans-Siberian route will increase them. In domestic traffic, forest industry carryings will probably increase slightly. Overall it is estimated that the volume of freight tonnage carried by VR will remain at the same level as the previous year.

The number of passenger journeys is expected to continue to rise. VR raised its passenger service prices on average by 1.5% in January. In February VR Ltd and the Ministry of Transport and Communications signed an agreement for the purchase of passenger services until 2011. Under the agreement the Ministry will purchase passenger services for EUR 30 million a year.

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 and the ever increasing amount of work put out to competitive tender, no increase is expected in the volume of track construction and maintenance work carried out by VR.



## Consolidated Profit and Loss Account

(1,000 €)	Note	1 Jan.–31 Dec. 2006	1 Jan.–31 Dec. 2005
<b>Net turnover</b>	1	<b>1,264,552</b>	1,196,638
Change in stocks of finished goods and work in progress		-3,038	1,033
Production for own use		28,266	32,422
Profits from associated companies		5	-117
Other operating income	2	36,781	27,369
Materials and services	3	364,577	346,673
Personnel expenses	4	580,617	571,309
Depreciation	5	104,209	98,058
Other operating expenses	6	191,928	180,253
Expenses, total		<b>1,241,332</b>	1,196,294
<b>Operating profit</b>	7	<b>85,235</b>	61,052
Financial income and expenses	8	4,026	4,642
<b>Profit before extraordinary items and taxes</b>		<b>89,261</b>	65,694
Income taxes	11	-23,738	-17,434
Minority interest		-2,422	-2,276
<b>Profit for the year</b>		<b>63,101</b>	45,984



# Consolidated Balance Sheet

(1,000 €)	Note	31 Dec. 2006	31 Dec. 2005
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	12	9,992	9,513
Goodwill on consolidation		6,579	4,108
Tangible assets	12	1,203,551	1,205,876
Investments	13		
Holdings in associated companies		4,148	4,569
Other investments		28,781	57,503
<b>Fixed assets, total</b>		<b>1,253,053</b>	<b>1,281,570</b>
<b>Current assets</b>			
Stocks	14	60,081	61,603
Long-term receivables	15	3,184	2,472
Current receivables	15	146,481	108,544
Securities	16	79,656	50,330
Cash at bank and in hand		10,121	7,117
<b>Current assets, total</b>		<b>299,523</b>	<b>230,065</b>
<b>Assets, total</b>		<b>1,552,575</b>	<b>1,511,635</b>
<b>Capital and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	17	370,013	370,013
Share premium account		525,813	525,761
Other reserves		166	339
Retained earnings		319,939	296,458
Profit for the year		63,101	45,984
<b>Shareholders' equity, total</b>		<b>1,279,033</b>	<b>1,238,556</b>
<b>Minority interest</b>		<b>15,321</b>	<b>10,989</b>
<b>Provisions</b>	19	<b>3,232</b>	<b>2,792</b>
<b>Liabilities</b>			
Deferred tax liability	20	44,971	43,609
Long-term liabilities		2,080	2,979
Current liabilities		207,939	212,711
<b>Liabilities, total</b>		<b>254,990</b>	<b>259,299</b>
<b>Capital and liabilities, total</b>		<b>1,552,575</b>	<b>1,511,635</b>



# Consolidated Cash Flow Statement

(1,000 €)

1 Jan.–31 Dec. 2006

1 Jan.–31 Dec. 2005

<b>Cash flow from operating activities</b>		
Operating profit	85,235	61,052
Adjustments to operating profit <sup>1</sup>	78,125	82,480
Change in net working capital	-24,322	-43,328
Interest received	4,729	5,497
Interest paid and other payments	-782	-950
Dividends received	80	95
Taxes paid	-20,044	-21,961
<b>Net cash from operating activities</b>	<b>123,020</b>	<b>82,884</b>
<b>Cash flow from investing activities</b>		
Capital expenditure on fixed assets and shares	-126,946	-191,407
Other fixed assets disposals	33,929	24,462
Change in other long-term investments	28,097	34,933
Change in long-term receivables	0	252
<b>Net cash from investing activities, total</b>	<b>-64,920</b>	<b>-131,761</b>
<b>Cash flow before financing activities</b>	<b>58,101</b>	<b>-48,877</b>
<b>Cash flow from financing activities</b>		
Long-term loans made, repayments	72	858
Long-term loans, repayments	-1,179	-78
Dividends paid	-24,664	-21,472
<b>Net cash used in financing activities, total</b>	<b>-25,772</b>	<b>-20,692</b>
<b>Change in cash reserves</b>	<b>32,329</b>	<b>-69,569</b>
<b>Cash reserves on 1 Jan.</b>	<b>57,447</b>	<b>127,016</b>
<b>Cash reserves on 31 Dec.</b>	<b>89,776</b>	<b>57,447</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. 2006	1 Jan.–31 Dec. 2005
<b>Net turnover</b>	1	<b>50,606</b>	50,350
Other operating income	2	<b>20,697</b>	15,742
Materials and services	3	<b>13,880</b>	12,410
Personnel expenses	4	<b>13,386</b>	13,450
Depreciation	5	<b>11,015</b>	11,091
Other operating expenses		<b>12,906</b>	11,909
Expenses, total		<b>51,187</b>	48,861
<b>Operating profit</b>		<b>20,117</b>	17,231
Financial income and expenses	8	<b>26,335</b>	22,955
<b>Profit before extraordinary items</b>		<b>46,452</b>	40,186
Extraordinary items	9	<b>20,000</b>	12,450
<b>Profit before taxes</b>		<b>66,452</b>	52,636
Change in depreciation difference	10	<b>155</b>	1,446
Income taxes	11	<b>-16,611</b>	-13,516
<b>Profit for the year</b>		<b>49,995</b>	40,566



