



Annual Report 

2007

# NATURALLY

On the double page pictorials of this annual report we wish to show the beauty of Finnish nature. VR works to mitigate climate change and preserve natural diversity.

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## VR GROUP

The VR Group is a customer-oriented and environmentally responsible Finnish transport company.



## BUSINESSES

The VR Group provides rail transport and supplementary road transport services. The VR Group also offers track construction and maintenance services, and includes companies that provide catering and restaurant services and telecommunications services.



## RESPONSIBILITY

The Group carries responsibility for both its economic profitability and the impacts of its operations on the environment and on society more generally.



## FINANCIAL STATEMENTS

All the VR Group's companies posted a profit in 2007.



# CUSTOMER AND ENVIRONMENT COME FIRST



*An InterCity2 in a wintry landscape in February 2007.*

**The VR Group is a customer-oriented and environmentally responsible Finnish transport company providing rail transport and supplementary road transport services. The VR Group also offers track construction and maintenance services.**

The VR Group 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 2007 of EUR 1.3 billion and employed 12,500 people. The Group consists of altogether 30 companies, including the subsidiaries of its subgroups, 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.

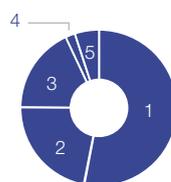
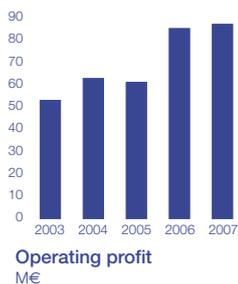
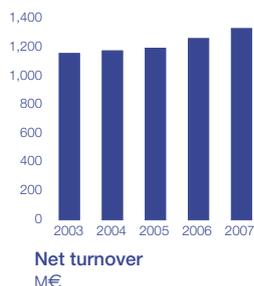
### **Financial performance in 2007**

VR Group's net turnover rose by 5.5% from the previous year to EUR 1334.1 million. Passenger services and the Group's road freight services saw the biggest increase in net turnover. The combined turnover from freight and passenger services increased EUR 57.9 million, including road services.

The Group's operating profit was EUR 87.1 million, compared with EUR 85.2 million in the previous year. Consolidated net profit after taxes and minority interest was EUR 66.4 (63.1) million. The improvement in the net profit was due to growth in actual business operations, for one-time income items were less than in the previous year.

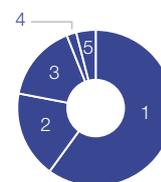
In passenger services, a record 66.7 million journeys were made by rail, an increase of 4.5% from the previous year. The number of long-distance journeys increased 3.1%. A total of 53.7 million journeys were made in commuter services in the Greater Helsinki area, an increase of 4.9%. Altogether 399,000 journeys were made in passenger services between Finland and Russia, which is 18.4% more than in the previous year. Passenger services recorded a net turnover of EUR 370.2 (340.0)





Net turnover by business 2007

1 Rail services	53%
2 Road services	22%
3 Track construction and maintenance	18%
4 Catering and restaurant services	2%
5 Other	5%



Personnel by business 2007

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

million, and for the first time this was greater than the turnover for freight services.

Although the overall economic situation in Finland remained strong, the production volume index for the forest and paper industry - a major customer for rail carryings - fell 0.5%. This was also reflected in the volume of VR's freight carryings. The total volume of freight carried by rail decreased 7.5% to 40.3 million tonnes. Domestic traffic accounted for 26.2 million tonnes and international traffic for 14.1 million tonnes. Domestic traffic increased 0.9%. International carryings, which are mainly carryings between Finland and Russia, declined 20.0%. Traffic to and from Russia have formed about 40% of VR's total freight carryings. Net turnover for freight services totalled EUR 340.0 (358.9) million.

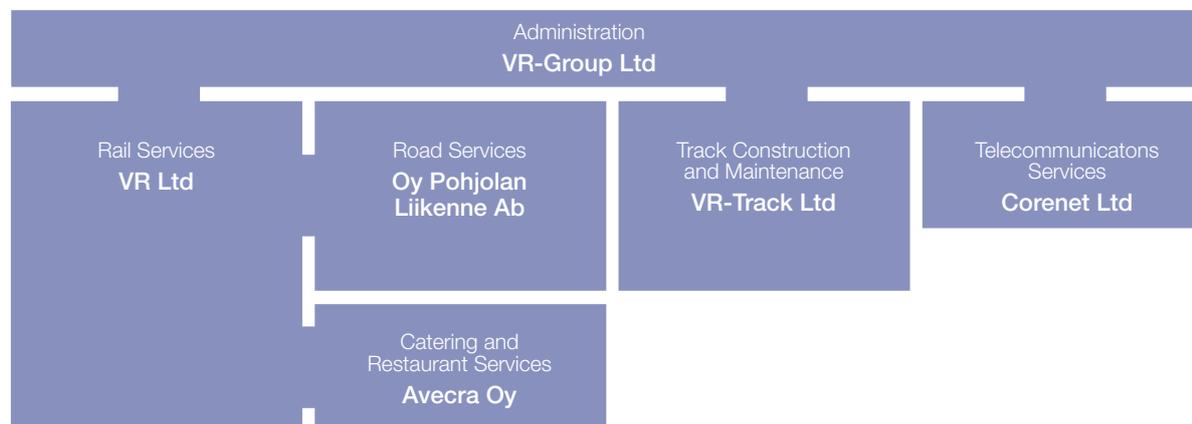
The net turnover of the Pohjolan Liikenne group, which provides road services, increased 19.3% to EUR 289.3 (242.4) million. Freight services accounted for 86% of this. Freight volumes in road services increased 10.0% from the previous year to 10.8 million tonnes.

VR-Track Ltd, with its subsidiaries, recorded a net turnover of EUR 244.5 (239.2) million and an operating profit of EUR 14.8 (12.6) million.

VR Group's capital expenditure totalled EUR 118.9 (110.3) million, and EUR 39.2 (58.7) million of this was for rolling stock for VR Ltd. Some of the largest items of capital expenditure were new freight wagons and the refurbishment of passenger rolling stock.

The Group's financial position remained strong throughout the financial year. The Group raised no new long-term loans.

Key accounts	2007	2006	change-%
Net turnover, M€	1,334	1,265	5.5
Operating profit, M€	87	85	2.2
% of net turnover	6.5	6.7	
Net profit, M€	66	63	5.2
% of net turnover	5.0	5.0	
Gross capital expenditure, M€	119	110	7.8
Return on equity, %	5.3	5.2	
Return on investment, %	7.2	7.0	
Solvency ratio, %	84.1	83.6	
Average number of personnel	12,540	12,663	-1.0



## Group structure

# CHIEF EXECUTIVE'S REVIEW



**The economic upturn that lasted until autumn contributed to the VR Group's healthy financial performance in 2007. Signs of a downturn at the end of the year, however, intensified competition in all sectors of Finnish society.**

Despite the challenges of economic cycles and expectations, VR must retain its ability to post a healthy profit and remain competitive.

There have been major changes in VR's operating environment. The most important from VR's viewpoint was the restructuring of Finland's forest industry, which is VR's biggest customer. Russia's tariffs on timber were another setback as they appreciably reduced freight carryings from the east. The diversion of metal pellets carried for the Finnish metal industry to new markets was also reflected in VR's operations.

These events helped bring about a historic change in VR's economic balance – last year net turnover generated by Passenger Services surpassed net turnover from Freight Services.

## High passenger volumes

Passenger Services achieved a new record in passenger volumes, carrying 66.7 million passengers in 2007. Another point worth noting was that the average length of train journey increased.

There are many reasons for these achievements. In autumn 2006 the New Train Era was launched, and the number of train services was substantially increased. Reduced travel times had even more impact. Journey times between the towns in Southern Finland and those in Eastern Finland were cut by between 60 and 90 minutes.

The frequency of services and travel times are decisive factors in deciding which mode of transport to use. Other important factors are the standard of rolling stock and service. VR has invested EUR 530 million in modern rolling stock in this decade. The full effect of these improvements has started to be felt now that all the new rolling stock is in service.

Taking the needs of special groups into account, improving the availability of tickets, and enhancing services at stations and on trains have also contributed to boosting passenger volumes.



There were problems in rail punctuality, especially in the summer and autumn, but services returned to normal by the end of the year.

The VR Group's other businesses also performed well, and all Group companies posted a profit. Prominent events were the Pohjolan Liikenne group's expansion into foreign freight markets and VR-Track's good performance in a strongly competitive market. A favourable development in the Group's freight services was progress in the total service approach, which benefits customers.

#### Core themes – the customer and the environment

During the review period VR engaged in an internal in-depth discussion about the company's strategy. As a result, older strategies were updated and supplemented. The customer and the environment have become the core themes of strategy.

One of VR's four values has long been satisfied customers. Our goal is to work for the customer's good by offering high-quality and easily available services. We want to develop services in collaboration with customers.

In line with its strategy VR's target is to better understand customers' transport and travel needs, and to respond to them by developing its services. A high priority is delivery reliability – i.e. ensuring rolling stock is in good condition and rail services are punctual. We want to ensure we are customer-centric by embedding customer orientation in each employee's daily work.

The work that started in 1993 on mitigating climate change entered a new realm during the review period. VR committed to 12 environmental promises, which it will fulfil by the end of 2012. The central promises are to halve carbon dioxide emissions from rail services and to reduce energy consumption per rail passenger by one-fifth.

The promises also include improving the tidiness of trains and making station environments more attractive, reducing noise and vibration nuisances, and increasing combined transports.

As one step in mitigating climate change, VR decided to switch to the use of green electricity as from the beginning of 2008. Altogether 80% of rail services in Finland are provided by electric trains.

#### Large projects

Good railway infrastructure is needed for rail services to operate smoothly. Despite a squeeze on financing, the Finnish government has managed to fund large construction projects very well.

The renovation of the depot area in Helsinki is proceeding briskly. When completed, train servicing will be easier. An important improvement is the increase in heated indoor work space, which will enable trains to be defrosted more effectively.

A particularly large project is the renovation of the Seinäjoki–Oulu section of track. One problem with this project is its long duration, which necessitates service disruptions and alternative transportation that could cause customer defection.

Upgrading of the Lahti–Luumäki section of track, which started in January 2008, is one element in the important project to introduce high-speed services between Helsinki and St Petersburg. Travel between these two cities will take only three and a half hours in 2011. Karelian Trains, a joint venture owned by VR and Russian railway company RZD, has already ordered four high-speed trains for this service.

Another very positive development was VR-Track winning the tender to construct Talvivaara's mine track.

On behalf of both VR and myself, I would like to warmly thank our customers, partners and friends for 2007, a year that will be recorded as a success. I also extend thanks to the VR Group's personnel for their excellent work.

Henri Kuitunen  
President and CEO  
VR-Group Ltd

## CORE THEMES: THE CUSTOMER AND THE ENVIRONMENT



# Strategy and its implementation

## GROWTH AND EFFICIENCY ARE VR'S STRATEGIC GOALS

**In spring 2007 VR launched a strategy programme for defining the Group's mission, creating a vision stretching to 2011, and formulating an operational policy focused on strategic themes. The cornerstone of the strategy programme is VR's values.**

The strategic goals selected were growth and efficiency. The main external factors affecting VR Group's strategy are climate change, the operability of the rail transport system, growing opportunities in Russian and Eastern European markets, industrial restructuring, and the opening to competition of freight rail services.

### VR Group's mission

VR Group's mission is to provide its customers with high-quality passenger and freight transport services that are environmentally friendly and that cover both Finland and connections to Russia and Eastern Europe. VR Group also produces track construction and maintenance services that improve the punctuality and quality of service of rail transport.

### VR's strategic vision to 2011

VR is a well respected enterprise with a good reputation. The Group's operations grow reliably and steadily. This ensures business continuity and allows the Group to fulfil its socially important mission. VR keeps the wheels turning for both businesses and private citizens.

### Values

The VR Group's values are safety, satisfied customers, successful together, and responsibility. The values create the basis for the way VR acts with all stakeholders. These values are an integral part of VR's management. The strategic period beginning in 2008 will start a re-appraisal of VR's values throughout the Group.

#### 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



## Goals for the strategic period

VR Group's strategy has two main goals: growth and efficiency. Understanding the changing needs of customers is the guiding force for boosting growth and improving efficiency.

### Growth

- Growth means increasing and strengthening market share in all the Group's business operations. Growth is measured in terms of net turnover and market share.
- Improving the quality experienced by the customer boosts growth. The aim is to understand customers' transport and travel needs and to respond to them by developing logistics services and customer service activities. VR pays special attention to customer assessments and to the environmental awareness that is increasingly their focus.
- Service-mindedness must be visible in all personnel's daily work activities. Understanding the changing needs of customers is the guiding force for growth.
- Environmental values are a high priority in all VR's activities and

operations. VR Group plays a central role in making Finland an increasingly low-emission country.

- VR regards Russia and Eastern Europe as areas for growth. The company plans to exploit business opportunities in Russia, especially, and in other Eastern European countries.

### Efficiency

- Efficiency means optimising the quality of operations and the costs incurred by operations. Performance indicators for efficiency are the punctuality of services and the production costs per service provided.
- Enhancing punctuality is a key factor for improving efficiency. From the viewpoint of customers, VR Group bears overall responsibility for the operating reliability and punctuality of rail services.

- Developing the flexibility and responsiveness to change of VR Group's operations will ensure that the strategy is implemented and will enhance VR's reputation and image.

## Vision

VR is a well respected enterprise with a good reputation. The Group's operations grow reliably and steadily. This ensures business continuity and allows the Group to fulfill its socially important mission. VR keeps the wheels turning for both businesses and private citizens.

## Strategy

### Efficiency

Punctuality  
Reputation and image  
Operational flexibility

### Growth

Customer's experience of quality  
Environmental values  
Russia and Eastern Europe

## Values

### Safety

Satisfied customers  
Successful together  
Responsibility

## Implementation

Units with business responsibility focus on growth, while production units focus on efficiency and competitive pricing. All VR companies are responsible for enhancing the Group's image.



# Strategy and its implementation



VR Group's annual cycle

## Implementation of strategy

The VR Group's management model is intended to ensure that strategy is implemented and that operative business is in line with strategy. At the strategic level the management model uses the company's annual cycle.

The policies outlined in the corporate strategy, the strategic objectives set, and the strategic actions defined are incorporated in the strategies of Group companies, and thus included in their action plans. In implementing the strategy, the units with business responsibility focus on growth, and the production units on the efficiency and price competitiveness achievable through, in particular, technical quality.

The VR Group's management model is based on an effective structure in which the business operations are organized into single processes appropriate for management and operative activities.

The Group's management model is also based on performance management, in addition to the business management structure. The main feature of performance management is a uniform method for setting goals, implementing actions to achieve the goals, and monitoring progress towards the goals.

The management model also applies the principles of process management. Methods at the operative level include appraisal discussions and personal development plans.

Some examples of implementing the Group's strategy are development of the operating models for customer relationship management (CRM) and the VR Group's commitment to its environmental promises for mitigating climate change.

Customer service chains were formed in VR Ltd in autumn 2007 for the company's passenger and freight businesses with the aim of improving customer service, intensifying the interaction between units, and enhancing operational efficiency. In December 2007 VR published 12 environmental promises. The

most important promises for rail services are to halve carbon dioxide emissions and to reduce energy consumption per passenger. VR will fulfil the environmental promises by the end of 2012.

## 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.

The guiding principle is that each supervisor is responsible for managing the risks of his/her field of operation. Alongside this, VR conducts a comprehensive risk assessment by business area each year. 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 conducted for major projects or reorganization and changes in operations. 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 once a year.

## Highlights of 2007

### 7.1. Pendolino and InterCity service to Kajaani started

The number of train services between Helsinki and Kajaani almost doubled when VR started a service with Pendolino and InterCity trains on the route in January 2007.

### 23.1. Improved safety in Helsinki metropolitan area's public transport

Helsinki Metropolitan Area Council (YTV), Helsinki City Transport and VR prepared a joint safety strategy for the Helsinki metropolitan area's public transport system. The aim is to identify practical ways of enhancing safety in public transport. The common goal is for passengers to feel safe when travelling by public transport and not to be harassed.

### 2.5. 69 refurbished restaurant cars on the railway

The restaurant car modernization programme of VR's subsidiary Avekra was completed in April 2007. Six new types, altogether 69 units, of restaurant cars are now in service. This is the most comprehensive modernization to date, covering the visual appearance, products and services of the restaurant cars.

### 7.5. Easier mobile access to VR's timetables

VR's Internet timetable search service was extended to include also newer mobile phones and Internet-enabled mobile devices. Timetable information can be searched for on the mobile.vr.fi website. The online Travel Search on the vr.fi website was also upgraded.

### 27.6. Pohjolan Liikenne sold Transuotila

Pohjolan Liikenne sold Transuotila's tanker transport operations to Kiitosimeon Oy. The divestment supports the Pohjolan Liikenne group's objective of concentrating on more highly developed transport and logistics services.