# Parent Company Balance Sheet

(1,000 €)	Note	31 Dec. 2006	31 Dec. 2005
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	12	1,607	960
Tangible assets	12	217,531	217,542
Investments	13		
Holdings in, and receivables from, Group companies		684,767	698,741
Other investments		30,567	58,807
<b>Fixed assets, total</b>		<b>934,471</b>	<b>976,051</b>
<b>Current assets</b>			
Long-term receivables		858	930
Current receivables	15	137,320	119,159
Securities	16	79,656	50,330
Cash at bank and in hand		1,169	885
<b>Current assets, total</b>		<b>219,002</b>	<b>171,303</b>
<b>Assets, total</b>		<b>1,153,473</b>	<b>1,147,354</b>
<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		97,302	79,736
Profit for the year		49,995	40,566
<b>Shareholders' equity, total</b>		<b>1,043,065</b>	<b>1,016,069</b>
<b>Accumulated appropriations</b>	18	<b>115</b>	<b>270</b>
<b>Provisions</b>	19	<b>1,041</b>	<b>723</b>
<b>Liabilities</b>			
Long-term liabilities	20	185	221
Current liabilities		109,067	130,072
<b>Liabilities, total</b>		<b>109,252</b>	<b>130,293</b>
<b>Capital and liabilities, total</b>		<b>1,153,473</b>	<b>1,147,354</b>





# Parent Company Cash Flow Statement

(1,000 €)	1 Jan.–31 Dec. 2006	1 Jan.–31 Dec. 2005
<b>Cash flow from operating activities</b>		
Operating profit	20,117	17,231
Depreciation according to plan	11,015	11,091
Other non-payment-related income and expenses	-20,514	-14,463
<b>Cash flow before change in net working capital</b>	<b>10,618</b>	<b>13,859</b>
Change in current receivables	570	2,708
Change in current liabilities	1,884	-273
<b>Change in net working capital</b>	<b>2,454</b>	<b>2,436</b>
Interest paid	-2,129	-2,509
Dividends received	2,819	1,584
Interest received from operating activities	24,515	15,180
Taxes paid	-14,235	-16,910
<b>Cash flow from financial items and taxes</b>	<b>10,969</b>	<b>-2,656</b>
<b>Net cash from operating activities</b>	<b>24,040</b>	<b>13,639</b>
<b>Cash flow from investing activities</b>		
Capital expenditure on fixed assets	-14,819	-12,345
Sale of other fixed assets	24,145	21,250
Change in other long-term investments	28,097	34,933
<b>Net cash from investing activities, total</b>	<b>37,422</b>	<b>43,837</b>
<b>Cash flow before financing activities</b>	<b>61,463</b>	<b>57,476</b>
<b>Cash flow from financing activities</b>		
Long-term receivables, increase	-58,000	-206,375
Long-term receivables, decrease	61,996	40,202
Group contributions received	12,450	25,000
Dividends paid	-23,000	-20,000
Change in funds transferred to Group accounts	-25,300	30,761
<b>Net cash used in financing activities, total</b>	<b>-31,854</b>	<b>-130,411</b>
<b>Change in cash reserves</b>	<b>29,609</b>	<b>-72,935</b>
<b>Cash reserves on 1 Jan.</b>	<b>51,215</b>	<b>124,150</b>
<b>Cash reserves on 31 Dec.</b>	<b>80,824</b>	<b>51,215</b>



# Notes to the Financial Statements

## Accounting principles

### Scope of consolidation

The consolidated financial statements comprise all subsidiaries and associated companies except minor real estate and other companies, which have no material impact on the Group's shareholders' equity.

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

The Group's parent company is VR-Group Ltd and its domicile is Helsinki. Copies of the consolidated financial statements are available from the company's head office at Vilhonkatu 13, P.O. Box 488, 00101 Helsinki, Finland.

### Principles of consolidation

#### Mutual holdings

The consolidated financial statements are prepared using the purchase method. Goodwill on consolidation in eliminations is amortized over a period of five years.

#### Intragroup transactions and margins

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

#### Minority interest

Minority interest is separated from shareholder equity and the net profit and shown as a separate item.

#### Associated companies

Associated companies are consolidated using the equity method. The Group's share of 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 50,000, 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€ 28.3 (32.4) were produced by the company itself and include M€ 3.4 (4.9) 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		Parent company	
	2006	2005	2006	2005
Rail services				
Freight services	358,872	333,397		
Passenger services	340,030	320,396		
Road services				
Freight services	201,502	172,949		
Passenger services	38,598	36,121		
Track construction and maintenance	232,594	241,486		
Catering and restaurant services	26,650	25,558		
Other services	66,305	66,731	50,606	50,350
<b>Total</b>	<b>1,264,552</b>	<b>1,196,638</b>	<b>50,606</b>	<b>50,350</b>

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€ 33.3 (56.9).

2 Other operating income (1,000 €)	Group		Parent company	
	2006	2005	2006	2005
Profits on sale of fixed assets	25,304	20,248	20,653	15,657
Other	11,477	7,121	45	85
<b>Total</b>	<b>36,781</b>	<b>27,369</b>	<b>20,697</b>	<b>15,742</b>

The main items under other operating income comprise the sale of the parent company's land and compensation for damages of M€ 2.0. 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		Parent company	
	2006	2005	2006	2005
Materials and supplies (goods)				
Purchases during the year	181,147	177,860	6,397	6,126
Change in stocks	-1,477	-3,199	0	0
External services purchased	184,907	172,013	7,482	6,285
<b>Total</b>	<b>364,577</b>	<b>346,673</b>	<b>13,880</b>	<b>12,410</b>

4 Personnel and personnel expenses	Group		Parent company	
	2006	2005	2006	2005
The Group's average number of personnel during the year was distributed as follows:				
VR-Group Ltd	255	267		
VR Ltd	7,599	7,713		
VR-Track Ltd group	2,360	2,382		
Pohjolan Liikenne group	1,997	1,936		
Avecra Oy	252	289		
Corenet Ltd	200	204		
<b>Total</b>	<b>12,663</b>	<b>12,791</b>		