### 11.7. VR-Track to supply safety equipment to Vuosaari Harbour

VR-Track's electricity installation centre will supply Vuosaari Harbour's safety equipment system. The contract includes safety equipment for the harbour track, the marshalling yard in the harbour area and also Finland's longest railway tunnel. Deliveries started at the end of 2007 and will continue in 2008.

### 1.8. Regular container train service started over the eastern border

ContainerTrans Scandinavia, a company equally owned by VR Ltd and Russian railways RZD, started operating by launching a regular container train service across the eastern border in August 2007.

### 3.9. First full year for the direct line

The number of long-distance and commuter train journeys grew strongly in 2007. The opening of the Kerava-Lahti direct line on 3 September 2006, new rolling stock and more train availability fuelled the growth.

### 5.9. Karelian Trains ordered high-speed trains for the Helsinki-St Petersburg route

Karelian Trains, a railway rolling stock company equally owned by VR Ltd and Russian railways RZD, ordered 4 high-speed trains for the Helsinki-St Petersburg route. The trains will be placed into service in 2010. The contract price was some EUR 120 million.

### 26.11. Letter of Intent signed by Talvivaara Infrastructure and VR-Track for the mine track

Talvivaara Project Ltd's subsidiary Talvivaara Infrastructure and VR-Track signed a Letter of Intent for constructing a mine track. The project includes the construction planning and the construction of the mine track and the handover marshalling yard. Talvivaara's mine track will be some 25 kilometres long and should be completed in 2009.

### 5.12. VR will halve carbon dioxide emissions from rail services

VR published 12 environmental promises, which the company plans to fulfil by its 150th anniversary in 2012. Halving carbon dioxide emissions from rail services spearheads these environmental promises. To help meet this target VR plans to use green electricity in its train services as from 2008.



*Feedback processor  
Mari Hinkkala  
at a commuter event held in  
Lahti station in March 2007.*

# CLIMATE CHANGE AND GLOBALIZATION ARE FORCES FOR CHANGE



*Railways have about a quarter of all the freight carryings in Finland, a much higher figure than the average for EU countries.*

**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. Changes in the operating environment are related for example to globalization and climate change.**

Finland has much primary heavy industry, which favours rail transport. Carryings 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.

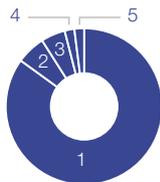
### Customers

VR's largest freight customers are Finnish industrial corporations. The largest customer group is the forest industry, followed by the metal and chemical industries. Carryings 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, twice as much as 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 along the main line to Riihimäki, along the direct line to Lahti, and along the coastal line to Karjaa. The Helsinki Metropolitan Area Council (YTV) purchases rail services in the Helsinki, Espoo, Vantaa and Kauniainen area (the YTV zone) and in the new 3-zone that extends to Kerava and Kirkkonummi.

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 work, families, students and pensioners. Rail's share of all travel in Finland is 5%, slightly below the EU average. Private cars account for over 80% of all journeys travelled in Finland.

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 authori-



Passenger traffic in Finland 2006

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



Freight transport in Finland 2006

1 Road	65%
2 Rail	27%
3 Water	8%

ties, ports, industrial companies that use the rail network, and other main contractors for track construction.

The Pohjolan Liikenne group's customers are coach and bus passengers on standard and express long-distance routes and commuter passengers on chartered services in the Helsinki metropolitan area. The customers for freight services are small and medium-sized companies that need logistics solutions for both general freight and bulk carryings in Finland and abroad.

## 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 Ministry of Transport and Communications 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 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.

As from 1 May 2007, the Ownership Steering Department in the Prime Minister's Office is responsible for state ownership steering of VR Group.

## Changes in operating environment

Changes in the operating environment in Finland include globalization and the outsourcing of production to new regions, climate change, new entrants in rail services, the development of Russia's economic and political situation in the near future, and rising customer requirements.

### Freight Services

The importance of logistics in freight services is growing and there is an increasing need for tailored logistics services as supply chains and networks globalize. The use of environmentally-based pricing and taxing as a means of both regulation and financing is spreading.

Finland's rail freight services were opened to competition in 2007 in compliance with EU legislation. New railway companies, however, must be able to meet the requirements set for the reliability, punctuality and safety of carryings.

Finland plays a significant role in transit carryings to Russia. Finland's strengths are its warehousing services, the safety of its routes and the predictability of delivery times. Politics and economics are interlinked in Russia. Tariffs crucially affect the profitability of players and routes in the transport sector. Railways, however, will probably retain their position because of the country's long distances and industrial structure.

### Passenger Services

The concentration of population and business in high-growth areas, and in particular in the Helsinki metropolitan area and the Tampere and Turku regions, will have a strong impact on the development of passenger services. The demand for transport services in these areas is higher than in the more sparsely populated eastern and northern parts of Finland.

Environmental awareness will have a strong impact on consumer behaviour in the near future. Transport produces one-fifth of the greenhouse gases that accelerate climate change, but rail's share of emissions from transport is only 1%.

The level of customers' requirements for public transport will rise. Developing passenger information, ticketing products and their availability, improving the tidiness of trains and stations, and ensuring that rolling stock and carriages are well maintained, comfortable and easily accessible will boost rail's appeal.

### Track Construction and Maintenance

The opening of rail network maintenance to competitive tendering affects the track construction and maintenance business. VR Track Ltd has retained its strong position in railway maintenance while this has been gradually deregulated since 1995.

Finland's transport system is diversified and in many respects highly effective and in good physical condition. The trunk connections of many roads and railways are, however, in urgent need of renovation.





# VR'S BUSINESSES IN 2007

	Brief description	Net turnover M€	Customers
	<p><b>Rail Services, Passenger Services</b></p> <ul style="list-style-type: none"> <li>VR offers rail passengers diversified services on long-distance trains and commuter trains in the Helsinki area. Some 310 long distance trains and 890 commuter trains serve passengers every day.</li> </ul>	<p>370.2</p>	<ul style="list-style-type: none"> <li>VR Ltd's largest customer groups are families, commuters and business travellers.</li> </ul>
	<p><b>Rail Services, Freight Services</b></p> <ul style="list-style-type: none"> <li>VR Cargo is Finnish industry's main freight carrier in both domestic and international freight transportation. VR Cargo carries raw materials to factories and finished products to ports and target markets. Some 500 freight trains are in service every day in Finland.</li> </ul>	<p>340.0</p>	<ul style="list-style-type: none"> <li>VR Cargo's largest customers are companies in Finland's forest, metal and chemical industries. A high proportion of carryings are to and from Russia.</li> </ul>
	<p><b>Track Construction and Maintenance</b></p> <ul style="list-style-type: none"> <li>VR-Track specializes in track design, construction and maintenance services. It also provides civil engineering services and offers earthworks and electrical contracting outside the railway environment.</li> </ul>	<p>238.3</p>	<ul style="list-style-type: none"> <li>VR-Track's customers include the Finnish government, municipalities, ports, companies using railway services and other major contractors.</li> </ul>
	<p><b>Road Services</b></p> <ul style="list-style-type: none"> <li>The Pohjolan Liikenne group specializes in passenger services and logistics solutions, and provides VR's road services through its subsidiaries.</li> </ul>	<p>286.6</p>	<ul style="list-style-type: none"> <li>Pohjolan Liikenne's customers are bus passengers and companies needing logistics solutions for their freight carryings.</li> </ul>
	<p><b>Catering and Restaurant Services</b></p> <ul style="list-style-type: none"> <li>Avecra provides catering and restaurant services on long-distance passenger trains and at railway stations. The international Rail Gourmet Group is a minority shareholder in the company.</li> </ul>	<p>29.0</p>	<ul style="list-style-type: none"> <li>Avecra's customers are rail passengers using longdistance trains and commuter lines.</li> </ul>
	<p><b>Telecommunications Services</b></p> <ul style="list-style-type: none"> <li>Corenet produces telecommunications services and develops telecoms systems. TDC Oy is a minority shareholder in the company.</li> </ul>	<p>20.7</p>	<ul style="list-style-type: none"> <li>Corenet offers telecommunications services for rail services and for the needs of the transport and logistics sector.</li> </ul>

## Goals

## Personnel

## Events in 2007

- Higher customer satisfaction and larger market share in long-distance and Helsinki commuter services. Shorter travel times and improved passenger comfort. Better punctuality and travel information.

1,438

- The popularity of rail travel reached new heights in 2007, when VR carried 66.7 million passengers – a new record.

- A stronger focus on the customer in all business activities, through good service and high delivery reliability. Boosting volumes to and from Russia. Higher operational efficiency by developing operating processes and new technologies.

1,935

- VR Cargo modernized its rolling stock: altogether 150 new wagons purchased and 200 upgraded for carrying round-wood for the forest industry. In addition, 40 new wagons acquired for combined transports.

4,186

Personnel in other duties in the sector

- Development of customer relationship management. Producing and marketing innovative solutions. Improving competitiveness. Enhancing the employer image. Continuous development of supervisory skills and expertise.

2,295

- VR-Track placed a new instrument car into service, capable of measuring track geometry and track electrical structures while travelling at 200 kmh.

- For freight services managing the supply chain and harmonizing services. For passenger services retaining market share on long-distance routes and boosting market share in chartered services in the Helsinki metropolitan area.

2,024

- In 2007 Road Services generated 19% more net turnover than the previous year.

- To be the leader in the Quick Service market in train and restaurant catering services. Long-term development of concepts, management and personnel.

285

- AVECRA upgraded its restaurant concept. Altogether 6 modernized restaurant car types are in service, in total 69 cars.

- To produce added-value for customers' businesses and to create a confidential customer relationship based on partnership.

287

- Corenet and the Finnish Road Administration signed an agreement for servicing 330 national road condition and traffic cameras.

## RAIL TRAVEL SETS NEW RECORDS

**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 310 daily long-distance services, six of which connect Finland and Russia. An average of 890 commuter services run each day in the Helsinki metropolitan area.**

Commuter services account for most of the passenger journeys on trains in Finland. The commuter area extends from Helsinki to Riihimäki, Lahti and Karjaa. Routes from Helsinki to Tampere, Turku, Jyväskylä, Rovaniemi, Oulu and Seinäjoki are the most popular long-distance routes.

### Strategic goals

The goals for passenger services are to improve customer satisfaction and to raise market share in both long-distance services and commuter services in the Helsinki metropolitan area.

The aim is to reduce journey times and enhance passenger comfort, with the emphasis on improving punctuality and customer service information.

### Customer relationships

VR's biggest customer groups for passenger services are families, people travelling to work and business travellers. The needs of each group are taken into account in developing rail services, ticket products and passenger service information.

Families are offered a range of ticket options and travelling comfort. Sales of family tickets for families with young children increased by some 4% during the review period. The recently renovated children's playrooms on cars in InterCity service were welcomed by passengers.

The comfort of commuters and business travellers was a high priority in 2007. The business class coaches on InterCity trains were modernized. All IC, IC2 and Pendolino trains now have harmonized Business Class services. VR also upgraded the day coaches and sleeping cars on trains running between Finland and Russia.

The needs of passengers on commuter lines were addressed by increasing the number of train services on the Helsinki-Lahti direct line. In August 2007 the Z-commuter services were ex-

panded so that they now run on the hour in both directions on all weekdays.

New sales channels that are independent of location were developed to improve ticket availability. Online sales and collecting tickets from R-kiosk outlets particularly boosted their popularity. Tickets can also be obtained from automated vending machines at stations or on trains. Some 63% of rail tickets in 2007 were purchased at VR's sales outlets, which are located at railway stations.

Passenger information improved when VR opened a new service on its Internet site, which provides information about the punctuality of rail services and any eventual disturbances. The service is maintained by VR's helpdesk in Riihimäki, which also offers telephone and network services for customers and retailers. The helpdesk handles customer feedback and compensation claims, which totalled 20,350 in 2007. Customer feedback mostly concerned traffic, services or rolling stock.

Customer satisfaction and service quality, both in trains and at railway stations, were measured through different surveys. VR was ranked highest for the service quality, professional skills and friendliness of its personnel. Respondents thought that improvements could be made in announcements, both in trains and at the stations, especially about disruptions to rail services.

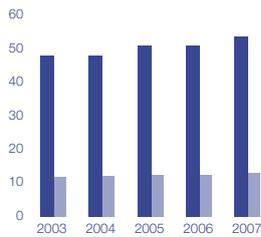
### Business development

Rail has about a 5% market share of transport, while private cars account for over 85% of all travel in Finland. Rail transport's share of all public transport was 32% in 2006. Rail's share of passenger journeys longer than 75 kilometres made on public transport is about 60%.

The volume of rail journeys has been increasing steadily for 5 years. Rail's growth has been faster than other modes of transport. In 2007 rail achieved record growth in both long-distance and commuter services.

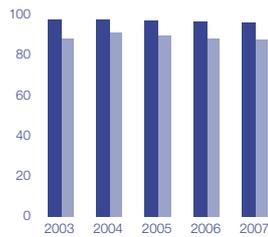
Last year 12.9 million passenger journeys were made on long-distance rail services, an increase of 3.1%. A record number of rail journeys were also made between Finland and Russia. Altogether 399,000 journeys were made across the border, an increase of 18.4% compared to 2006.

The number of commuter journeys in VR's commuter zone grew exceptionally fast, by 14.6%. The main factors contributing to the increase were the opening of the direct Kerava-Lahti line and the expansion of the zone, where YTV tickets can be used, to Kerava and Kirkkonummi. There was steady growth also in services within the YTV zone, 2.5% in terms of the number of rail journeys.



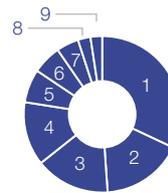
Passenger journeys by rail  
million

- Commuter services
- Long-distance services



Punctuality of rail traffic  
%

- Commuter services
- Long-distance services



Feedback on passenger services 2007

1 Traffic services	32 %	6 Tickets, prices and sales systems	6 %
2 VR's in-train services	17 %	7 Avecra's services	5 %
3 Station service	15 %	8 Telephone service	3 %
4 Rolling-stock	13 %	9 Other feedback	2 %
5 Internet service	7 %		

The punctuality of services fell slightly short of its target in 2007. In long-distance services, where the target is 90% punctuality, 88.2% of trains arrived at their destination on time. In commuter services the figure was 96.6%, compared to the target 97.5%.

Passenger services generated net turnover of EUR 370.2 million in 2007, an increase of 8.9% on the previous year.

### Main events in 2007

The focus in 2007 was on family services. VR's family carriage concept, including modernized play areas on InterCity trains, won the Passenger Comfort Innovation award at the international Railway Interiors Expo trade fair.

VR introduced new rolling stock and a wide range of ticket products to promote rail travel to Lapland, a key area for development during the year. Passenger traffic to Rovaniemi increased by 4% while sales of car-train packages, a family favourite, grew by over 3%.

Pendolino and InterCity services to Kajaani started after electrification of the line was completed in January 2007. Doubling the number of services and reducing journey times boosted the number of passenger journeys to Kajaani by some 25%.

Business Class coaches were modernized. Altogether 25 InterCity coaches were refurbished with leather-upholstered seats and compartments were equipped with self-service counters providing passengers with coffee, tea, water, small pastries and daily newspapers.

Rolling stock operating between Finland and Russia was upgraded during the year. The coaches of the Helsinki–St Petersburg Repin train and the Helsinki–Moscow Tolstoy train were modernized.

Oy Karelian Trains Ltd, a joint venture owned by VR Ltd and the Russian railway company OAO RZD, ordered 4 high-speed Pendolino trains for passenger rail services between Helsinki and St Petersburg. The trains will be placed into service as from 2010.

The volume of InterRail travel increased by some 40% in 2007. The new InterRail Global Pass is valid in all InterRail countries, while the InterRail One Country Pass is valid within the borders of a single selected country. The options for the validity period were broadened and specific passes are now available for different age groups, including people over 26 years and children under 12 years old.

VR transported tens of thousands of passengers travelling between Helsinki city centre and Pasila during the Eurovision Song Contest in spring 2007. Both Finnish and international

passengers were satisfied with the smooth operation of the services and with the high-profile coaches projecting the Eurovision spirit.

The popular online service, VR Journey Search, was extended to mobile phones. The mobile version of timetables can now be found at: mobile.vr.fi. The number of visitors on VR's Internet website increased steadily in 2007. The www.vr.fi site had some 50,000 daily visitors, most of whom sought timetables but also wanted information about ticket prices and about services both on trains and at railway stations.

The new look designed for VR's ticket offices was completed first at Lahti railway station. The facilities at Pasila and Tampere railway stations were also renovated, and 20 of the biggest ticket offices are scheduled to receive the new look in the near future.

### Prospects

Growing environmental awareness is expected to produce growth in passenger rail services. The trend of growth in both long-distance and commuter services is forecast to continue over the next few years.

There will be growth in the number of passengers, especially on commuter lines in the Helsinki metropolitan area. Future projects to improve commuter services include construction of rail connections to the airport, the modernization of rolling stock on commuter lines, and an increase in the number of car parks serving train stations.