Personnel expenses (1,000 €)	Group		Parent company	
	2006	2005	2006	2005
Wages and salaries	444,234	429,026	10,701	10,473
Pension expenses	93,395	97,175	1,682	1,910
Other social expenses	42,988	45,109	1,002	1,067
<b>Personnel expenses in the P&amp;L account</b>	<b>580,617</b>	<b>571,310</b>	<b>13,386</b>	<b>13,450</b>



Management remuneration (1,000 €)	Group	Parent company		
	2006	2005	2006	2005
Presidents	2,260	2,148	523	518
Members of Boards of Directors	329	296	133	190
Supervisory Board	108	74	108	74
<b>Total</b>	<b>2,698</b>	<b>2,518</b>	<b>763</b>	<b>782</b>

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

5 Depreciation (1,000 €)	Group	Parent company		
	2006	2005	2006	2005
Planned depreciation				
Intangible assets	3,896	4,448	272	247
Buildings and structures	9,198	9,082	8,207	8,349
Tractive and rolling stock	61,024	54,079	0	0
Other machinery and equipment	25,860	26,306	1,910	1,874
Other tangible assets	2,915	2,974	626	620
Amortization of goodwill on consolidation	1,316	1,169		
<b>Total</b>	<b>104,209</b>	<b>98,058</b>	<b>11,015</b>	<b>11,091</b>

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

#### Planned depreciation periods and method:

Intangible assets	5 years	planned
Other long-term expenditure	3–10 years	planned
Buildings	4–7%	declining
Structures	20%	declining
Tractive stock	30 years	planned
Electric trains	25 years	planned
Rolling stock	15–20 years	planned
Other machinery and equipment (parent company, VR Ltd, VR-Track Ltd)	20–30%	declining
Other machinery and equipment (other companies)	5–15 years	planned
Other tangible assets	5–30 years	planned

#### 6 Other operating expenses

The largest item under other operating expenses is the track usage fee and track tax of M€ 61.6 (56.1) paid by VR Ltd.

7 Operating profits of the Group's principal companies (1,000 €)	2006	2005
VR-Group Ltd	20,117	17,231
VR Ltd	35,340	22,616
VR-Track Ltd group	12,564	8,221
Pohjolan Liikenne group	8,050	3,966
Avecra Oy	2,212	1,928
Corenet Ltd	6,079	5,760



8 Financial income and expenses (1,000 €)	Group		Parent company	
	2006	2005	2006	2005
<b>Dividend income</b>				
From Group companies	0	0	2,750	1,500
From associated companies	0	0	0	0
From others	80	95	69	84
<b>Dividend income, total</b>	<b>80</b>	<b>95</b>	<b>2,819</b>	<b>1,584</b>
<b>Interest income from long-term investments</b>				
From Group companies	0	0	21,696	18,430
From associated companies	280	0	280	0
From others	2,490	4,071	2,490	4,071
<b>Other interest and financial income</b>				
From Group companies	0	0	54	168
From associated companies	57	91	58	89
From others	1,903	1,336	1,068	1,123
<b>Interest expenses and other financial expenses</b>				
To Group companies	0	0	2,084	2,455
To others	782	950	45	54
<b>Financial income and expenses, total</b>	<b>4,026</b>	<b>4,642</b>	<b>26,335</b>	<b>22,955</b>

## 9 Extraordinary items

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

10 Appropriations (1,000 €)	Parent company	
	2006	2005
Difference between planned depreciation and depreciation booked for tax purposes		
Change in depreciation difference (increase +, decrease -)		
Intangible assets	127	9
Buildings and structures	-159	52
Tractive and rolling stock	-251	-1,687
Other tangible assets	128	180
<b>Total</b>	<b>-155</b>	<b>-1,446</b>

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

11 Income tax (1,000 €)	Group		Parent company	
	2006	2005	2006	2005
Income tax on extraordinary items	0	0	5,200	3,237
Income tax on operating activities	22,723	17,744	11,411	10,279
Change in deferred tax liability	1,016	-309	0	0
<b>Total</b>	<b>23,738</b>	<b>17,434</b>	<b>16,611</b>	<b>13,516</b>



## Notes to the balance sheet

### 12 Fixed assets (1,000 €)

Group 2006	Intangible assets				Tangible assets							Assets, total
	Intangible rights	Goodwill	Consolidation difference	Total	Land	Buildings	Machinery & equipment	Other tangible	Work in progress	Total		
Acquisition cost 1 Jan. 2006	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	
Increases	3,808	184	4,184	8,176	631	4,719	154,442	971	113,619	274,382	282,558	
Decreases	-1,076	0	0	-1,076	-2,296	-15,762	-70,895	-5,629	-175,029	-269,611	-270,687	
Transfers between items	0	0	0	0	0	9	106	379	-494	0	0	
Acquisition cost 31 Dec. 2006	25,698	6,129	13,874	45,701	60,290	256,083	1,755,421	37,284	25,728	2,134,806	2,180,507	
Accumulated depreciation 1 Jan. 2006	13,452	5,548	5,978	24,978	0	109,983	790,861	23,981	0	924,826	949,803	
Accumulated depreciation in decreases	1,062	0	0	1,062	0	12,411	73,738	5,752	0	91,901	92,962	
Depreciation during year	3,734	159	1,319	5,212	0	9,198	86,884	2,915	0	98,997	104,210	
Accumulated depreciation 31 Dec. 2006	16,124	5,707	7,297	29,128	0	106,770	804,007	21,144	0	931,922	961,051	
Revaluations	0	0	0	0	8	659	0	0	0	667	667	
Book value 31 Dec. 2006	9,574	422	6,577	16,573	60,298	149,972	951,414	16,140	25,728	1,203,551	1,220,123	

Group 2005	Intangible assets				Tangible assets							Assets, total
	Intangible rights	Goodwill	Consolidation difference	Total	Land	Buildings	Machinery & equipment	Other tangible	Work in progress	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	863,092	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	

Parent company 2006	Intangible assets				Tangible assets							Assets, total
	Intangible rights	Goodwill	Consolidation difference	Total	Land	Buildings	Machinery & equipment	Other tangible	Work in progress	Total		
Acquisition cost 1 Jan. 2006	1,968			1,968	60,058	238,288	17,429	10,047	5,101		332,890	
Increases	919			919	631	5,001	1,674	114	14,021		22,360	
Decreases	0			0	-1,994	-1,895	-50	0	-7,541		-11,480	
Acquisition cost 31 Dec. 2006	2,887			2,887	58,694	241,394	19,052	10,162	11,581		343,770	
Accumulated depreciation 1 Jan. 2006	1,008			1,008	0	98,015	11,917	3,449	0		114,388	
Accumulated depreciation in decreases	0			0	0	722	50	0	0		772	
Depreciation during year	272			272	0	8,207	1,910	626	0		11,015	
Accumulated depreciation 31 Dec. 2006	1,280			1,280	0	105,500	13,778	4,075	0		124,633	
Book value 31 Dec. 2006	1,607			1,607	58,694	135,894	5,275	6,086	11,581		219,137	

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



**13 Investments (1,000 €)**

	Shares			Receivables			Total
	Group companies	Associated companies	Other companies	Group companies	Associated companies	Other companies	
<b>Group 2006</b>							
Acquisition cost 1 Jan. 2006	0	4,569	1,122	0	1,214	55,168	62,073
Increases	0	1,154	119	0	65	0	1,338
Decreases	0	-1,575	-23	0	-786	-28,097	-30,481
Acquisition cost 31 Dec. 2006	0	4,148	1,218	0	492	27,071	32,930
<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
Acquisition cost 31 Dec. 2005	0	4,569	1,122	0	1,214	55,167	62,072
<b>Parent company 2006</b>							
Acquisition cost 1 Jan. 2006	288,021	1,628	914	410,720	1,144	55,121	757,548
Increases	0	670	0	58,000	0	0	58,670
Decreases	0	0	-27	-71,975	-786	-28,096	-100,884
Acquisition cost 31 Dec. 2006	288,021	2,298	886	396,745	358	27,025	715,334
<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

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

	Group		Parent company	
	2006	2005	2006	2005
Repurchase cost	27,502	57,086	27,502	57,086
Book value	27,025	55,121	27,025	55,121
Difference	477	1,965	477	1,965



## Group and parent company shares

Group companies	Group holding %	Parent company holding %
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
SP Transit Finland Ltd Oy, Salo	50	0
SP Transit Eesti AS, Estonia	50	0
OU Niinivirta Transport, Estonia	50	0
SP Transit Poland zo.o., Poland	50	0
UAP SP Transit Vilnius, Lithuania	50	0
A/S SP Transit Latvia, Latvia	50	0
Polexpress Sp. zo.o., Poland	50	0
VR-Track Ltd, Helsinki	100	100
Megasiirto Oy, Seinäjoki	100	0
Insinööritoimisto Arcus Oy, Turku	70	0
Asfalttirihti 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
Oy Karelian Trains Ltd, Helsinki	50	0
Oy TransContainer Scandinavia Ltd, to be registered	50	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



14 Stocks (1,000 €)	Group		Parent company	
	2006	2005	2006	2005
Materials and supplies	58,709	56,670	0	0
Work in progress	1,339	4,931	0	0
Advance payments	34	2	0	0
<b>Total</b>	<b>60,081</b>	<b>61,603</b>	<b>0</b>	<b>0</b>

15 Receivables (1,000 €)	Group		Parent company	
	2006	2005	2006	2005
<b>Long-term receivables</b>				
Receivables from associated companies	858	930	858	930
Receivables from other companies	1,602	1,542	0	0
Deferred tax credit	723	0	0	0
<b>Long-term receivables, total</b>	<b>3,183</b>	<b>2,472</b>	<b>858</b>	<b>930</b>

#### Current receivables

Receivables from Group companies

Accounts receivable	0	0	2,501	1,043
Loans receivable	0	0	69,475	64,675
Prepaid expenses and accrued income	0	0	61,975	48,321

Receivables from associated companies

Accounts receivable	757	709	1	0
---------------------	-----	-----	---	---

Receivables from other companies

Accounts receivable	123,345	91,076	445	327
Loans receivable	7	2	0	0
Other receivables	4,425	3,490	625	769
Prepaid expenses and accrued income	17,947	13,267	2,300	4,024

<b>Current receivables, total</b>	<b>146,481</b>	<b>108,544</b>	<b>137,320</b>	<b>119,159</b>
-----------------------------------	----------------	----------------	----------------	----------------

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

The main items under Group prepaid expenses and accrued income are pension contribution receivables of M€ 5.3, interest receivables of M€ 1.1 and allocations of M€ 1.3. Parent company prepaid expenses and accrued income includes Group contribution receivables totalling M€ 20.0 and interest and repayment receivables on intra-group loans of M€ 41.0.

Group accounts receivable include uncertain receivables of M€ 4.5 relating to the delay surcharge on freight services. A credit loss of M€ 2.9 has been entered for the receivables.

16 Securities (1,000 €)	Group		Parent company	
	2006	2005	2006	2005
Repurchase cost	79,667	50,525	79,667	50,525
Book value	79,656	50,330	79,656	50,330
<b>Difference</b>	<b>12</b>	<b>195</b>	<b>12</b>	<b>195</b>

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.