Passenger traffic between Finland and Russia is forecast to be one of the fastest growing areas for VR. The goal is to start a high-speed rail service between Helsinki and St Petersburg during this decade, and to reduce the travel time for the journey to 3.5 hours.

# A GOOD YEAR FOR FINNISH FREIGHT CARRIAGES



*VR Cargo offers combined transport and other services to logistics companies.*

**VR Cargo is the main freight carrier for Finland's forest, metal and chemical industries in both domestic and international freight transportation. Most carryings consist of raw materials to factories and finished products to ports and target markets.**

VR Cargo provides safe, punctual and environmentally friendly services. The aim is to offer an even broader range of logistics solutions to meet customers' needs and to build up an international network of partners.

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

### Strategic goals

VR Cargo's goal is to enhance the customer-orientation of all its operations by offering good service, smoothly-running processes and high delivery reliability.

An important aim is to increase freight carryings between Finland and Russia by further cementing the partnership with Russian railways RZD and its subsidiaries.

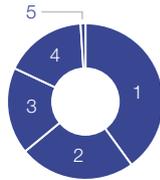
VR Cargo also plans to boost its efficiency by developing the company's processes and customer relationship management.

### Customer relationships

VR Cargo's largest freight customers are Finnish industrial corporations in the forest, metal and chemical industries. Carryings over the border with Russia account for a substantial proportion of VR's total freight volumes.

VR Cargo's services combine the customer's needs with the strengths of the railway transport network. VR Cargo offers its customers reliable and cost-effective logistics solutions based on rail transport that produce added-value for the customer. The total customer service package can include not only rail transport but also, for instance, loading and unloading, shunting in factories and harbours, forwarding and other services needed by the customer.

In the 2007 customer satisfaction survey, VR Cargo was praised for its strong knowhow, reliability and expertise, especially in large bulk carryings. Customer service was ranked



Carriings by product group 2007

1 Mechanical forest industry	40%
2 Chemical forest industry	24%
3 Metal industry	18%
4 Chemical industry	17%
5 Other	1%

highly. Rail was considered a safe and environmentally friendly mode of transport. Respondents felt that the quality and availability of rolling stock could be improved.

### Business development

The forest industry had a tough year in 2007. Imports of pulp wood from Russia declined, mostly due to difficult logging conditions and uncertainties about timber tariffs. Import duties are expected to restrict the growth in imports from Russia.

Imported timber was partially replaced by Finnish timber. VR Cargo's delivery reliability in carrying roundwood remained high. Problems with the availability of timber also reduced carriings from the forest industry.

The volume of raw material imported from Russia for Finland's metal industry declined as a result of purchasing decisions made within the industry. Also transit carriings of iron pellets, which earlier showed high growth, decreased as raw material was diverted to Russia's internal markets and to China.

Carriings for the chemical industry increased, especially of flammable liquids and gases from Russia to Finland.

There was strong growth in the number of private cars transported via Finnish ports to Russia and the CIS countries. Container freight on the Trans-Siberian line failed to reach its earlier volumes after the sharp contraction in 2006, but container freight from Finland to St Petersburg and Moscow grew favourably.

VR Cargo's market share of freight carriings in Finland remained at around 27%, which is high compared to other European countries.

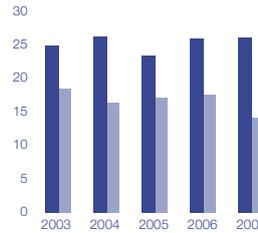
VR Cargo generated net turnover of EUR 340.0 million in 2007, some 5.2% less than in the previous year. VR Cargo carried altogether 40.3 million tonnes of freight during the year, some 7.5% below the record high of 2006.

VR Cargo's domestic services carried altogether 26.2 million tonnes, 0.9% more than in 2006.

The number of combined carriings declined by 5.0% compared to 2006. Truck-carrying trains transported 13,970 units in 2007.

Eastern carriings declined by 20.0%, and amounted to 13.5 million tonnes, while export carriings increased by 22.2%.

The volume of containers transported was altogether 121,000 TEUs, of which container freight on the Trans-Siberian line accounted for 2,500 TEUs. A TEU (Twenty-foot Equivalent Unit) is a unit of measurement used in container transportation and refers to one 20-foot container.



VR Cargo's carriings million tonnes

● Finland  
● International

The number of private cars transported via Finnish ports to Russia increased by 35.0%. Altogether 19,720 private cars were transported by rail to Russia.

Westward carriings via Turku and Tornio declined by 20.2%, amounting to 0.6 million tonnes.

### Main events in 2007

Domestic rail services were opened to competition as from the beginning of 2007, but at least so far this has had no impact on VR Cargo's services. The company has prepared itself for competition by further improving the customer-orientation and cost-effectiveness of its services.

VR Cargo decided to purchase 150 new wagons and refurbish 200 wagons for roundwood carriings for the forest industry. Also 40 wagons were purchased for combined carriings.

For eastbound traffic, VR Ltd and OAO Transcontainer, a company owned by Russian railways, established a joint venture called Oy ContainerTrans Scandinavia Ltd to handle container transport between Finland and Russia. The new company started operating at the end of July and weekly full-train services for containers to Russia were launched in late August.

### Prospects

In 2008 domestic services are expected to stay at broadly the same level as in 2007. Steady growth is forecast for export and transit carriings to Russia and the CIS countries during 2008.

The company will build a network of terminals and develop its rolling stock to meet the growing needs of domestic roundwood carriings for the forest industry.

VR Cargo plans to focus strongly on container rail services for eastbound traffic. In collaboration with the Russia railway company RZD, VR Cargo is reviewing the opportunities for carrying trailers by rail to Russia. Eastbound carriings of private cars via Finnish ports will be another growth priority for VR Cargo.

VR's environmental commitments will guide VR Cargo towards even more sustainable operations. VR Cargo will participate in projects that promote renewable energy sources and recycling logistics, such as transporting municipal waste, waste paper and scrap by rail.

# FOCUSING ON CUSTOMER RELATIONSHIP MANAGEMENT



*Timo Rauhamaa works as  
gradienter in VR-Track.*

**VR-Track 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 Ltd and its subsidiaries Megasiirto Oy, Insinööritoimitus to Arcus Oy, and AS VR-Track in Estonia, form the VR-Track group. The group has a company in Sweden and established a subsidiary in Latvia in 2007. The Latvian subsidiary had no operations in financial year 2007.

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

### **Strategic goals**

VR-Track's main goals are to form a deeper understanding of customers' needs, to enhance management skills and technical expertise, to improve operational efficiency and safety, and thus to ensure the company's sound economic footing.

The group aims to develop customer relationship management, create and market innovative solutions, and improve competitiveness.

### **Customer relationships**

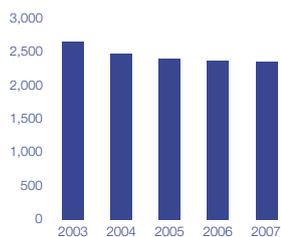
VR-Track's customers include the Finnish government, municipalities, ports, companies using railway services and other major contractors in track construction and maintenance.

The company's largest 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 accounted for some 80% of the group's net turnover in 2007.

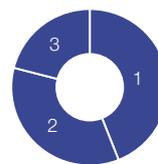
In addition to Finland, VR-Track also offers track design and construction services to neighbouring markets, mostly in Sweden and the Baltic countries.

The main customer relationships outside track maintenance services are in the road construction business.

According to its strategy of competitive tendering for maintenance, published in spring 2006, the Finnish Rail Adminis-



Number of personnel



Net turnover 2007

1 Construction	44%
2 Maintenance	34%
3 Engineering, materials and other services	22%

tration arranged competitive tendering for the maintenance of electrical equipment throughout Finland. The bidding was closed in autumn 2007 and VR-Track won contracts in three of the areas offered. The Finnish Rail Administration extended its skeleton agreement for maintenance work for another three years. The skeleton agreement covers areas and businesses for which competitive tendering for maintenance has not yet been invited.

VR-Track's share of all the contracts commissioned by the Finnish Rail Administration in 2007 was roughly 55%.

The annual survey showed that customer satisfaction continued to be high.

### Business development

Track Construction and Maintenance generated net turnover of EUR 238.3 million in 2007. Net turnover increased by some 2.5% compared to the previous year. At the end of 2007, VR-Track's order book totalled EUR 276.2 million. The company maintained a satisfactory level of profitability in all areas of business.

The main railway consulting projects in 2007 were the renovation of the Seinäjoki–Oulu, Toijala–Turku and Tornio–Kolari track sections.

VR-Track's largest superstructure project was on the Turku–Toijala line.

The main challenges for maintenance are the availability of electrical equipment. Several independent failures occurred in electrification and safety devices in the summer, which caused major disruptions to services. The traffic control system was found to be very vulnerable in the event of several simultaneous failures in telecommunications systems.

The biggest individual marshalling yard projects were in Ilmala and Imatra. Major bridge and earthwork projects included the construction of a new tunnel for the Tampere Travel Centre and the Seinäjoki bypass line, both of which will still be under construction in 2008.

In the autumn the geometric index indicating the physical condition of the track superstructure network reached its target level, which gained the company the maximum quality bonus defined under the terms of the maintenance contract agreed with the Finnish Rail Administration.

The centralization of traffic control continued in southern Finland. The road traffic control system – i.e. telematics – for the Vuosaari road tunnel was completed, and construction of the telematics for the new motorway between Lohja and Muurla was started. VR-Track has several independent electrification contracts in progress in the Ilmala area.

Altogether 10 kilometres of new track were laid on the Bothnia Line in Northern Sweden during the summer. VR-Track's partner in this project is Balfour Beatty Rail AB. Other work in Sweden included a superstructure project on the Ådalsbana line.

Capacity utilization at the company's own production units remained high. The rail-welding unit in Kaipainen handled some 31,000 tonnes of rail. The track point units in Pieksämäki and Kaipainen manufactured 191 track points and reconditioned 60 track points and 520 units of turning gear. Production at the Haapamäki wood impregnation plant amounted to some 23,500 cubic metres of impregnated timber, almost two-thirds of which was sleepers.

### Main events in 2007

In late autumn VR-Track's occupational health and safety system was awarded an OHSAS 18001 certificate.

A new instrument car was placed into service in spring 2007. The car is able to measure track geometry and track electrical structures while travelling at a speed of 200 kilometres an hour.

VR-Track invested altogether EUR 5.8 million in 2007, 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.

A new product introduced as a result of VR-Track's in-house R&D was level crossing safety equipment.

### Prospects

The Finnish Rail Administration has started projects to improve the service level of the Seinäjoki–Oulu and Lahti–Luumäki sections of track, and the modernization of the Ilmala marshalling yard will continue. These projects are expected to generate a major part of VR-Track's future workload.

The Talvivaara mining track will employ a large number of both engineering and construction professionals during the coming years. A Letter of Intent for the construction design and construction work was signed with Talvivaara Infrastructure in late November 2007. In February 2008 VR-Track signed a contract based on the Letter of Intent with Talvivaara Infrastructure.

Other development priorities for VR-Track are civil engineering and exports.

The company's maintenance organization is prepared for the continuation of competitive bidding for maintenance in 2008.

# SMOOTHLY OPERATING SUPPLY CHAINS



*Truck driver Pentti Pekkanen  
is an important link in  
Transpoint's supply chain.*

**Pohjolan Liikenne specializes in passenger services and logistics solutions. The company is responsible for providing the VR Group's road services through its subsidiaries.**

Oy Pohjolan Henkilöliikenne Ab provides express coach and regular bus services in southern Finland, the Kymi Valley, south-east Finland and the Savo-Kainuu area. Oy Pohjolan Kaupunkiliikenne Ab provides contract and charter services in the Helsinki metropolitan area.

Transpoint Oy Ab is a logistics service company specializing in added-value logistics and general cargo carryings. Transpoint operates in collaboration with Combitrans Oy, which handles the carrying and storage of bulk cargoes. SP Transit Finland Ltd Oy specializes in international freight services and provides the Pohjolan Liikenne group with an efficient service network throughout Eastern Europe.

### Strategic goals

Pohjolan Liikenne's goal in freight services is smooth management of the supply chain. Harmonized freight services and a new information management system form a service model that provides the customer with all the logistics services needed through a single partner.

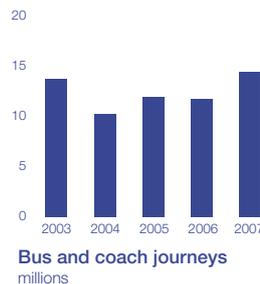
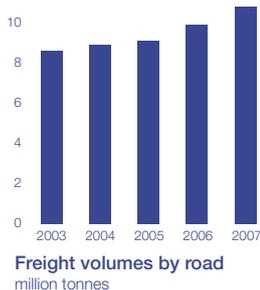
Pohjolan Liikenne's bus and coach companies aim to maintain their current position in the long-distance market and to increase their share of chartered services in the Helsinki metropolitan area.

### Customer relationships

The group's customers include bus passengers and companies needing logistics services for their freight carryings.

The customers for freight services are large and medium-sized companies, which are jointly served by Transpoint, Combitrans and SP Transit. These companies focus on addressing the customer's changing needs and on taking full responsibility for the customer's logistics solutions. The group aims to offer its customers operative logistics management and development.

The aim of passenger services is to make buses an attractive alternative to private cars. Training drivers, investing in equipment and offering high-frequency services are some of the ways of boosting bus passenger volumes in order to achieve this goal.



In the customer satisfaction surveys in 2007, Transpoint and Combitrans maintained the good performance they had achieved the previous year. Management of electronic customer service concepts and consistent high quality of operations were mentioned as particularly strong areas of expertise. There is still room for improvement in delivery reliability and in the availability of vehicles. The real-time monitoring system is expected to improve customer satisfaction.

### Business development

The main factors that have contributed to growth in the sector include the strong professionalism and flexibility of personnel and a modern fleet equipped with the latest technology.

The increase in freight services resulting from the economic upturn had a positive impact on the company's operations. Early in the year freight services enjoyed favourable market conditions. Towards the end of the year, the rate of growth in bulk services levelled off as growth rates in construction and other basic industries normalized.

Fluctuations in exchange rates at the end of the year weakened exports from Finland and this in turn affected Transpoint's operations. SP Transit has steadily increased its market share in the eastern part of Central Europe and Russia.

Volumes in passenger services increased in 2007. The rise in fuel prices and the new Kamppi bus terminal attracted new bus passengers in the Helsinki metropolitan area.

Road Services's net turnover grew by 19.3% compared to 2006, amounting to EUR 286.6 million. Freight services generated 86% of net turnover, EUR 246.4 million, and passenger services 14%, EUR 40.2 million.

Freight volumes increased 10.0 % from the previous year to 10.8 million tonnes.

Passenger services carried 14.4 million passengers by road, 2.4% more than in 2006.

### Main events in 2007

One major change affecting all companies in the Pohjolan Liikenne group was the harmonization of their operations. Freight Services's upgraded information management system now enables freight to be tracked and traced throughout the supply chain. Monitors were installed in vehicles to enable online tracking of freight flows and the display of information about any changes that may affect services.

A major event for Pohjolan Liikenne in 2007 was the sale of Transuotila to Kiitosimeon Oy. Transuotila is a large road haulage company for liquid fuels and industrial chemicals in Finland and

the Baltic countries. The sale of Transuotila supported Pohjolan Liikenne group's strategic goal of focusing on advanced transport and logistics services.

SP Transit expanded its operations to the Czech Republic, Slovakia and Hungary.

### Prospects

Pohjolan Liikenne purchased the remaining 50% of the shares of SP Transit Finland at the end of February 2008. SP Transit's new name is Transpoint International (FI) Oy and Combitrans is changing its name to Transpoint Cargo Oy.

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

Attracting young people to the logistics business is a continuous challenge. Recruitment events will be held in 2008 to attract more young drivers for both freight and passenger services.



*Pohjolan Kaupunkiliikenne operates chartered bus services in the Helsinki metropolitan area.*

# GROWTH IN RESTAURANT SALES



*Field manager Piia Tyynilä  
to welcome customers.*

**Avecra 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.**

Avecra provides services daily on about 160 trains, offering both restaurant and trolley catering services.

Avecra has altogether 17 restaurants or kiosk outlets providing catering services at six railway stations that operate in the highly competitive Quick Service sector. The company's largest location is Helsinki railway station, where Avecra has nine outlets.

### Strategic goals

Avecra's strategic goals are to increase net turnover and ensure profitability. Another priority is the long-term development of the company's concepts, management and personnel.

Strategy is guided by the need to ensure profitability through increased net turnover in a market where competition for the consumer's time and money is intensifying and the availability of skilled personnel is becoming more difficult.

Avecra's strategic goal in the challenging competitive environment is to be the leading expert in the Quick Service catering and restaurant business, both on trains and at stations.

### Customer relationships

Avecra's target groups are rail passengers using long-distance trains and commuter lines as well as other customers using railway stations.