17 Shareholders' equity (1,000 €)	Group		Parent company	
	2006	2005	2006	2005
Share capital on 1 Jan.	370,013	370,013	370,013	370,013
Share capital on 31 Dec.	370,013	370,013	370,013	370,013
Revaluation reserve 1 Jan.	339	339	0	0
Change in revaluation reserve	-174	0	0	0
Revaluation reserve 31 Dec.	166	339	0	0
Share premium account 1 Jan.	525,761	525,761	525,754	525,754
Increase during the year	52	0	0	0
Share premium account 31 Dec.	525,813	525,761	525,754	525,754
Retained earnings 1 Jan.	342,442	316,458	120,302	99,736
Dividend distribution	-23,000	-20,000	-23,000	-20,000
Deferred tax entered in shareholders' equity	498	0		
Retained earnings 31 Dec.	319,940	296,458	97,302	79,736
Profit for the year	63,101	45,984	49,995	40,566
<b>Shareholders' equity, total</b>	<b>1,279,033</b>	<b>1,238,556</b>	<b>1,043,065</b>	<b>1,016,069</b>

Calculation of distributable funds (1,000 €)	Parent company	
	2006	2005
Retained earnings	97,302	79,736
Profit for the year	49,995	40,566
<b>Distributable funds, total</b>	<b>147,298</b>	<b>120,302</b>

## 18 Accumulated appropriations

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

19 Provisions (1,000 €)	Group		Parent company	
	2006	2005	2006	2005
<b>Voluntary provisions</b>				
Housing provision	1,077	980	-	-

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€ 3.2 (2.8) comprise expected warranty costs of M€ 1.3 (1.2) on long-term construction projects, future costs of M€ 0.9 (0.9) from dismantling a radio network, and environmental provisions of M€ 1.0 (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 2006</b>	<b>2005</b>
Voluntary provisions	1,128	980
Depreciation difference	171,220	166,745
	<b>172,349</b>	<b>167,726</b>
Transfer to shareholders' equity	126,781	123,427
Deferred tax liability	44,811	43,609
Minority interest	757	690
	<b>172,349</b>	<b>167,726</b>

<b>Impact of voluntary provisions and depreciation difference on the profit and loss account</b>		
Change in voluntary provisions	96	146
Change in depreciation difference	4,475	-1,336
	<b>4,571</b>	<b>-1,190</b>
Change affecting profit for the year	3,316	-945
Change in deferred tax liability	1,188	-309
Change affecting minority interest	66	64
	<b>4,571</b>	<b>-1,190</b>

<b>20 Liabilities (1,000 €)</b>	<b>Group</b>	<b>Parent company</b>		
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Long-term liabilities</b>				
Loans from financial institutions	1,459	2,283	0	0
Other long-term loans	210	249	185	221
Advances received	412	447	0	0
<b>Long-term liabilities, total</b>	<b>2,080</b>	<b>2,979</b>	<b>185</b>	<b>221</b>
<b>Liabilities due after five years</b>				
Loans from financial institutions	149	813	0	0
<b>Current liabilities</b>				
<b>Debt to other companies</b>				
Loans from financial institutions	389	73	0	0
Advances received	3,404	1,603	197	260
Accounts payable	49,307	65,958	4,613	3,416
Other liabilities	36,801	31,903	305	733
Accrued expenses and prepaid income	117,337	113,174	5,896	3,348
<b>Debt payable to Group companies</b>				
Advances received	700	0	6	4
Accounts payable	0	0	2,797	2,186
Other liabilities	0	0	95,252	120,122
Accrued expenses and prepaid income	0	0	0	2
<b>Current liabilities, total</b>	<b>207,938</b>	<b>212,711</b>	<b>109,067</b>	<b>130,072</b>

The largest item in accrued expenses and prepaid income is salaries and wages of M€ 90.0.



21 Contingent liabilities (1,000 €)	Group	Parent company		
	2006	2005	2006	2005
Debt covered by mortgages				
Loans from financial institutions	1,177	1,235	0	0
Mortgages	1,529	1,646	0	0
Debt secured with fixed assets				
Loans from financial institutions	299	0	0	0
Security given	396	0	0	0
Other contingent liabilities	90,731	49,085	90,430	48,856
<b>Contingent liabilities, total</b>	<b>92,656</b>	<b>50,731</b>	<b>90,430</b>	<b>48,856</b>
Commitments given on behalf of				
VR Group	92,656	50,731	0	0
VR subsidiaries	0	0	90,430	48,856
	<b>92,656</b>	<b>50,731</b>	<b>90,430</b>	<b>48,856</b>
Leasing commitments				
Due for payment in next financial year	1,848	1,028	12	8
Due for payment in later years	7,673	5,829	8	19
Total	9,521	6,857	20	27
Future payments for long-term rental agreements	4,550	4,886	0	0

The Group has made commitments related to fixed assets acquisitions totalling M€ 114 in the years 2007–2010. VR-Track Ltd obtained the superstructure work contract for the Bothnia 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 Derivative instruments (1,000 €)	Group	Parent company		
	2006	2005	2006	2005
Currency forwards				
Value of underlying asset	3,113	0	0	0
Interest rate swaps				
Value of underlying asset	45,203	0	0	0

The payment instalments for sales contracts are hedged with currency forwards, and the last of these matured in January 2007. The currency forwards have a fair value on the closing date of EUR 256,000. The fair value is the difference between the prices for the currency forwards on the balance sheet date for the forward contracts and on the transaction date, discounted to the closing date.

The principal of the future payment instalments for the leasing agreement for the rail coaches is hedged with interest rate swaps, the last of which mature in 2033. Deliveries of the coaches and leasing payments start in the autumn of 2007. The value of the underlying asset is the total amount of the principal of the future lease payments.



## 23 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 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 has disputed as being not based on the contract and in itself unfounded. The Helsinki District Court passed judgment on 5 February 2007, rejecting the claim. JL Insurance Partners Oy has stated that it is dissatisfied with the decision.

24 Group key indicators		2006	2005	2004	2003	2002
<b>Scope of operations</b>						
Net turnover	M€	1,265	1,197	1,179	1,160	1,140
Balance sheet total	M€	1,553	1,512	1,517	1,466	1,450
Gross capital expenditure	M€	110	210	180	151	144
– as % of net turnover	%	8.7	17.6	15.3	13.1	12.6
Average number of employees		12,663	12,791	13,264	13,746	14,426
<b>Profitability</b>						
Operating profit	M€	85.2	61	63	53	27
– as % of net turnover	%	6.7	5.1	5.3	4.6	2.3
Net profit	M€	63.1	46	52	41	22
Return on investment (ROI)	%	7.0	5.4	5.8	5.1	3.2
Return on shareholders' equity (ROE)	%	5.2	3.9	4.5	3.6	2.2
<b>Solvency</b>						
Solvency ratio	%	83.6	82.8	81.5	83.1	82.9
<b>Liquidity</b>						
Quick Ratio		1.2	0.8	1.0	1.4	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 Disposal of Profit

The parent company's distributable funds were EUR 147.3 million,  
which included a net profit for the year totalling EUR 50.0 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 30,400,000,  
and to be retained under shareholders' equity EUR 116,897,779.

No fundamental changes have taken place in the Group's financial position since the end of the fiscal year  
and the proposed dividend payment does not place liquidity at risk.

Helsinki, 20 March 2007

Martin Granholm	Maaret Heiskari	Jorma Hellsten
Leena Kostander	Ritva Ohmeroluoma	Heikki Rusila
Jukka Ruuska	Arja Talma	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 2006. 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 2007

Osmo Valtonen, AA, Chartered Public Finance Auditor	KPMG Oy Ab Lasse Holopainen, APA
--	-------------------------------------



## Statement by the Supervisory Board

The Supervisory Board of VR-Group Ltd has today reviewed the parent company's and the consolidated financial statements for the period 1 January to 31 December 2006 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: Matti Ahde, Tytti Isohookana-Asunmaa, Alf Jakas, Lauri Kähkönen, Lauri Oinonen, Juha Rannikko and Satu Taiveaho.

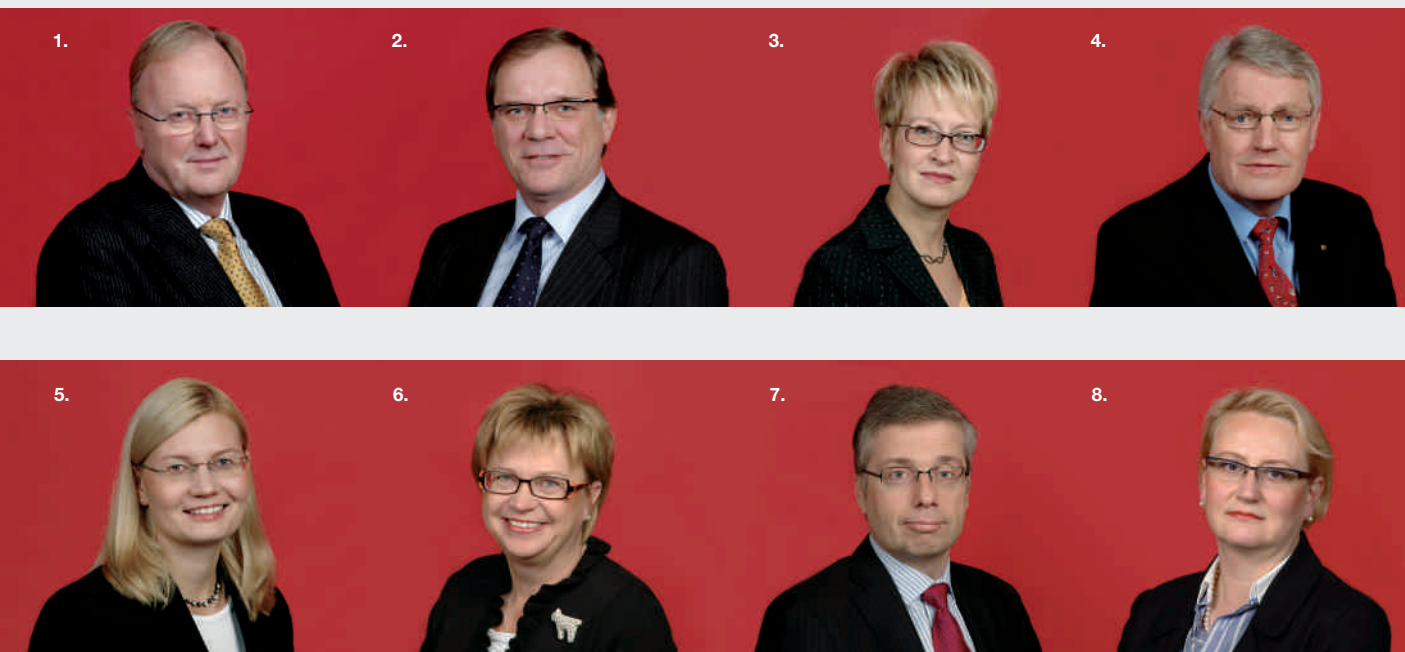
Helsinki, 28 March 2007

Matti Ahde	Pekka Nousiainen	Eero Akaan-Penttilä	Katja Alvoittu
Marcus Henricson	Anne Huotari	Juhani Hynninen	Tytti Isohookana-Asunmaa
Arto Isomäki	Alf Jakas	Eeva Kokkonen	Lauri Kähkönen
Anita Mikkonen	Alpo Mäkinen	Olli Männikkö	Lauri Oinonen
Juha Rannikko	Erkki Rantala	Timo Rautajoki	Satu Taiveaho
Raija Vahasalo	Tuula Wyssmann		



# Administration and Management

## Board of Directors



## Board of 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: ICC Finland, German-Finnish Chamber of Commerce and The Foundation for the University of Turku
- Board member: Oy Algol Ab, International Chamber of Commerce ICC, Oy Norrcar-BSB Ab and Oy Rettig Ab

### 2. Heikki Rusila, Deputy Chairman

- Born 1949, MSc (Eng.)
- President, Rautaruukki Corporation Ruukki Production
- Member of the Board of VR-Group Ltd as from 30 March 2006

### 3. Maaret Heiskari

- Born 1966, B.Sc. Linguistics, JOKO 57 Executive education
- Programme Director, The Finnish National Fund for Research and Development (Sitra)
- Member of the Board of VR-Group Ltd as from 30 March 2006

### 4. Jorma Hellsten

- Born 1950
- Senior conductor, VR Ltd
- Member of the Board of VR-Group Ltd as from 30 March 2006

### 5. Leena Kostander

- Born 1973, MSc (Econ.)
- Ministerial Adviser, Ministry of Transport and Communications
- Member of the Board of VR-Group Ltd as from 30 March 2006
- Deputy Chairman of Board: Finnish Civil Aviation Administration
- Board member: Solidium Oy