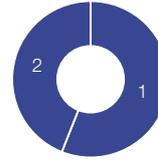
Avecra's operations are based on a renewable and dynamic customer-driven concept, added-value, and giving customers everyday special experiences. Avecra's business strengths are its specialization in the Quick Service market and its in-depth knowledge in this field. The company's well chosen locations for restaurants, a diverse and changing service offering, effective business models and specialist knowhow in train catering lay a sound foundation for success.

In the customer satisfaction survey conducted in November 2007, the friendliness and activeness of Avecra's staff received the highest rating. Service time and the cleanness of restaurant cars were also highly ranked. Customers wished for improvement in the product range and the attractiveness of restaurant cars.



**Personnel 2007**

1 Restaurant services in trains 76%  
2 Restaurants at stations 24%



**Net turnover 2007**

1 Restaurant services in trains 56%  
2 Restaurants at stations 44%

## Business development

2007 turned out to be an outstanding year for the entire restaurant sector. Growth in total sales grew by 6% compared to 2006.

Food sales grew strongly and, after several years of decline, sales of alcoholic beverages turned to moderate growth. Sales volumes of Quick Service restaurants and cafés also increased satisfactorily.

Avecra's figures exceeded both the industry average and the increase in rail passenger volumes in 2007. The company's net turnover amounted to EUR 29.0 million, 8.7% more than in 2006.

A-Catering sales on trains increased by 9.4%. The factors contributing to this were higher customer potential and the modernization of restaurant cars to exploit this potential.

The net turnover of restaurant sales increased by 6.0%. Consistent development of the concept, efficient supervisory work and more visitors at railway stations all contributed to this growth. Most growth was in the Quick Service sector.

The Tobacco Act prohibiting smoking inside restaurants entered into force on 1 June 2007. The impacts of the law were mainly reflected in the declining net turnover of pubs. Nevertheless, demand is expected to return to its earlier level after a short transition period.

## Main events in 2007

The main change in rail services was the concept of creating individual restaurant worlds. Each restaurant car type received an individual appearance, specific leader products and a defined service process description.

The Prego concept for Pendolino trains was launched in October 2006, and restaurant car modernization was completed in spring 2007. The restaurant car types now in service on the railways are Bistro, Kultainen Kulkuri, Sibelius, Pub Resiina and Railerii.

The customer satisfaction survey conducted after the concept renewal showed that roughly one-third of customers had noticed the change and considered it successful. The results of the survey will be channelled into further development.

Avecra Oy celebrated its 30th anniversary in the review year. The company started operating on 1 January 1978 under the company name of Liikennevintolat Oy.

## Prospects

Prospects for restaurant operations focusing on food sales are still fairly good due to the expected growth in purchasing po-

wer. Conversely, higher raw material prices and alcohol tax may slow down this positive trend.

The increasing importance of wellbeing is clearly reflected in food product trends, and thus the demand for even healthier food has increased. This must be addressed by including, for instance, whole-wheat products and smoothie beverages, which have already gained popularity, in the product range. On the other hand, traditional favourites, such as meatballs with mashed potatoes, have remained on the menu and still rank among the most popular dishes sold on trains.

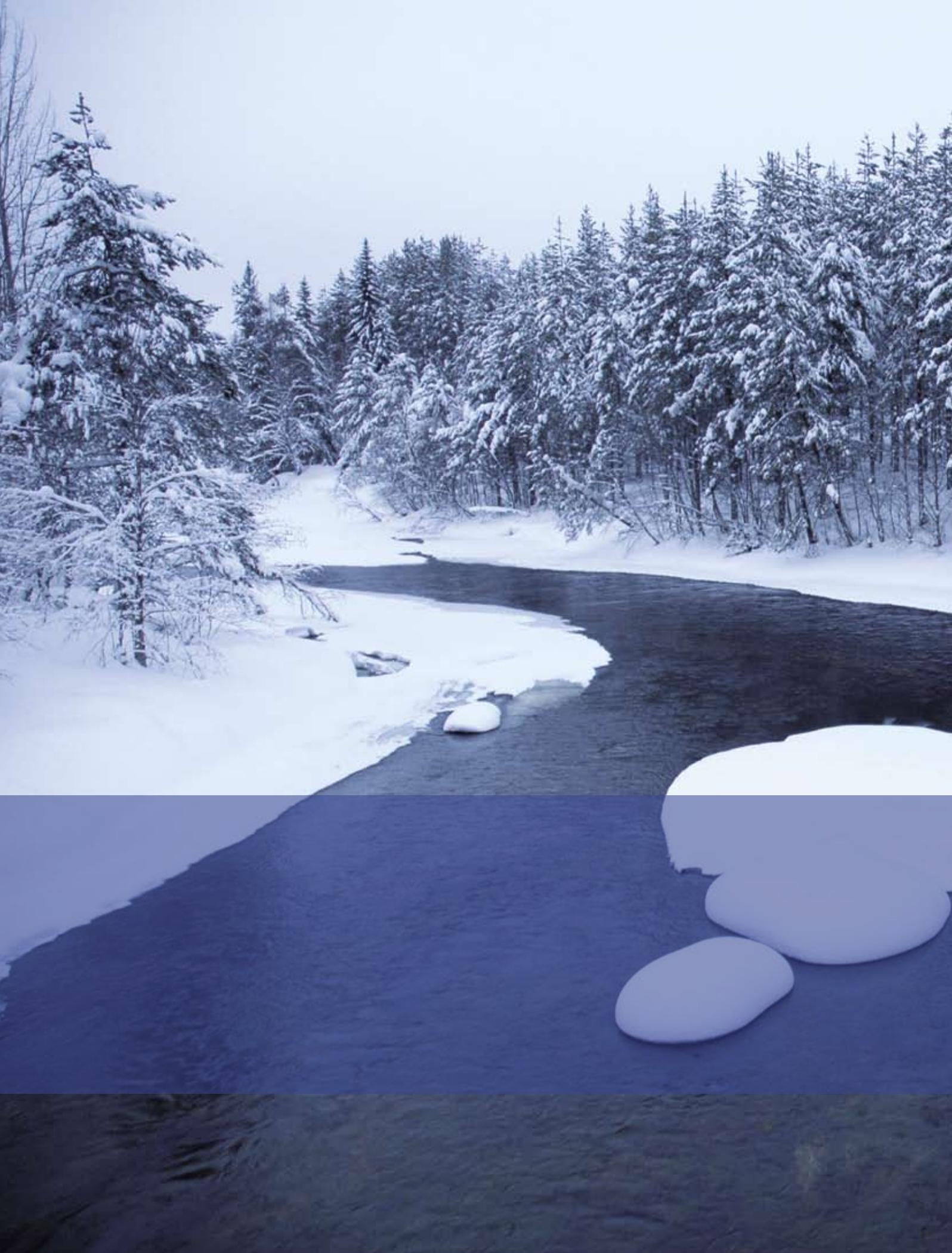
Avecra's aim is to be the leading provider of train catering services. To achieve this goal the company aims to provide its customers with attractive and satisfactory services and to boost its Quick Service skills in order to surpass competition.

Competitive bidding for catering services on train services to Russia provides Avecra with a strategic opportunity.

A labour shortage in the restaurant business has weakened labour availability, especially in the Helsinki metropolitan area, and this trend is expected to continue in the near future.



*Avecra's restaurant car modernization programme was completed in April 2007.*





RESPONSIBILITY

## VR – A RESPONSIBLE COMPANY



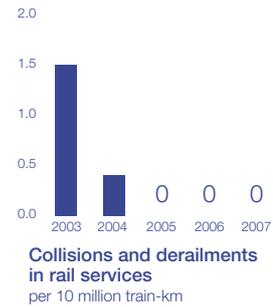
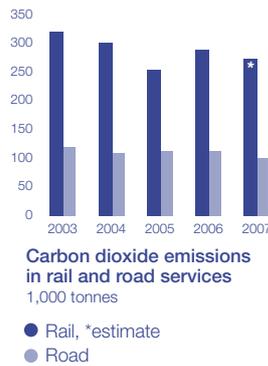
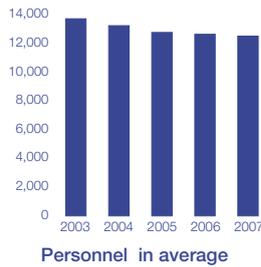
*Conductors Liisa Kalke and Jussi Koskela with locomotive driver Mikko Tikkanen introducing VR's professions to young people at the Next Step recruitment fair in Jyväskylä in January 2007.*

**The VR Group plays an important role in Finnish society. The Group carries responsibility for both its economic profitability and the impacts of its operations on the environment and on society more generally.**

The VR Group's common values are safety, satisfied customers, successful together, and responsibility. These values create a solid basis for the Group's day-to-day work.

- Safety is VR's most important value. It enables the uninterrupted continuity of business operations. When safety is properly addressed, the Group's activities do not cause harm to customers, employees, the environment or property.
- VR's values are essential to customer relationship management. VR offers high-quality, safe and easily available services that it develops in cooperation with customers.
- VR's environmental activities support business competitiveness by strengthening the ecologically friendly image of transport and related services. Growth in rail's market share improves the ecofriendliness of all public transport.
- Responsibility, which is one of VR's values, provides a sound footing for financial management. By operating competitively, the company creates the framework for conducting business responsibly.
- Personnel committed to goals are a success factor for VR. Long-term personnel development supports both business and wellbeing. The main goal of personnel management is managing the change in personnel structure.

The VR Group is publishing a separate Corporate Responsibility Report simultaneously with this Annual Report, which analyzes the economic, social and environmental impacts of the Group's operations. The Corporate Responsibility Report reviews the years 2006 and 2007, and covers all the Group's business areas and companies.



## VR and employment

The main content of human resources management and internal interaction are described in the personnel ground rules, which are jointly prepared by the employer and employee representatives. In line with these rules, personnel's skills, high motivation and candour combined with effective cooperation between employer and employees are of crucial importance to the company's profitability. VR values its personnel's responsibility, achievement of results, and initiative.

Personnel management is coordinated by the VR Group's personnel unit. The Group's subsidiaries are independently responsible for operative personnel management.

The VR Group's in-house training unit, the VR Training Centre, is responsible for all professional training related to the rail sector. Its customers comprise other track constructors and companies operating on private lines, in addition to VR.

### VR as a responsible and dynamic employer

The VR Group is a large employer in Finland. In 2007 the VR Group employed on average 12,540 people. Most employees, 60%, worked in jobs on the railways.

The largest professional group was locomotive drivers, an average 1,840 in 2007.

Most of the Group's personnel are permanent employees. The number of fixed-term employees is considerably higher during the summer, when VR-Track employs 200–300 seasonal workers.

Of the VR Group's personnel, 85% were men during the review period. The VR Group's equal opportunities plan was revised in 2007.

A salary review was also conducted, which showed that there are no salary differences between men and women in the largest employee groups.

The majority of the employees have a long career with the VR Group. The average length of service in 2007 was 23 years.

### Recruitment and developing VR's image as an employer

The VR Group has considerably increased its recruitment of new personnel in recent years. This is mainly due to VR's age structure, as the most common reason for ending employment is retirement. In addition, the retirement age of some personnel groups in VR is lower than the norm.

VR has improved the efficiency of its recruitment process as the number of applicants has grown. The focus at present is on developing the electronic job application system.

According to a survey conducted in spring 2007, VR is a well known company. The company is not so well known as an employer, however, although there are a high number of applicants for job vacancies in VR.

Personnel regard VR as a good employer. The personnel survey showed that VR employees enjoy their work and think highly of their employer.

### Personnel development

For the first time VR launched an extensive training programme for potential managers of the future in partnership with Helsinki School of Economics and Business Administration's Training Unit.

Development discussions are one of the VR Group's most important management tools. The goal is to give each employee an opportunity for a development discussion with his/her superior at least once a year. Altogether 61% of the VR Group's employees attended development discussions in 2007. This figure excludes the Pohjolan Liikenne group.

Occupational health services are outsourced to professional occupational health bodies approved by the Finnish Rail Agency. The VR Group also employs its own medical staff in the interests of rail safety. In 2007 the costs of occupational health services was EUR 580 per employee.

Sick leave absences, an indicator of personnel wellbeing, have been declining for several years now. Sick leave in 2007 was 6%.

VR's personnel are active in using the rehabilitation services that VR offers as well as those provided by the Finnish Social Insurance Institution. VR's occupational health service is actively involved in rehabilitation. VR employees receive full salary for almost all the time they spend in rehabilitation. In 2007 altogether 580 employees used rehabilitation opportunities.

### Prospects

Recruitment will appreciably increase over the next few years. The VR Group will make improving its image as an employer a high priority to ensure it obtains an adequate supply of skilled labour. The Group will launch an extensive project in 2008 aimed at enhancing its image as an employer both internally and externally.

Induction procedures, recruitment processes and succession plans will all be developed in 2008.

The VR Group will conduct a personnel survey in 2009, which includes the target of raising the response rate above its prevailing level.

# Responsibility

## VR and ecofriendly operation

The stated aim of VR's environmental policy is to provide ecologically friendly, safe and high-quality services.

VR's strategy is to seek a competitive advantage in the eco-friendliness of rail services and thereby promote business success. VR wants to be the safest and most environmentally friendly partner for customers and society.

The goal of VR's environmental activities is to reduce the nuisances of transportation and to manage the risks attached to transporting hazardous substances. VR also endeavours to use energy, materials and chemicals more efficiently, to apply a lifecycle approach to rolling stock, and to increase the recycling of material.

VR's environmental system is based on the ISO 14000 family of standards. Each company is responsible for environmental affairs.

The Group's common environmental policy and the goals defined in it guide the operations of Group companies. Every year the management of each company approves an environmental programme aimed at continuous improvement in their operations.

The environmental system is described in VR's Environmental Handbook, which supplements the instructions of Group companies and their different processes.

### Energy efficiency

Rail freight has a 25% share of Finland's freight market, but accounts for only 4% of the total energy consumed carrying freight. Passenger rail services have a 5% share of Finland's passenger transport market, but account for only 1% of its total

energy consumption. Since electrically-powered rail services are more energy efficient and more environmentally friendly than diesel services, VR's goal is to increase electric traction's share of rail services.

VR also improves energy efficiency by increasing train filling rates and the axle weights of wagons as well as the size of trains. In road services, energy efficiency is gained by maximizing load size and minimizing empty runs.

### Emissions

Transport produces one-fifth of Finland's carbon dioxide emissions. Emissions from transport and also their proportion of total emissions are both increasing. Society's endeavours to mitigate climate change open up new opportunities for rail services, as increased use of rail is an effective way of reducing emissions from transport.

The carbon dioxide emissions caused by VR's operations come from the fuels used in road and rail services, and by the electricity and district heating used by the Group.

The proportion of renewable energy used in rail services depends on how the electricity is generated. At the beginning of 2008 VR switched to using green electricity. As a result of the new electricity supply contract, the production of the electricity will not increase carbon dioxide emissions. The goal is to halve the carbon dioxide emissions produced by rail services over the next five years.

Pohjolan Kaupunkiliikenne is participating in a 3-year trial of biodiesel use in bus and coach services in the Helsinki metropolitan area. The viability of using biodiesel as a fuel for locomotives is also being investigated.

### Eco-efficiency

Encouraging energy-saving driving styles reduces energy consumption and emissions in both road and rail services. Altogether 63 vehicle drivers attended training on energy-saving driving styles in 2007. VR is investigating opportunities for utilizing ecofriendly driving techniques in rail services also.

Collaboration between planning and control enhances the smooth running of rail services.

Carrying trucks by train and other combined transports reduces energy consumption, emissions, noise, road congestion and traffic accidents.

### Prospects

In December 2007 VR published 12 environmental promises that it will fulfil by the end of 2012, the company's jubilee year. The most important promises for rail services are to halve carbon dioxide emissions and to reduce energy consumption per passenger by 20% over the next five years.

The main methods for achieving these targets are the use of green electricity, improved train filling rates, and training drivers in ecofriendly techniques. More detailed actions are contained in the environmental programmes and action plans of the individual Group companies.



*Transport produces one-fifth of Finland's carbon dioxide emissions that accelerate climate change, but rail services account for only 1% of traffic emissions.*

## VR and safe transport

VR's safety policy emphasizes the importance of safety to the company's business operations. By taking care of safety, VR ensures that its operations do not harm customers, employees, the environment or property. The safety policy focuses on the systematic monitoring of activities, identifying and managing risks, and applying the principles of continuous improvement.

The safety policy states that the Group's President & CEO and the CEOs of Group companies are responsible for safety management and safety issues. Business directors, unit managers and supervisors are responsible for practical implementation of the policy. VR-Group's safety unit develops and coordinates the Group's safety activities. Each VR employee is responsible for safety.

### Risk management and working procedures

Priorities for developing VR's rail safety activities are risk management, correct working methods and traffic communications. Through systematic, preventive risk management VR aims to ensure that especially the risks relating to situations of change in operations are identified and that the means needed to control these risks are defined.

Of the Group's road services companies, Transpoint and Pohjolan Henkilöliikenne are participating in the 3-year RASTU project headed by the Technical Research Centre of Finland VTT. Launched in 2006, the project will analyze safety, environmental impacts and new technology for heavy-duty vehicles.

### Occupational safety

The VR Group's accident frequency – i.e. the number of industrial accidents per million working hours – was 51 in 2007.

The most common reasons for accidents are slipping and falling, a sudden physical load, and loss of control of a tool or machine.

In 2007 the VR Group prepared a new occupational safety management system, which was adopted on 1 January 2008. The agreement about VR's occupational safety organization and its duties was renewed during the review period.

In spring 2007 an occupational safety seminar was arranged for management, which was attended by the CEOs and Boards of Management of all Group companies.

An open idea contest under the EU's 2007 theme "Lighten your work" was arranged for personnel in the VR Group, which collected ideas for developing and promoting safe and healthy working methods.

In 2007 Corenet was given the highest classification, "World Leader", in the Zero-accident Forum and VR-Track was awarded an OHSAS 18001 occupational health and safety certificate.

### Accidents

Although there were no serious accidents caused by collision or derailment and resulting in injury during the review period, serious personal injury was not totally avoided. One employee died, run over by a goods wagon during shunting.

There were 47 accidents at level crossings, less than the previous year. Altogether 10 people died in accidents, however, double the number in the previous year, and 17 people were injured. In 2007 the Accident Investigation Board published



*Train driver  
Olli Liehu shares  
responsibility  
for the safety  
of rail services.*

a report on safety at level crossings, initiated at VR's request. The report contains ten recommendations for improving safety at level crossings.

There were also fewer traffic accidents in the Group's road services compared to the previous year.

### Prospects

In 2008 the Finnish Rail Agency will issue new regulations for railway operators, which will replace the current Signal Code. VR will give all employees working in rail safety jobs training on working in conformance with the new regulations.

From the viewpoint of rail safety, level crossings continue to be a major safety hazard for railways. Although level crossings have mostly been removed from high-speed lines, some 3,700 still remain in Finland's rail network. Accidents generally occur on quiet sections of track that are familiar to motorists.

Deployment of a radio system based on the new pan-European GSM-R standard has been planned for some time. Trials of the system can start in 2008 and full commissioning is scheduled for 2010.

All road vehicle drivers will be given supplementary training over the next few years to ensure they qualify for the competence requirements for truck and bus drivers specified in a new Act of Parliament passed in 2007.

# 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. The Finnish Rail Agency, a government department subordinate to the Ministry of Transport and Communications, monitors and develops railway safety and interoperability.

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.

## Supervisory Board

According to the company's revised Articles of Association, VR-Group Ltd's Supervisory Board comprises at least 6 and at most 12 members who are elected by the Annual General Meeting. In 2007 the Supervisory Board had 22 members. The period of office is one 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 reviews the financial and annual plans which include proposals for substantial changes to the main service offering, and monitors the implementation of these plans.

## 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 4 – 5 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 & PR, 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, as well as more important daily activities

and operative issues. 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 includes a financial performance report, balance sheet, cash flow statement, and figures for the number of personnel and rail service volumes. The report also includes individual financial performance reports for the main subsidiaries. The financial performance report includes figures for comparison with the budget and the previous year.

The Group publishes information on its financial situation in the four-month interim reviews and the financial statement bulletin.

### Management of subsidiaries

The members of subsidiary company boards of directors are mainly 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, which VR-Group Ltd's Board of Directors has confirmed, 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 10 April 2007, 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 500 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 500 per meeting.

Salaries and fees paid to the President of VR-Group Ltd, who serves as Chief Executive Officer of the Group, totalled EUR 399,063 during the review year.

### Incentive schemes

VR Group's incentive bonus scheme covers about 281 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). A maximum bonus potential has been set for the management incentive bonus such that the maximum bonus, if all targets are met, can be 10-60 % of the annual salary, depending on a person's responsibilities.

In addition, 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 is based on the personnel fund formed in 2007. The bonus is based on the oper-

ating profit of the individual company (weighting about 50%) and 2-3 quality targets for individual business units (weighting about 50%), and the bonus is transferred to the personnel fund. Senior management does not belong to this bonus scheme.

### 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 has an internal audit unit. Its duties are to examine Group companies and assess whether their internal control is appropriate and effective, their operations are effective, risk management is adequate, financial and operative information is valid and accurate, assets are protected, and whether the companies comply with legislation, regulations and internal guidelines. The operating principles for the internal audit are defined in the operating procedures. The Board of Directors of VR-Group Ltd approves the operating procedures and the annual plan of operations for the internal audit. The internal audit unit is subordinate to the President and CEO and reports to the Board's audit committee. An external quality assurance assessment has confirmed that VR Group's internal audit unit as a rule 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 fourth such review. This surveyed the main risks at Group level.

### Communications policy

VR Group's communications are based on VR's mission, 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.

## 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
- Regional Director, Russia, Kone Corporation
- 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. 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: Finnish Business & Society ry., FTM Incoming Oy, Kultaranta Golf Oy, Lomakouhero Oy, Opteam Yhtiöt Oy, Tietotalo Infocenter Oy and Yyterin Kylpylähotelli Oy
- Board member: Kristina Cruises Oy, Levi Magic Oy, Levi Northstar Oy, Muumimaailma Oy, Rokuan Kuntoutus Oy and Santapark Oy



**6. Jukka Ruuska**

- Born 1961, LL.M, MBA
- President, OMX Exchanges Group 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, Destia Oy, OMX Exchanges Oy, Stockholm Stock Exchange Ltd and Suomen Pörssiääitiö (Finnish Foundation for Share Promotion)

**7. Arja Talma**

- Born 1962, MSc (Econ.), eMBA
- CFO, Kesko Corporation
- Member of the Board of VR-Group Ltd as from 30 March 2006
- Chairman of the Board: Kauko-Telko Group Oy and Vähittäiskaupan Tilipalvelu VTP Oy

- Board member and Chairman of the Audit Committee: Sponda Plc
- Board member: Anttila Oy, Konekesko Ltd, K-Rahoitus Oy, Kesko Agro Ltd, Rautakesko Ltd, Kesko Food Ltd and Stroymaster Holding Finland Oy

**8. Markku Tapio**

- Born 1948, M.Pol.Sc.
- Financial Counsellor, Prime Minister's Office
- Member of the Board of VR-Group Ltd as from 15 May 2007
- Board member: Kemira Oyj

**Leena Kostiander**

- Born 1973, MSc (Econ.)
- Ministerial Adviser, Ministry of Transport and Communications
- Member of the Board of VR-Group Ltd 30 March 2006 – 14 May 2007

# 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 Kuittinen

- 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

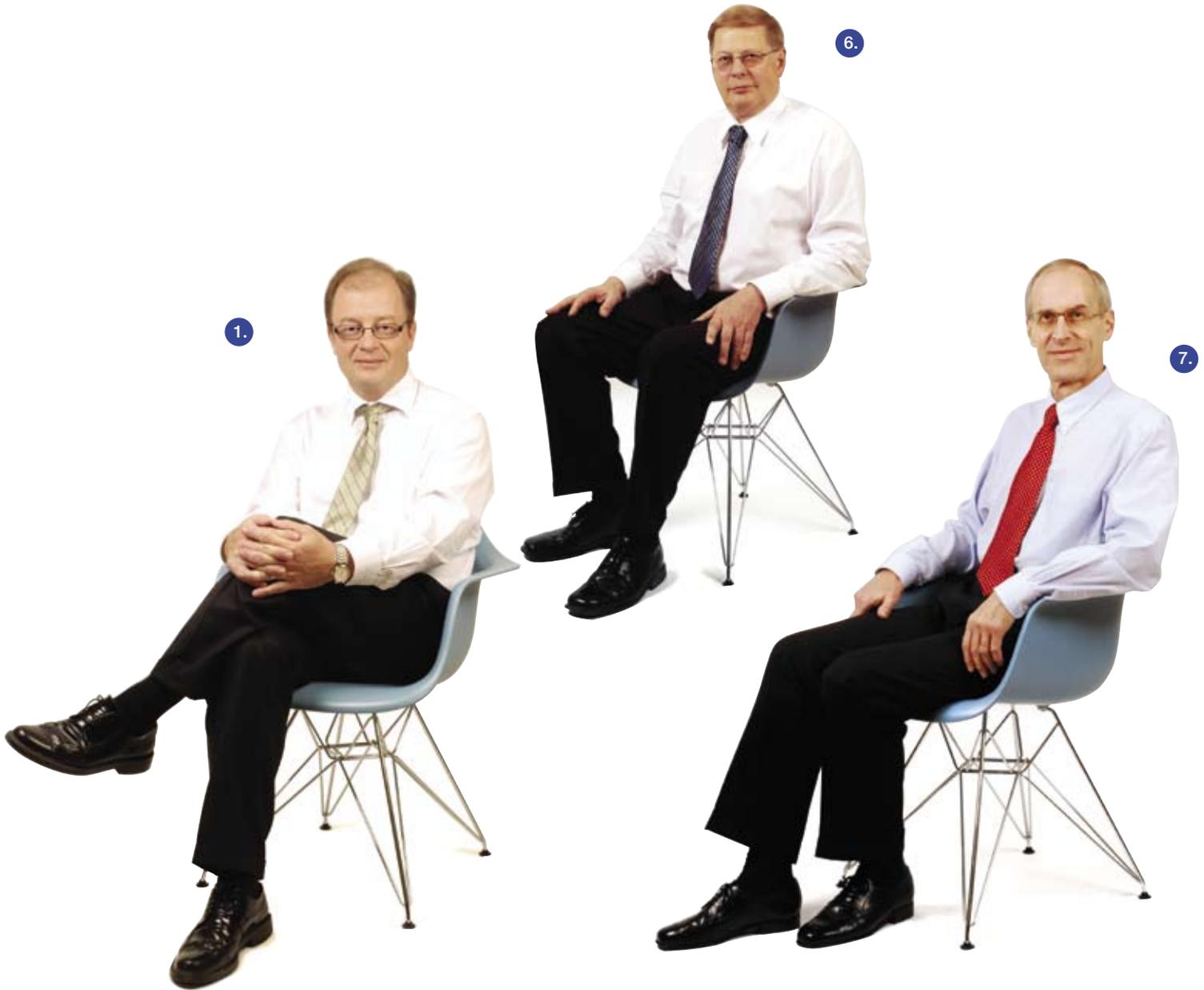
- Born 1950, MSc (Econ.)
- President, VR Ltd
- Member of the Board of Management since 1 May 2002

## 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



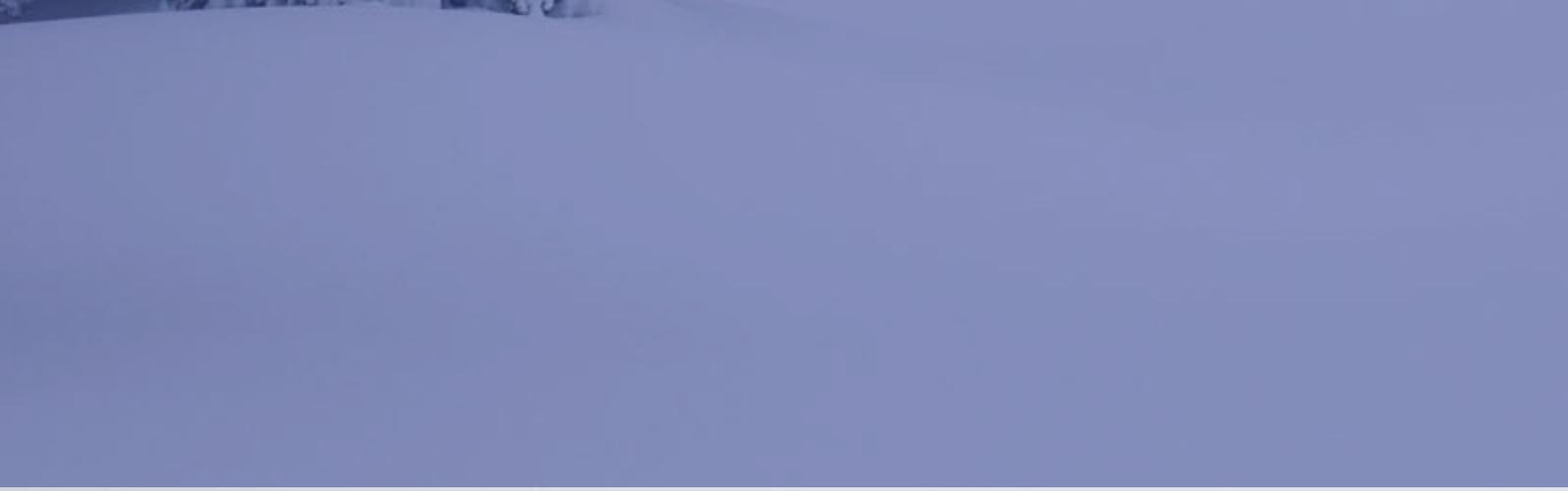
### Administrative Board

Matti Ahde, MP, Chairman  
Pekka Nousiainen, Deputy Chairman  
Eero Akaan-Penttilä, MP  
Katja Alvoittu  
Eero Hemming  
Marcus Henricson  
Anne Huotari  
Eeva Kokkonen  
Timo Koli  
Lauri Kähkönen, MP  
Anita Mikkonen  
Raii Myllylä

Olli Männikkö  
Lauri Oinonen, MP  
Eero Pennanen  
Juha Rannikko  
Erkki Rantala  
Timo Rautajoki  
Jarmo Saarijärvi  
Satu Taiveaho, MP  
Rajja Vahasalo, MP  
Tuula Wyssmann

### Auditors

Lasse Holopainen, Authorized Public  
Accountant, KPMG Oy Ab  
Jorma Nurkkala, Authorized Public  
Accountant





# FINANCIAL STATEMENTS

# Report by the Board of Directors

## Market conditions and operating environment

The overall economic situation in Finland during the review year was strong. As a whole, 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 3.2% from the previous year according to preliminary estimates. For the forest and paper industry, however, the index declined 0.5%, with the index for the mechanical wood processing industry included in this figure declining 2.4% and the index for the chemical wood processing industry rising 0.3%. The metal and mechanical engineering index, excluding electrotechnical products, rose 7.9% and the chemical industry index improved 1.3%. Rail freight volumes consist almost entirely of carryings for the industrial sectors mentioned here.

Roughly 40% of VR's total freight carryings consists of traffic over the border with Russia, and fluctuations in this traffic have a major impact on the total volume of carryings. The volume of this traffic does not entirely correlate with general 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. This makes it more difficult to make reliable predictions about the volume of combined transports to and from Russia than about domestic transport, and VR has only a very limited ability to affect the volume of this traffic.

The general economic situation has an impact on the volume of passenger services, but not so clearly as it has 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. The importance of mitigating climate change is having an increasing impact on demand for rail services.

Fast and punctual services are the most important factors in raising demand for long-distance train services. Some of the most important factors in commuter services in the Helsinki metropolitan area, in addition to frequent services, include arranging feeder transport services to stations, providing sufficient parking places and, in the long term, planning areas by the railway lines for residential use. VR is not directly responsible for most of these.

## Consolidated turnover, result and liquidity

The Group's net turnover totalled EUR 1334.1 million (EUR 1264.6 in 2006). Passenger services and the Group's road freight services saw the biggest growth, both in volumes and proportionately. The turnover of rail freight services fell due to the sharp decline in combined transports to and from Russia. The combined turnover from freight and passenger services grew by EUR 57.9 million, including road services. Onetime revenues, such as profit on the sale of fixed assets, were EUR 6.9 million less than the previous year.

The largest increase in expense items was for services purchased from outside the Group. The most significant were the sub-contracting services purchased by VR-Track Ltd and the Pohjolan Liikenne group. There was no major increase in per-

sonnel costs or depreciation. Similarly, the increase in energy costs was less than had been forecast.

The operating profit was EUR 87.1 (85.2) million and the net profit for the period was EUR 66.4 (63.1) million. The improvement in the profit from the previous year came from the growth in main business operations.

VR Ltd posted an operating profit of EUR 38.4 (35.3) million and VR-Track Ltd, including its subsidiaries, of EUR 14.8 (12.6) 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 financial income amounted to EUR 6.3 (4.0) 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 148.6 (116.8) million at the end of the year. The Group paid a dividend of altogether EUR 32.6 (24.7) million.

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 decreased by 7.5% from the previous year, to 40.3 million tonnes. Of this total, 26.2 million tonnes came from domestic traffic and 14.1 million tonnes from international traffic. Domestic traffic increased 0.9% and international traffic decreased 20.0%. 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 2.3%. The next largest freight segments were carryings for the metal and chemical industries. Carryings in the metal industry declined 4.4%, and in the chemical industry declined 0.5%.

Traffic between Finland and Russia, including transit traffic via Finland to third countries, totalled 13.5 million tonnes, a fall of 20.0%. Almost 40% of this total consisted of round timber imports into Finland, just under 40% comprised chemical industry products, and most of the rest were carryings of metal industry products. Forest industry carryings declined 27.6%, whereas chemical industry carryings increased 7.7%. Metal industry carryings in services to and from Russia decreased 39.0%.