### 6. Ritva Ohmeroluoma

- Born 1950, MSc (Econ.)
- President, Nordia Management Oy and Matkailunkehitys Nordia Oy
- Member of the Board of VR-Group Ltd as from 30 March 2006
- Chairman of the Board: FTM Incoming Oy, Go Finland Oy, Kultaranta Golf Oy, Lomakouhero Oy, Muumimaailma Oy, Opteam Henkilöstöpalvelut Oy and Yterin Kylpylähotelli Oy
- Board member: Hotelli Koli Oy, Karisma-Invest Oy, Kristina Cruises Oy, Levi Magic Oy, Levi Northstar Oy, Rokuan Kuntoutus Oy, Santapark Oy and Tietotalo Infocenter Oy

### 7. Jukka Ruuska

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

### 8. Arja Talma

- Born 1962, MSc (Econ.)
- CFO, Kesko Corporation
- Member of the Board of VR-Group Ltd as from 30 March 2006
- Board member: Konekesko Ltd, K-Rahoitus Oy, Kesko Agro Ltd, Rautakesko Ltd, Kesko Food Ltd, Stroymaster Holding Finland Oy, Vähittäiskaupan Tilipalvelu VTP Oy

## 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. Eija Kuitinen

- Born 1961, MSc (Econ.)
- Director, Development, VR-Group Ltd
- Member of the Board of Management since 1 January 2007

### 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

## Administrative Board

Matti Ahde, MP, Chairman  
Pekka Nousiainen, MP, Deputy Chairman  
Eero Akaan-Penttilä, MP  
Katja Alvoittu

Marcus Henricson  
Anne Huotari, MP  
Juhani Hynninen  
Tytti Isohookana-Asunmaa  
Arto Isomäki  
Alf Jakas  
Eeva Kokkonen  
Lauri Kähkönen, MP  
Anita Mikkonen  
Alpo Mäkinen  
Olli Männikkö  
Lauri Oinonen, MP  
Juha Rannikko  
Erkki Rantala  
Timo Rautajoki  
Satu Taiveaho, MP  
Rajja Vahasalo, MP  
Tuula Wyssmann

## Auditors

Osmo Valtonen, AA, Chartered Public Finance Auditor  
KPMG Oy Ab:  
Lasse Holopainen, APA



# Corporate Governance

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

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

## Annual General Meeting

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

## Supervisory Board

VR-Group Ltd's Supervisory Board comprises at least 15 and at most 24 members who are elected by the Annual General Meeting. The Supervisory Board currently has 22 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 2006 and the attendance rate was 77%.

## 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 a chairman and seven other members who are all independent of the company. 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 68th 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.

## 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. The rules of procedure for the committees have been confirmed by the Board and the committees 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 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.

## 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, as well as the Presidents of VR Ltd and VR-Track Ltd.

The Board of Management assists the President and CEO and 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.

## Financial reporting

VR monitors how well it achieves its financial targets with a monthly report that covers the whole Group and also includes figures for comparison for the budget and the previous year as well as actual figures for the balance sheet, cash flow statement, investments and payments. The report also includes individual financial performance reports for the main subsidiaries. The Group publishes information on its financial situation in the four-month interim reviews and the financial statement bulletin.

## Management of subsidiaries

The majority of the members of subsidiary company boards of directors are chosen from senior executives at VR Group. The main duties of the boards of subsidiary companies are preparing the company's business plan and budget and deciding on investments, mergers and acquisitions in their own sector, and on commitments, within the limits given in the guidelines set by VR-Group Ltd's Board of Directors. Major decisions are in addition referred to the Board of Directors of VR-Group Ltd, in accordance with the Group's corporate procedures. Subsidiaries observe the general guidelines for the Group in their administration of finance and personnel.

## 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 2006, 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 340,263 in the review year.

## Incentive schemes

VR Group's incentive bonus scheme covers about 100 people in senior management positions. The scheme includes short- and long-term elements. The short-term incentives are based on achieving operating profit targets for the individual company and the Group and 3–5 targets for the business unit or individual. The long-term incentive is based on VR Group's return on equity (ROE). Maximum limits have been set for the bonuses for senior management; the maximum bonus, assuming all targets are met, is 10–60% of the annual salary depending on the individual's responsibilities. During 2007 the scheme is being extended to cover about 220 more 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.

The bonus scheme for the entire personnel has been renewed as from the beginning of 2007. The bonus is based on the operating profit of the individual company (weighting about 50%) and 2–3 quality targets for individual business units (weighting about 50%). This scheme does not apply to senior management.

## Auditors and risk management

The company has at least two and at most five auditors for the statutory audit. 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 that is independent of Group companies and is subordinate to the President and CEO. The Board of Directors of VR-Group Ltd approves the operating procedures and annual plan of operations for the internal audit, which reports to the Board's audit committee. Internal audit observes generally accepted international professional and ethical standards. The internal audit unit employs five auditors.

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 surveying Group-level risks and maintaining the system required for this. The Group does not have a separate risk management organization. Each person in charge of a business area is aware of the risks in their area of responsibility and acts as required by these risks. Group-level risks have been classified under 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 third such review. This surveyed the main risks at Group level.

## Communications policy

VR Group's communications are based on VR's missions, values, vision and business strategy. Communications are reliable and accurate. VR takes the initiative in informing customers, other stakeholders and its own personnel. It focuses its communications resources on planned key areas and on events that arouse public interest. Information is given as timely as possible, but without compromising on reliability.



# Glossary

## Audit

Assessment of a business system that reveals how well the organization meets the requirements set by the system. Regular safety, quality and environmental audits are carried out at VR.

## Ballast cleaning

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

## The Bothnia Line

The Bothnia Line is a new 190-kilometre line being built along the east coast of Sweden south of Umeå.

## 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 also uses these trains on some longer journeys, for example on the Helsinki–Tampere and Helsinki–Lahti routes. 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.

## Electric trainset

The Sm1, Sm2 and city trains (Sm4) in commuter services in the Helsinki metropolitan area and the long-distance Pendolino trains (Sm3) are electric trainsets.