Traffic between Finland and Russia here also includes traffic between Finland and East Asia (principally South Korea, Japan and China), which is container traffic. The volume of traffic here already dropped sharply in 2006, from 99,700 TEUs to 8100 TEUs, due to the marked rise in prices for the track section in Russia. Volumes dropped still further during the review year to 2600 TEUs (1 TEU = 20 foot container). In contrast, container traffic between Finland and Russia improved encouragingly, rising 9.9 % from about 22,200 TEUs to about 24,400 TEUs.

Transit traffic via Finland to third countries, included in the figures for traffic between Finland and Russia, totalled 3.5 million tonnes, a decline of 16.4%. Most of this is Russian exports of industrial raw materials to western Europe. In practice, half

of this traffic is carryings of metal industry products and half is chemical carryings.

Direct rail traffic between Finland and western Europe declined 20.2% from just under 0.8 million tonnes to just over 0.6 million tonnes. Just over half of the western-bound rail freight traffic was carried by ferry from Finland to Sweden. The rest was transported via Tornio in northern Finland.

VR-Cargo's non-consolidated net turnover totalled EUR 342.9 (361.8) million. VR Cargo's operating profit, based on VR Ltd's internal accounts, was EUR 2.7 (16.7) million. The average transport distance increased from 254 kilometres to 259 kilometres. Because of the decline in traffic to and from Russia, according to preliminary estimates VR Cargo's market share declined by about one percentage point to 26.4 % of domestic freight carryings. The figure is however above the long-term average.

The number of journeys in passenger traffic totalled 66.7 million, an increase of 4.5%. Long-distance journeys showed an increase of 3.1% to 12.9 million. The average length of a long-distance journey increased from 223 kilometres in the previous year to 228 kilometres. 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 399,000 passenger journeys were made between Finland and Russia, up 18.4%.

A total of 53.7 million passenger journeys were made in commuter traffic in the Greater Helsinki area, an increase of 4.9%. The number of journeys in the zone administered by the Helsinki Metropolitan Area Council (YTV = Helsinki, Vantaa, Espoo, Kauniainen) was 42.3 million, an increase of 2.5%. Commuter traffic outside the YTV zone grew 14.6% to 11.5 million journeys, mainly due to the impact of the Kerava-Lahti direct line.

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 2006 rail had a market share of 32.1%. According to advance information from the Finnish Road Administration, the volume of private car traffic increased 2.6% during the review year, which is less than the increase in the number of rail journeys.

Non-consolidated net turnover from passenger services amounted to EUR 370.9 (340.6) million. Contract services purchased by YTV accounted for EUR 48.8 (46.3) million of net turnover and passenger services purchased by the Ministry of Transport and Communications for EUR 35.6 (37.0) million. The operating profit of passenger services, based on VR Ltd's internal accounts, was EUR 50.2 (35.2) 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. SP Transit Finland Ltd Oy, which joined the Group in September 2006, 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 10.0% from the previous year to 10.8 million tonnes. Most of the increase was due to including the carryings of SP Transit Ltd Finland Oy for the full year in the

carryings of Pohjolan Liikenne group. The combined freight carryings of Transpoint and Combitrans increased 4.4%. Pohjolan Liikenne companies owned 212 trucks at the end of the review year and employed 976 trucks owned by subcontractors.

Road services carried a total of 14.4 million passengers, 2.4% more than in the previous year. There were 304 coaches in service at the end of the year.

Net turnover of the Pohjolan Liikenne group increased by 19.3% to EUR 289.3 (242.4) million. Freight services accounted for 86% (84%) of this and passenger services for 14% (16%). The net turnover of SP Transit Finland Ltd Oy, which was part of the group for the whole of the review year, was EUR 39.1 million greater than in the previous year, whereas Oy Transuotila Ab, which was sold at the end of June, recorded EUR 9.4 million less in net turnover than in the previous year.

## Track construction and maintenance

VR-Track Ltd's (VR-Track) net turnover in 2007, including its subsidiaries, was EUR 244.5 (239.2) million, over 80% of which was commissioned by the Finnish Rail Administration. VR-Track handles 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 276 (118) million. Some EUR 179 million of this order book comprised the framework agreement for basic track maintenance that was extended to 2010. The agreement covers the areas and sectors for which maintenance has not yet been put out to competitive tendering. The scope of the agreement may decline as competitive tendering expands each year in accordance with the decisions of the Finnish Rail Administration.

The largest track superstructure contract was for the section between Turku and Toijala. Other major superstructure contracts were on the Uimaharju-Liekka, Tampere-Seinäjoki-Oulu, Haapamäki-Seinäjoki, Kuusivaara-Isokylä and Kuopio-Iisalmi track sections.

The biggest marshalling yard projects were in Ilmala and Imatra.

The biggest projects in railway planning were planning the renovation of the Seinäjoki-Oulu, Toijala-Turku and Tornio-Kolari track sections.

Work continued on the Bothnia Line in Northern Sweden, in partnership with Balfour Beatty Rail AB, and during the summer 10 kilometres of new track were completed.

In addition to railway projects, the company also carried out work relating to the road network, such as a contract relating to the construction of the Seinäjoki bypass and the telematics contracts for the Vuosaari road tunnel and for the Lohja-Muurla motorway.

Capacity utilization at the company's own production units remained high. The railwelding unit in Kaipainen handled some 31,000 tonnes of rails. The track point units in Pieksämäki and Kaipainen manufactured 191 track points of varying types and reconditioned 60 track points and 520 turning gears. Production at the Haapamäki wood impregnation plant amounted to 23,500 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.

At the end of the year the company signed a letter of intent for building the mine track in Talvivaara. The contract comprises the planning and construction of 25 kilometres of track and a marshalling yard. The contract includes the necessary bridges and road arrangements and the track safety system.

### Capital expenditure and rolling stock purchases

The Group's capital expenditure amounted to EUR 118.9 (110.3) million, and rolling stock for VR Ltd accounted for EUR 39.2 (58.7) million of this. The largest items were freight wagons and refurbishment expenditure on passenger rolling stock.

In 2006 VR Ltd and OKO Bank plc signed a 25-year leasing agreement for 20 InterCity coaches. The coaches will be built by Transtech Oy (formerly Talgo Oy) and delivery of the coaches began in September 2007 and will be completed in July 2008.

VR-Track Ltd's investments amounted to EUR 6.0 (12.5) million. As well as replacing decommissioned track machinery and equipment, the company also acquired a new instrument car that can measure track geometry and the structures of electrified track while travelling at high speed.

The Pohjolan Liikenne group's investments totalled EUR 14.9 (13.0) million, on replacing vehicles and on purchasing the shares of a subsidiary company.

Investments by the Group's parent company totalled EUR 43.4 (14.8) million. The largest item was construction of the train depot shed in Ilmala. Other capital expenditure was mainly on normal renovation of property.

### Development of services

#### Freight services

Information management is playing an increasingly important role in providing logistic services, and for this reason VR continued during the review year to study and apply technologies to boost VR Cargo's competitiveness and enhance the operations of customers. In partnership with customers, VR started a pilot project to discover whether radio frequency identity technology (RFID) is a suitable method for identifying freight wagons. A simulation model was tested for transport planning. A new information system was completed for shift planning for marshalling yard personnel, and this will be introduced in 2008.

To promote networking and obtain the latest information for use in its operations, VR Cargo participated in the Turva Th project, studying the management of safety-critical deliveries, and the Innospring Access project, studying innovation in networks. The Technical Research Centre of Finland (VTT) headed up the former project and the Lappenranta University of Technology the latter.

Various telematic solutions play an important role in the smooth supply chain for traffic to and from Russia. VR Cargo continued its long-term development of telematics in cooperation with Russian railways.

#### Passenger services

Certain revisions were made to timetables at the beginning of the year, for example cutting the journey time between Helsinki and Kainuu. Pendolino and InterCity services started between Helsinki and Kainuu. At the beginning of June the number of

commuter services between Helsinki and Lahti were further increased. In August the number of trains were increased again so that Monday to Saturday there are 35 commuter trains between Helsinki and Lahti and 34 on Sundays. In June the service between Saunakallio in Järvenpää and Helsinki was extended so that it also runs outside peak periods.

The number of tickets sold via the Internet continued to grow. Online sales accounted for just under 12% of long-distance tickets for the whole year. Towards the end of the year the figure passed the 15% level. Other distribution systems also increased their shares and during the review year about 38% of the tickets were purchased elsewhere than at station ticket offices.

Since May passengers have been able to obtain VR's timetables on mobile phones and portable terminals that have an Internet link. The operations of VR's helpdesk in Riihimäki were diversified. The centre is responsible for processing customer feedback and compensation claims and a new service it provides is producing releases about disruptions to services for the Internet. Managing exceptional situations has also been a special theme in service training for personnel.

During the review year all the restaurant cars were given a new look and changes were made to the products and services provided by the restaurant cars. The services for business travellers on InterCity trains were upgraded so that the same services for business travellers are available on all InterCity and Pendolino trains.

The Russian railway company RZD renovated its coaches on the services from St Petersburg and Moscow to Helsinki.

The work of giving the biggest ticket offices a new look began with the renewal of the ticket offices in Lahti, Tampere and Pasila. Towards the end of the year the replacement of rail ticket sales systems began. The project includes the ticket sales systems at stations, the ticket machines and the sales devices carried by conductors. The project should be completed during 2010.

The Ministry of Transport and Communications and VR Ltd reached agreement in February on the purchase of long-distance train services that are not financially viable. The agreement retains these services at their present level and is in force until the end of 2011. In December a similar purchase agreement was made for commuter services in the Greater Helsinki region. This agreement is in force until the end of 2008.

VR failed to achieve its target for punctuality in passenger services. In long-distance services, 88.2% (88.8%) of trains arrived at their destination on time. The target was 90.0%. In commuter services the punctuality rate was 96.6% (97.1%). The target here was 97.5%. A train is defined as late in long-distance services if it arrives at its destination more than five minutes late and for commuter services if it is three minutes late. By international standards punctuality remained at a high level.

In September VR and the Finnish Rail Administration gave a report requested by the Minister of Transport on the punctuality of rail services. The report was updated in February 2008.

### Changes in corporate structure and property reorganization

In March, SP Transit Finland Ltd Oy, part of the Pohjolan Liikenne group, purchased most of the sharestock of Czech-based trucking company MT Transport s.r.o. and in the spring



established subsidiaries in Hungary and Slovakia. In November, the Estonian subsidiary of SP Transit Finland Ltd Oy acquired a majority holding in warehouse company Raksped Kft in Hungary.

In April Oy Pohjolan Henkilöliikenne Ab purchased the share stock of Linjaliiike A.E. Koskinen & Pojat Oy, which operates in Eastern Uusimaa. The company has 12 coaches. The company was merged into Oy Pohjolan Henkilöliikenne Ab at the end of the year. In November, Kotka-based Jyrkilä Oy Kaupunkiliikenne was acquired; the company operates local bus services with 10 buses in Kotka. Towards the end of the year the share stock of bus company M.V. Wikström Oy, which operates in Western Uusimaa, was purchased. The company has 27 buses.

At the end of June Oy Pohjolan Liikenne Ab sold its tanker service subsidiary Oy Transuotila Ab to Nurmijärvi-based company Kiitosimeon Oy. The divested company had a net turnover in the previous year of EUR 19.5 million, owned about 80 trucks and employed about 190 people.

At the beginning of September the final documents were signed concerning the rolling stock company jointly owned by VR and Russian railway company RZD as well as the agreement for this company to purchase four trains. The trains will be supplied by French company Alstom in 2010, and will come into service between Helsinki and St Petersburg, where the goal is to start a high-speed service in 2011.

The third 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. Towards the end of the review year the new Rail Safety Programme, for the period 2008-2010, was confirmed. Its central objective is to keep rail safety in Finland among the best in EU countries. In addition to rail safety, the programme also puts much emphasis on other areas of corporate safety, such as the importance of data security, the security of business premises, and risk management.

In 2007 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 continued to rise. VR failed to meet its target for improvement in the number of cases of unauthorized passing of stop signals. These risk situations remained however at a level that can be considered good even by international standards. Overall rail safety can still be considered as among the best in the EU, which is VR's goal. One fatal accident occurred in marshalling yard work.

A total of 47 (60) accidents occurred at level crossings, and 10 (5) people were killed and 17 (22) injured in these. No permanent improvement has taken place in level crossing safety. Although legislation classifies level crossing accidents as road accidents, in practice they also involve a safety risk for

rail services. A review committee set up by Accident Investigation Board Finland published in June the results of an extensive investigation into level crossing safety, produced at VR's instigation. The study showed that level crossing safety in Finland is clearly worse than in many countries with comparable conditions. The committee made many proposals in its report for improving safety, for example making it compulsory for vehicles to stop at level crossings, introducing speed limits on roads, restricting traffic at level crossings, increasing visibility at level crossings, and taking level crossings into account in town planning.

Early in the year the Finnish Rail Agency granted VR Ltd the safety certificate required by the EU's safety directive and Finnish railway legislation and an operating licence to VR-Track Ltd. During the year the Rail Agency confirmed several national regulations concerning railway services and technical specifications for the interoperability of the European railway system (YTE). These all have a major impact on VR's internal instructions and on initial and further training of personnel. The Agency also began to monitor railway operators, which is part of its duties.

## Environment

The significance of climate change in business operations and in the whole of society took on greater importance during 2007. Traffic causes a fifth of the carbon dioxide emissions in Finland, and ever stricter international climate obligations mean that the transport sector also has to make considerable reductions in emissions.

In the Group's revised strategy, environmental issues and especially the energy efficiency of railway services are seen as a key strength, since VR is able to provide transport services that are more environmentally friendly than other forms of transport. Growth in the market share of rail services improves the environmental balance sheet of the entire transport sector. VR's most important means for mitigating climate change is to ensure that rail transport continues to develop positively. Other means include improving the energy efficiency of the company's operations and reducing carbon dioxide emissions.

Electric traction is considerably more energy efficient than diesel traction, and its share of all train-kilometres rose to 83%. Electricity consumption by rail services increased 7.9% to 658 GWh. Consumption of diesel fuel fell 20% to 41 million litres.

In December VR Group published 12 environmental promises. VR plans to fulfil these promises by 2012, which is 150 years from the start of railway services in Finland. To reduce its impact on the climate, VR will halve the carbon dioxide emissions from rail services and reduce the specific energy consumption of passenger services by 20 %.

To reduce the emissions from electricity consumption, VR signed an agreement to switch to green electricity at the beginning of 2008. All the energy used by the Group is produced by renewable forms of energy, such as hydroelectricity, wind power or biofuels.

Soil surveys and decontamination form in financial terms the largest part of the Group's environmental activities. In 2007 the most important of these related to the construction of the new long-distance train shed at Ilmala, the conversion of the Pasila engineering shop area into a residential area, and decontaminating the fuelling depot in Imatra. An additional cost of about

EUR 3 million was incurred in connection with the construction of the long-distance train shed at Ilmala, from decontaminating the soil in the former landfill site that was located in the marshalling yard and from arrangements made to the foundation structures for the shed.

No significant changes took place in the Groups environmental management system during 2007. About 88% of the Group's employees work in units that have ISO 14001 environmental certification.

A more detailed account of environmental issues is given in VR Group's Corporate Responsibility Report to be published in the spring, which covers operations in the period 2006–2007.

### Assessment of business risks and uncertainties

According to a risk analysis made in the spring of the review year, the most significant strategic risks at Group level are related to freight services. One important risk worth mentioning is the export duty to be charged on round timber announced by Russia, which if it is imposed will reduce timber imports by rail very considerably. Restructuring in Finland's forest industry will reduce not just round timber carryings but also carryings of the sector's finished and semi-finished products.

It has been possible for new freight service providers to start using the rail network in 2007, but in practice no new operators have appeared. However, new freight service operators may well start up on the rail network in the next few years. 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.

No decision has so far been made about opening up the rail network to other operators for passenger services, at national or EU level.

Operational risks, such as those relating to personnel, sub-contractors or other similar bodies, are of less significance than strategic risks. Similarly, financial risks can be considered small at the moment, apart from the money market risk contained in the major investment assets owned by VR's pension fund. VR has protected itself against normal accident risks with insurance cover appropriate for a company like VR.

VR pays particular attention to rail safety. Level crossing accidents also pose a risk to rail safety, but VR is able to have almost no impact on them with its own action. VR has had no major rail accidents during this decade.

### Personnel

In 2005–2007 the number of personnel and salaries and wages paid were as follows:

Year	2007	2006	2005
Number of personnel	12,540	12,663	12,791
Total salaries and wages MEUR	449.50	444.23	429.03

In the long term, the number of personnel has been declining at an annual rate of 3–4%, but in the past couple of years it has fallen 1.0% a year. The reduction in personnel has mainly been through retirement and systematically raising efficiency in operations. At the end of the year 97.7% of the entire Group per-

sonnel were permanent staff, with 3.0% doing temporary work. The average age of personnel was 46.7 (46.6) years and the average length of service of current employees was 23 years, the same as the previous year. Men accounted for 84.8% (85.6%) and women for 15.2% (14.4%) of personnel.