## Environmental certification

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

## 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. [www.rhk.fi](http://www.rhk.fi)

## Finnish Rail Agency

A civil service department, established in 2006 and subordinate to the Ministry of Transport and Communications, which monitors and develops railway safety and interoperability. [www.rvi.fi](http://www.rvi.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.

## Greenhouse gas emissions

Gases that enter the atmosphere and contribute to climate change. Carbon dioxide, methane and nitrous oxide are emissions from transport.

## 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.

## 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 that was fully completed, including bridges and railway stations, in autumn 2006. Construction of the line started in 2002.

## 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 new railcars entered service in Finland in 2005. They have a maximum speed of 120 km/h.

## 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.

## Shunting

Moving wagons and putting trains together in marshalling yards as well as supplying wagons to customers for loading and unloading.

## 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 carried a distance 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 combined under one roof in a Travel Centre. Travel Centres interconnect local, regional and national passenger transport services.

## Wheel flat

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

# Statistical Information

## Freight services

Carryings, 1,000 tonnes	2006	2005	% change <sup>1</sup>	2004	2003	2002
By rail	43,560	40,722	7.0	42,663	43,503	41,679
Finland	25,959	23,479	10.6	26,255	24,980	24,695
International	17,601	17,243	2.1	16,408	18,523	16,984
East	12,590	12,937	-2.7	12,099	14,374	12,632
Transit	4,238	3,381	25.3	3,199	3,196	3,461
West	773	925	-16.4	1,110	953	891
By road	9,859	9,107	8.3	8,861	8,554	8,169
<b>Total</b>	<b>53,419</b>	<b>49,829</b>	<b>7.2</b>	<b>51,524</b>	<b>52,057</b>	<b>49,848</b>

## Tonne-kilometres by rail, million

Finland	7,375	6,607	11.6	7,197	6,760	6,695
International	3,685	3,099	18.9	2,908	3,287	2,969
East	2,135	2,037	4.8	2,025	2,585	2,173
Transit	1,332	806	65.3	604	462	516
West	218	256	-14.9	279	240	280
<b>Total</b>	<b>11,060</b>	<b>9,706</b>	<b>13.9</b>	<b>10,105</b>	<b>10,047</b>	<b>9,664</b>

## Passenger services<sup>2</sup>

### Journeys, 1,000

By rail	64,987	63,493	2.4	60,134	59,909	57,695
Long-distance	12,847	12,503	2.8	12,129	11,915	11,643
Finland	12,510	12,235	2.2	11,877	11,659	11,377
International	337	267	26.1	252	256	266
Commuter	52,139	50,990	2.3	48,005	47,994	46,052
Helsinki metropolitan area	41,224	40,897	0.8	38,222	38,443	36,443
Other	10,915	10,093	8.1	9,783	9,551	9,609
By road	11,657	11,926	-2.3	10,152	13,748	14,653
<b>Total</b>	<b>76,644</b>	<b>75,419</b>	<b>1.6</b>	<b>70,286</b>	<b>73,657</b>	<b>72,348</b>

## Passenger-kilometres by rail, million

Long-distance	2,833	2,744	3.3	2,654	2,642	2,636
Finland	2,740	2,667	2.7	2,582	2,570	2,555
International	93	76	22.1	72	72	81
Commuter	773	734	5.3	698	696	682
Helsinki metropolitan area	392	388	0.8	363	365	346
Other	381	346	10.3	335	331	336
<b>Total</b>	<b>3,606</b>	<b>3,478</b>	<b>3.7</b>	<b>3,352</b>	<b>3,338</b>	<b>3,318</b>

## VR Group personnel

	12,663	12,791	-1.0	13,264	13,746	14,426
--	--------	--------	------	--------	--------	--------

## Energy consumption in rail traffic, %

Electric traction	79.9	80.3	-	77.8	77.6	76.6
Diesel traction	20.1	19.7	-	22.2	22.4	23.4

## Tractive stock, number

Electric locomotives	156	156	0.0	156	156	148
Diesel locomotives	249	257	-3.1	258	273	279
Electric trainsets	147	147	0.0	129	119	119

## Rolling stock, number

Wagons in freight traffic	10,971	11,162	-1.7	11,445	11,324	11,528
Coaches in passenger traffic	1,083	1,084	-0.1	1,029	1,060	1,077

The book value of freight rolling stock at the end of 2006 totalled M€ 75.4.

## The Finnish rail network<sup>3</sup>

Length of rail network, line-km	5,905	5,732	3.0	5,741	5,851	5,850
Length of electrified lines, line-km	3,047	2,617	16.4	2,619	2,400	2,400
Length of track, track-km	8,830	8,587	2.8	8,596	8,707	8,736

<sup>1</sup> % change refers to the change from 2005 to 2006.

<sup>2</sup> Due to a change in the way the statistics have been compiled, the 2005 and 2006 figures for the number of journeys and passenger-kilometres by rail are not fully comparable.

<sup>3</sup> Owned by the Finnish Rail Administration.

# Financial Information in 2007

- The Annual Report is published in Finnish, Swedish, English and Russian.
- Interim Reports will be published in June and October.
- Interim Reports are published in Finnish, Swedish and English.
- The Annual 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's Corporate Communications, tel. +358 307 21 167, fax +358 307 21 500 or by writing to P.O. Box 488, FI-00101 Helsinki, Finland.

**Editors:**

VR-Group Ltd, Corporate Communications  
Reputation Management Consultancy Pohjoisranta Oy

**Photos:**

Leif Rosnell  
Soile Laaksonen (pages 8 and 64)

**Translation:**

Andrew Fisher, Impress Ltd

**Layout:**

Advertising Agency Huvila Oy

**Printing:**

Erweko Painotuote Oy



**VR-Group Ltd**  
P.O. Box 488  
(Vilhonkatu 13)  
FI-00101 Helsinki  
Tel. +358 307 10  
Fax +358 307 21 700

[www.vr.fi](http://www.vr.fi)