During 2007, the Group recruited 591 people to permanent positions. The largest professional groups in new employment were marshalling yard workers, locomotive drivers, and conductors in passenger services.

VR Group revised its human resources strategy in 2007. The strategy defines the goals for the use and development of human resources and the key actions up until 2010. The strategy supports the Group and companies in implementing 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. Implementation of the human resources strategy is monitored with indicators linked to the strategy. These include the scope of development interviews, the sick leave percentage, the accident frequency rate, and improving certain performance indicators in the personnel survey.

In 2007 VR revised its human resources guidelines, which describe and mark out the main areas in human resources management and internal interaction from the viewpoint of the employer and of personnel.

One management tool used at VR for several years now has been the individual annual development interview between superior and subordinate. In 2007 61% (58%) of personnel took part in these interviews.

In the review year a total bonus accrued from the previous year of EUR 2.85 million was paid to 9574 people (EUR 1.18 million to 1773 people).

The personnel bonus scheme was reorganized at VR-Group Ltd, VR Ltd, VR-Track Ltd and Corenet Oy, and a personnel fund was set up for VR Group. The bonuses awarded by the individual companies based on achieving targets set by the employer are paid into the fund.

As a result of enhanced occupational health activities, the amount of sick leave continued to decline. Calculated as a proportion of regular working hours it was 6.0% (6.2%). The health examinations required for traffic safety and monitoring of these became established practice in accordance with the new guidelines from the Finnish Rail Agency.

The number of accidents at work remained unchanged in 2007. VR's accident frequency rate, calculated as the total number of accidents per million work hours, was 51 (51). It is VR's goal to significantly reduce the accident frequency rate over the next three years.

During 2007 VR Group drew up its occupational safety management system, and this was taken into use on 1 January 2008. The agreement on VR's occupational health and safety organization and its tasks were updated. The accident insurance partnership was re-examined, resulting in closer cooperation.

The VR Training Centre provides vocational training for the railway sector in Finland. In 2007 over 240 new railway professionals graduated from the training centre and joined VR. In addition the Centre provided supplementary professional training for current VR Group employees in areas such as rail safety,

customer service and occupational health and safety.

Management training was arranged in cooperation with the Helsinki School of Economics for people employed by VR in supervisory or expert duties.

### Management and audit

The Annual General Meeting on 10 April 2007 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 to continue as chairman of the Supervisory Board.

The AGM elected to continue as auditors the firm of authorized public accountants KPMG Oy Ab, under the supervision of principal auditor Lasse Holopainen, Authorized Public Accountant. The AGM elected Jorma Nurkkala, Authorized Public Accountant, 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.

As from the beginning of May 2007, ownership steering for VR-Group Ltd was transferred from the Ministry of Transport and Communications to the Prime Minister's Office. In accordance with the decision of the Extraordinary General Meeting of VR-Group Ltd held on 15 May 2007, the composition of the Board of Directors was altered such that Markku Tapio was appointed to the Board in place of Leena Kostander.

### 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 to continue as its deputy chairman. At its organization meeting the Board elected Heikki Rusila to continue as its deputy chairman. The Board elected Martin Granholm as chairman of its appointment and remuneration committee and Heikki Rusila, Jukka Ruuska and Leena Kostander to continue as members. Markku Tapio replaced Leena Kostander on the appointment and remuneration committee as from 15 May 2007. The Board elected Arja Talma to continue as chairman of the audit committee and Maaret Heiskari and Ritva Ohmeroluoma to continue as members.

The Supervisory Board met seven times in the review year with an attendance rate of 80%. The Board of Directors met 13 times with an attendance rate of 90%. The appointment and remuneration committee met 5 times and the audit committee 4 times.

### Major events after the end of the fiscal year and prospects in 2008

At the beginning of 2008 the Finnish Rail Administration established a national traffic control unit, which started actual operations at the beginning of March. The main reason for establishing the unit was because the rail network can now be used by other operators in addition to VR and the requirement for neutrality arising from this, for example in allocating rail capacity in exceptional situations.

The Extraordinary General Meeting of VR-Group Ltd held in

February changed the Articles of Association such that VR's Supervisory Board shall have a minimum of 6 and maximum of 12 members. The Meeting also deleted from the Articles the statement that the Supervisory Board has the right to decide on matters concerning a significant reduction or expansion of the company's operations or fundamental changes in the company's organization.

According to general forecasts, the financial situation will weaken in 2008 from the previous year. This will have a knock-on effect on rail carryings. In addition, the export duties on round timber introduced by Russia in 2007, and which are planned to rise again at the beginning of April, will probably further reduce carryings of timber imports. Any increase in domestic timber carryings will not compensate for the reduction in imports. In total, freight tonnage carried by VR is expected to remain at the same level as in the previous year.

The number of passenger journeys is expected to continue to rise. VR raised its passenger service prices on average by 2.9% in January.

The large majority of track construction and maintenance work consists of work ordered by the Finnish Rail Administration. Taking into account the budget allocations available to the Rail Administration and the ever increasing amount of work put out to competitive tender, VR has very limited opportunities for increasing the turnover of its track construction and maintenance work. The start of the major improvements to the Seinäjoki–Oulu and Lahti–Luumäki track sections are expected to bring construction contracts to replace the turnover from contracts that are currently underway and will finish during the year.

At the end of January VR-Track Ltd signed a contract, based on a Letter of Intent signed at the end of the previous year, with Talvivaara Infrastructure Oy to build the track from the mine in Talvivaara in Sotkamo to the Murtomäki railway location south of Kajaani. The contract includes electrification of the track. The track will be completed by the end of 2009. VR Ltd and Talvivaara Projekti Oy signed a framework agreement at the end of February for transporting by rail the raw materials and ready product from the Talvivaara mine. When the mine is in full operation, carryings are estimated to rise to 1.5 million tonnes a year.

In February the Finnish Rail Administration and VR gave the Minister of Transport a report on how they will improve information for rail passengers when services are disrupted. An information centre will be established at the Finnish Rail Administration and announcements and display units will be improved.

In February Oy Pohjolan Liikenne Ab purchased the remaining 50% of the shares of SP Transit Finland Ltd Oy. The purchase had been agreed when the company became a VR Group company in 2006.

# Consolidated Profit and Loss Account

(1,000 €)	Note	1 Jan.–31 Dec. 2007	1 Jan.–31 Dec. 2006
<b>Net turnover</b>	1	<b>1,334,090</b>	1,264,552
Change in stocks of finished goods and work in progress		1,420	-3,038
Production for own use		37,721	28,266
Profits from associated companies		-1	5
Other operating income	2	30,735	36,781
Materials and services	3	420,109	364,577
Personnel expenses	4	590,630	580,617
Depreciation	5	108,414	104,209
Other operating expenses	6	197,667	191,928
Expenses, total		<b>1,316,820</b>	1,241,332
<b>Operating profit</b>	7	<b>87,145</b>	85,235
Financial income and expenses	8	6,333	4,026
<b>Profit before extraordinary items and taxes</b>		<b>93,478</b>	89,261
Income taxes	11	-24,288	-23,738
Minority interest		-2,828	-2,422
<b>Profit for the year</b>		<b>66,363</b>	63,101



# Consolidated Balance Sheet

(1,000 €)	Note	31 Dec. 2007	31 Dec. 2006
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	12	8,276	9,992
Goodwill on consolidation		7,931	6,579
Tangible assets	12	1,201,499	1,203,551
Investments	13		
Holdings in associated companies		3,647	4,148
Other investments		19,731	28,781
<b>Fixed assets, total</b>		<b>1,241,085</b>	<b>1,253,053</b>
<b>Current assets</b>			
Stocks	14	73,395	60,081
Long-term receivables	15	5,457	3,184
Current receivables	15	142,401	146,481
Securities	16	121,779	79,656
Cash at bank and in hand		9,383	10,121
<b>Current assets, total</b>		<b>352,415</b>	<b>299,523</b>
<b>Assets, total</b>		<b>1,593,500</b>	<b>1,552,575</b>
<b>Capital and liabilities</b>			
<b>Shareholders' equity</b>			
Share capital	17	370,013	370,013
Share premium account		525,808	525,813
Other reserves		4	166
Retained earnings		355,088	319,939
Profit for the year		66,363	63,101
<b>Shareholders' equity, total</b>		<b>1,317,277</b>	<b>1,279,033</b>
<b>Minority interest</b>		<b>16,731</b>	<b>15,321</b>
<b>Consolidation reserve</b>		<b>82</b>	<b>0</b>
<b>Provisions</b>	19	<b>2,488</b>	<b>3,232</b>
<b>Liabilities</b>			
Deferred tax liability	20	44,371	44,971
Long-term liabilities		1,986	2,080
Current liabilities		210,565	207,939
<b>Liabilities, total</b>		<b>256,923</b>	<b>254,990</b>
<b>Capital and liabilities, total</b>		<b>1,593,500</b>	<b>1,552,575</b>



# Consolidated Cash Flow Statement

(1,000 €)

1 Jan.–31 Dec. 2007

1 Jan.–31 Dec. 2006

<b>Cash flow from operating activities</b>		
Operating profit	87,145	85,235
Adjustments to operating profit <sup>1</sup>	91,073	78,125
Change in net working capital	-4,566	-24,322
Interest received	7,190	4,729
Interest paid and other payments	-1,090	-782
Dividends received	733	80
Taxes paid	-26,380	-20,044
<b>Net cash from operating activities</b>	<b>154,106</b>	<b>123,020</b>
<b>Cash flow from investing activities</b>		
Capital expenditure on fixed assets and shares	-118,215	-126,946
Other fixed assets disposals	30,593	33,929
Change in other long-term investments	9,593	28,097
<b>Net cash from investing activities, total</b>	<b>-78,029</b>	<b>-64,920</b>
<b>Cash flow before financing activities</b>	<b>76,077</b>	<b>58,101</b>
<b>Cash flow from financing activities</b>		
Long-term loans made, repayments	0	72
Long-term loans, repayments	0	-1,179
Loans given	-1,143	0
Short-term loans, raised/repaid	-907	0
Dividends paid	-32,642	-24,664
<b>Net cash used in financing activities, total</b>	<b>-34,692</b>	<b>-25,772</b>
<b>Change in cash reserves</b>	<b>41,385</b>	<b>32,329</b>
<b>Cash reserves on 1 Jan.</b>	<b>89,776</b>	<b>57,447</b>
<b>Cash reserves on 31 Dec.</b>	<b>131,162</b>	<b>89,776</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. 2007	1 Jan.–31 Dec. 2006
<b>Net turnover</b>	1	<b>55,288</b>	50,606
Other operating income	2	<b>11,500</b>	20,697
Materials and services	3	<b>14,173</b>	13,880
Personnel expenses	4	<b>13,953</b>	13,386
Depreciation	5	<b>11,348</b>	11,015
Other operating expenses	6	<b>14,383</b>	12,906
Expenses, total		<b>53,858</b>	51,187
<b>Operating profit</b>		<b>12,930</b>	20,117
Financial income and expenses	8	<b>25,877</b>	26,335
<b>Profit before extraordinary items</b>		<b>38,807</b>	46,452
Extraordinary items	9	<b>34,440</b>	20,000
<b>Profit before taxes</b>		<b>73,247</b>	66,452
Change in depreciation difference	10	<b>115</b>	155
Income taxes	11	<b>-18,551</b>	-16,611
<b>Profit for the year</b>		<b>54,810</b>	49,995

# Parent Company Balance Sheet

(1 000 €)	Note	31 Dec. 2007	31 Dec. 2006
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible assets	12	1,442	1,607
Tangible assets	12	248,491	217,531
Investments	13		
Holdings in, and receivables from, Group companies		648,051	684,767
Other investments		20,966	30,567
<b>Fixed assets, total</b>		<b>918,949</b>	934,471
<b>Current assets</b>			
Long-term receivables		858	858
Current receivables	15	116,374	137,320
Securities	16	121,779	79,656
Cash at bank and in hand		1,598	1,169
<b>Current assets, total</b>		<b>240,609</b>	219,002
<b>Assets, total</b>		<b>1,159,558</b>	1,153,473
<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		116,898	97,302
Profit for the year		54,810	49,995
<b>Shareholders' equity, total</b>		<b>1,067,475</b>	1,043,065
<b>Accumulated appropriations</b>	18	0	115
<b>Provisions</b>	19	438	1,041
<b>Liabilities</b>			
Long-term liabilities	20	279	185
Current liabilities		91,366	109,067
<b>Liabilities, total</b>		<b>91,645</b>	109,252
<b>Capital and liabilities, total</b>		<b>1,159,558</b>	1,153,473

# Parent Company Cash Flow Statement

(1,000 €)

1 Jan.–31 Dec. 2007

1 Jan.–31 Dec. 2006

<b>Cash flow from operating activities</b>		
Operating profit	12,930	20,117
Depreciation according to plan	11,348	11,015
Other non-payment-related income and expenses	-12,046	-20,514
<b>Cash flow before change in net working capital</b>	<b>12,232</b>	<b>10,618</b>
Change in current receivables	-2,076	570
Change in current liabilities	3,058	1,884
<b>Change in net working capital</b>	<b>982</b>	<b>2,454</b>
Interest paid	-2,695	-2,129
Dividends received	2,020	2,819
Interest received from operating activities	36,133	24,515
Taxes paid	-20,011	-14,235
<b>Cash flow from financial items and taxes</b>	<b>15,448</b>	<b>10,969</b>
<b>Net cash from operating activities</b>	<b>28,662</b>	<b>24,040</b>
<b>Cash flow from investing activities</b>		
Capital expenditure on fixed assets	-43,434	-14,819
Sale of other fixed assets	12,742	24,145
Change in other long-term investments	9,593	28,097
<b>Net cash from investing activities, total</b>	<b>-21,099</b>	<b>37,422</b>
<b>Cash flow before financing activities</b>	<b>7,562</b>	<b>61,463</b>
<b>Cash flow from financing activities</b>		
Long-term receivables, increase	-40,500	-58,000
Long-term receivables, decrease	105,097	61,996
Group contributions received	20,000	12,450
Dividends paid	-30,400	-23,000
Change in funds transferred to Group accounts	-19,206	-25,300
<b>Net cash used in financing activities, total</b>	<b>34,991</b>	<b>-31,854</b>
<b>Change in cash reserves</b>	<b>42,553</b>	<b>29,609</b>
<b>Cash reserves on 1 Jan.</b>	<b>80,824</b>	<b>51,215</b>
<b>Cash reserves on 31 Dec.</b>	<b>123,377</b>	<b>80,824</b>



# Notes to the Financial Statements

## Accounting principles

### Scope of consolidation

The consolidated financial statements comprise all subsidiaries and associated companies.

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€ 37.7 (28.3) were produced by the company itself and include M€ 3.6 (3.4) in fixed costs related to production.

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

Securities are valued at their purchase cost.

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

The balance sheets of foreign subsidiaries are consolidated using the average exchange rates given by the European Central Bank on the balance sheet date and the profit and loss accounts at the average exchange rates for the financial period.

### 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	
	2007	2006	2007	2006
<b>Breakdown by business sector</b>				
Rail services				
Freight services	339,989	358,872		
Passenger services	370,243	340,030		
Road services				
Freight services	246,443	201,502		
Passenger services	40,196	38,598		
Track construction and maintenance	238,313	232,594		
Catering and restaurant services	28,979	26,650		
Other services	69,928	66,305	55,288	50,606
<b>Total</b>	<b>1,334,090</b>	<b>1,264,552</b>	<b>55,288</b>	<b>50,606</b>

<b>Breakdown by geographical area</b>				
Finland	1,299,182	1,252,018	55,288	50,606
Rest of Europe	34,909	12,534	0	0
<b>Total</b>	<b>1,334,090</b>	<b>1,264,552</b>	<b>55,288</b>	<b>50,606</b>

Revenue from long-term track 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€ 52.4 (33.3).

2 Other operating income (1,000 €)	Group		Parent Company	
	2007	2006	2007	2006
Profits on sale of fixed assets	18,448	25,304	11,384	20,653
Other	12,286	11,477	116	45
<b>Total</b>	<b>30,735</b>	<b>36,781</b>	<b>11,500</b>	<b>20,697</b>

3 Materials and services (1,000 €)	Group		Parent Company	
	2007	2006	2007	2006
Materials and supplies (goods)				
Purchases during the year	200,578	181,147	6,560	6,397
Change in stocks	-11,462	-1,477	0	0
External services purchased	230,994	184,907	7,613	7,482
<b>Total</b>	<b>420,109</b>	<b>364,577</b>	<b>14,173</b>	<b>13,880</b>

4 Personnel and personnel expenses	Group		Parent Company	
	2007	2006	2007	2006
The Group's average number of personnel during the year was distributed as follows:				
VR-Group Ltd	250	255		
VR Ltd	7,479	7,599		
VR-Track Ltd group	2,295	2,360		
Pohjolan Liikenne group	2,024	1,997		
Avecra Oy	285	252		
Corenet Ltd	207	200		
<b>Total</b>	<b>12,540</b>	<b>12,663</b>		

Personnel expenses (1,000 €)	Group		Parent Company	
	2007	2006	2007	2006
Wages and salaries	449,499	444,234	11,200	10,701
Pension expenses	98,474	93,395	1,722	1,682
Other social expenses	42,658	42,988	1,031	1,002
<b>Personnel expenses in the P&amp;L account</b>	<b>590,630</b>	<b>580,617</b>	<b>13,953</b>	<b>13,386</b>

	Group		Parent Company	
	2007	2006	2007	2006
<b>Management remuneration (1,000 €)</b>				
Presidents	2,450	2,260	607	523
Members of Boards of Directors	341	329	189	133
Supervisory Board	123	108	123	108
<b>Total</b>	<b>2,914</b>	<b>2,698</b>	<b>919</b>	<b>763</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	
	2007	2006	2007	2006
Planned depreciation				
Intangible assets	4,251	3,896	717	272
Buildings and structures	8,528	9,198	7,928	8,207
Tractive and rolling stock	64,402	61,024	0	0
Other machinery and equipment	26,287	25,860	2,058	1,910
Other tangible assets	3,239	2,915	645	626
Amortization of goodwill on consolidation	1,706	1,316		
<b>Total</b>	<b>108,414</b>	<b>104,209</b>	<b>11,348</b>	<b>11,015</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 (1,000 €)	Group		Parent Company	
	2007	2006	2007	2006
Rents and other property expenses	31,277	26,347	2,039	1,941
Travel expenses	19,732	19,952	367	296
Other personnel expenses	11,139	10,539	422	309
Marketing and hospitality expenses	7,571	7,503	525	527
Track usage fee and track tax	61,826	61,646	0	0
Telecommunications and information management expenses	27,761	27,424	2,804	2,908
Other service expenses	25,858	25,790	0	0
Administration and other expenses	12,505	12,727	8,226	6,925
<b>Total</b>	<b>197,667</b>	<b>191,928</b>	<b>14,383</b>	<b>12,906</b>

#### Auditors' fees

Auditing fees	160	75	10	10
Taxation services	3	3	3	0
Other services	70	59	0	0

7 Operating profits of the Group's principal companies (1,000 €)	2007	2006	
VR-Group Ltd	12,930	20,117	
VR Ltd	38,378	35,340	
VR-Track Ltd group	14,813	12,564	
Pohjolan Liikenne group	12,204	8,050	
Avecra Oy	2,980	2,212	
Corenet Ltd	5,784	6,079	

8 Financial income and expenses (1,000 €)	Group 2007	Parent Company		2006
		2006	2007	

#### Dividend income

From Group companies	0	0	2,050	2,750
From associated companies	0	0	0	0
From others	233	80	220	69
<b>Dividend income, total</b>	<b>233</b>	<b>80</b>	<b>2,270</b>	<b>2,819</b>

#### Interest income from long-term investments

From Group companies	0	0	20,242	21,696
From associated companies	77	280	77	280
From others	1,468	2,490	1,468	2,490

#### Other interest and financial income

From Group companies	0	0	37	54
From associated companies	41	57	41	58
From others	5,604	1,903	4,437	1,068

#### Interest expenses and other financial expenses

To Group companies	0	0	2,654	2,084
To others	1,090	782	41	45
<b>Financial income and expenses, total</b>	<b>6,333</b>	<b>4,026</b>	<b>25,877</b>	<b>26,335</b>

#### 9 Extraordinary items (1,000 €)

Extraordinary items in the parent company consist of Group contributions received.		34,440	20,000
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#### Parent Company

10 Appropriations (1,000 €)	2007	2006
Difference between planned depreciation and depreciation booked for tax purposes		
Change in depreciation difference (increase +, decrease -)		
Intangible assets	324	127
Buildings and structures	-2,368	-159
Tractive and rolling stock	296	-251
Other tangible assets	1,863	128
<b>Total</b>	<b>115</b>	<b>-155</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 2007	Parent Company		2006
		2006	2007	
Income tax on extraordinary items	0	0	8,954	5,200
Income tax on operating activities	25,163	22,723	9,597	11,411
Change in deferred tax liability	-875	1 016	0	0
<b>Total</b>	<b>24,288</b>	<b>23,738</b>	<b>18,551</b>	<b>16,611</b>

## 12 Fixed assets (1,000 €)

Group 2007	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. 2007	25,693	650	11,525	37,867	60,298	256,731	1,755,413	37,216	25,728	2,135,386	2,173,253	
Increases	811	120	3,471	4,402	720	958	23,767	717	89,945	116,107	120,509	
Decreases	-1,222	-107	-668	-1,997	-1,128	-3,108	-24,482	-380	0	-29,098	-31,095	
Transfers between items	1,891	0	0	1,891	7	4,775	40,676	5,390	-52,738	-1,891	0	
Acquisition cost 31 Dec. 2007	27,172	663	14,328	42,163	59,897	259,356	1,795,374	42,943	62,935	2,220,504	2,262,667	
Accumulated depreciation 1 Jan. 2007	16,157	232	5,126	21,514	0	106,011	804,377	21,101	0	931,489	953,003	
Accumulated depreciation in decreases	1,080	0	436	1,516	0	-285	14,829	397	0	14,941	16,457	
Depreciation during year	4,072	178	1,706	5,957	0	8,528	90,689	3,239	0	102,457	108,414	
Accumulated depreciation 31 Dec. 2007	19,149	410	6,397	25,956	0	114,824	880,237	23,943	0	1,019,005	1,044,960	
Revaluations	0	0	0	0	0	0	0	0	0	0	0	
Book value 31 Dec. 2007	8,023	253	7,931	16,207	59,897	144,531	915,137	18,999	62,935	1,201,499	1,217,707	

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	22,961	466	7,341	30,768	61,963	267,764	1,671,759	41,495	87,632	2,130,613	2,161,381	
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	25,693	650	11,525	37,867	60,298	256,731	1,755,413	37,216	25,728	2,135,386	2,173,253	
Accumulated depreciation 1 Jan. 2006	13,447	69	3,629	17,145	0	110,631	790,853	23,913	0	925,397	942,542	
Accumulated depreciation in decreases	1,062	0	0	1,062	0	12,411	73,738	5,752	0	91,901	92,963	
Depreciation during year	3,734	159	1,319	5,212	0	9,198	86,884	2,915	0	98,997	104,209	
Accumulated depreciation 31 Dec. 2006	16,119	228	4,948	21,295	0	107,418	803,999	21,076	0	932,493	953,788	
Revaluations	0	0	0	0	0	659	0	0	0	659	659	
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	

Parent Company 2007	Intangible assets				Tangible assets					Assets, total
	Intangible rights	Goodwill	Consolidation difference	Total	Land	Buildings	Machinery & equipment	Other tangible	Work in progress	
Acquisition cost 1 Jan. 2007	2,887			2,887	58,694	241,394	19,052	10,162	11,581	343,770
Increases	237			237	549	4,713	1,695	668	42,539	50,402
Decreases	-713			-713	-1,141	-366	-473	0	-7,290	-9,982
Acquisition cost 31 Dec. 2007	2,411			2,411	58,103	245,741	20,274	10,830	46,830	384,189
Accumulated depreciation 1 Jan. 2007	1,280			1,280	0	105,500	13,778	4,075	0	124,632
Accumulated depreciation in decreases	1,028			1,028	0	225	470	0	0	1,723
Depreciation during year	717			717	0	7,928	2,058	645	0	11,348
Accumulated depreciation 31 Dec. 2007	969			969	0	113,202	15,365	4,720	0	134,257
Book value 31 Dec. 2007	1,442			1,442	58,103	132,539	4,909	6,110	46,830	249,932

Parent Company 2006	Intangible assets				Tangible assets					Assets, total
	Intangible rights	Goodwill	Consolidation difference	Total	Land	Buildings	Machinery & equipment	Other tangible	Work in progress	
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

13 Investments (1,000 €)	Shares			Receivables			Total
	Group companies	Associated companies	Other companies	Group companies	Associated companies	Other companies	
<b>Group 2007</b>							
Acquisition cost 1 Jan. 2007	0	4,148	1,218	0	492	27,071	32,929
Increases	0	0	0	0	450	136	586
Decreases	0	-501	-44	0	0	-9,593	-10,138
Acquisition cost 31 Dec. 2007	0	3,647	1,174	0	942	17,615	23,378
<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>Parent Company 2007</b>							
Acquisition cost 1 Jan. 2007	288,021	2,298	886	396,745	358	27,025	715,334
Increases	0	0	0	0	0	0	0
Decreases	0	0	-8	-36,716	0	-9,593	-46,317
Acquisition cost 31 Dec. 2007	288,021	2,298	878	360,030	358	17,432	669,017
<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

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

	Group		Parent Company	
	2007	2006	2007	2006
Repurchase cost	17,658	27,502	17,658	27,502
Book value	17,432	27,025	17,432	27,025
Difference	226	477	226	477



## 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
Napapiirin Turistiauto Oy, Helsinki	100	0
Oy Pohjolan Kaupunkiliikenne Ab, Helsinki	100	0
Oy Pohjolan Henkilöliikenne Ab, Helsinki	100	0
M. V. Wikström Oy, Kirkkonummi	100	0
Jyrkilä Oy Kaupunkiliikenne, Kotka	100	0
Purolan Liikenne Oy, Pyhtää	100	0
Oy Logis Ab, Helsinki	100	0
Kuljetus Huhtala Oy, Lohja	100	0
SP Transit Finland Ltd Oy, Helsinki	50	0
SP Transit Eesti AS, Estonia	50	0
OU Niinivirta Transport, Estonia	50	0
SP Transit Poland z o.o., Poland	50	0
UAB SP Transit Vilnius, Lithuania	50	0
AS SP Transit Latvia, Latvia	50	0
PolExpress Sp. z o.o., Poland	50	0
SP Transit Hungary Kft, Hungary	50	0
Raksped Kft, Hungary	25.5	0
MT Transport s.r.o., Czech Republic	25.5	0
SP Transit s.r.o., Slovakia	50	0
VR-Track Ltd, Helsinki	100	100
Megasiirto Oy, Seinäjoki	100	0
Insinööritoimisto Arcus Oy, Turku	70	0
VR-Track AS, Estonia	100	0
SIA VR-Track, Latvia	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 ContainerTrans Scandinavia Ltd, Helsinki	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	
	2007	2006	2007	2006
Materials and supplies	70,198	58,709	0	0
Work in progress	2,748	1,339	0	0
Advance payments	450	34	0	0
<b>Total</b>	<b>73,395</b>	<b>60,081</b>	<b>0</b>	<b>0</b>

15 Receivables (1,000 €)	Group		Parent Company	
	2007	2006	2007	2006
<b>Long-term receivables</b>				
Receivables from associated companies	858	858	858	858
Receivables from other companies	1,767	1,602	0	0
Deferred tax credit	2,832	723	0	0
<b>Long-term receivables total</b>	<b>5,457</b>	<b>3,183</b>	<b>858</b>	<b>858</b>

#### Current receivables

Receivables from Group companies				
Accounts receivable	0	0	2,149	2,501
Loans receivable	0	0	72,841	69,475
Other receivables	0	0	34,704	20,176
Prepaid expenses and accrued income	0	0	931	41,800
Receivables from associated companies				
Accounts receivable	496	757	0	1
Receivables from other companies				
Accounts receivable	115,562	123,345	309	445
Loans receivable	458	7	0	0
Other receivables	4,503	4,425	3,869	624
Prepaid expenses and accrued income	21,381	17,947	1,571	2,299
<b>Current receivables, total</b>	<b>142,401</b>	<b>146,481</b>	<b>116,374</b>	<b>137,320</b>

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

The main items under Group prepaid expenses and accrued income are pension contribution receivables (M€ 3) and interest receivables (M€ 1.3).

16 Securities (1,000 €)	Group		Parent Company	
	2007	2006	2007	2006
Repurchase cost	121,793	79,667	121,793	79,667
Book value	121,779	79,656	121,779	79,656
<b>Difference</b>	<b>14</b>	<b>12</b>	<b>14</b>	<b>12</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	
	2007	2006	2007	2006
Restricted equity				
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.	166	339	0	0
Change in revaluation reserve	-162	-174	0	0
Revaluation reserve 31 Dec.	4	166	0	0
Share premium account 1 Jan.	525,813	525,761	525,754	525,754
Change during the year	-5	52	0	0
Share premium account 31 Dec.	525,808	525,813	525,754	525,754
Restricted equity, total	895,826	895,992	895,767	895,767
Non-restricted shareholders' equity				
Retained earnings 1 Jan.	383,041	342,442	147,298	120,302
Dividend distribution	-30,400	-23,000	-30,400	-23,000
Deferred tax entered in shareholders' equity	2,448	498		
Retained earnings 31 Dec.	355,089	319,940	116,898	97,302
Profit for the year	66,363	63,101	54,810	49,995
Non-restricted shareholders' equity, total	421,452	383,041	171,708	147,298
<b>Shareholders' equity, total</b>	<b>1,317,277</b>	<b>1,279,033</b>	<b>1,067,475</b>	<b>1,043,065</b>

Calculation of distributable funds (1,000 €)	Parent Company	
	2007	2006
Retained earnings	116,898	97,302
Profit for the year	54,810	49,995
<b>Distributable funds, total</b>	<b>171,708</b>	<b>147,298</b>

## 18 Accumulated appropriations

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

19 Provisions (1,000 €)	Group		Parent Company	
	2007	2006	2007	2006
<b>Voluntary provisions</b>				
Housing provision	1,173	1,077	-	-

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

### Obligatory provisions

Obligatory provisions M€ 2.5 (3.2) comprise expected warranty costs of M€ 1.0 (1.3) on long-term construction projects, future costs of M€ 0.9 (0.9) from dismantling a radio network, and environmental provisions of M€ 0.7 (1.0).

The parent company's obligatory provisions consist of environmental provisions of M€ 0.4 (1.0).

<b>Impact of voluntary provisions and depreciation difference on the balance sheet</b>	<b>Group</b>	<b>2006</b>
	<b>2007</b>	
Voluntary provisions	1,173	1,128
Depreciation difference	167,858	171,220
	<b>169,030</b>	172,349
Transfer to shareholders' equity	124,410	126,781
Deferred tax liability	43,948	44,811
Minority interest	672	757
	<b>169,030</b>	172,349

<b>Deferred tax liability and receivables</b>		
Deferred tax receivables		
From difference in accrual periods	2,832	723
Deferred tax liability		
From difference in accrual periods	44,371	44,971

<b>Impact of voluntary provisions and depreciation difference on the profit and loss account</b>		
Change in voluntary provisions	96	96
Change in depreciation difference	-4,175	4,475
	<b>-4,079</b>	4,571
Change affecting profit for the year	-2,934	3,316
Change in deferred tax liability	-1,061	1,188
Change affecting minority interest	-84	66
	<b>-4,079</b>	4,571

<b>20 Liabilities (1,000 €)</b>	<b>Group</b>	<b>Parent Company</b>		
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Long-term liabilities</b>				
Loans from financial institutions	1,390	1,459	0	0
Other long-term loans	290	210	279	185
Advances received	307	412	0	0
<b>Long-term liabilities, total</b>	<b>1,986</b>	2,080	<b>279</b>	185
<b>Liabilities due after five years</b>				
Loans from financial institutions	149	149	0	0
<b>Current liabilities</b>				
<b>Debt to other companies</b>				
Loans from financial institutions	344	389	0	0
Advances received	154	3,404	211	197
Accounts payable	50,553	49,307	4,082	4,613
Other liabilities	32,633	36,801	323	305
Accrued expenses and prepaid income	120,426	117,337	8,135	5,896
<b>Debt to Group companies</b>				
Advances received	6,446	700	4	6
Accounts payable	10	0	2,190	2,797
Other liabilities	0	0	76,421	95,252
Accrued expenses and prepaid income	0	0	1	0
<b>Current liabilities, total</b>	<b>210,565</b>	207,938	<b>91,366</b>	109,067

The largest item in accrued expenses and prepaid income is salaries and wages of M€ 97 (96).





## 23 Disputes

A Group subsidiary has a dispute under arbitration with the former owners of Vuorenpeikot Oy concerning the impact on the company acquisition of the losses on a VT6 project handed over in 2004. The result of the dispute will not have a significant impact on the financial result.

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 appealed against the judgment and the matter will be considered in the Helsinki Court of Appeal in April 2008.

On 20 December 2007 the Helsinki Court of Appeal ordered Componenta CPC Oy to pay damages amounting to M€ 0.9 with interest to a Group subsidiary for the delivery of a wheel set subsequently found to be defective. The ruling is still not legally binding.

24 Group key indicators		2007	2006	2005	2004	2003
<b>Scope of operations</b>						
Net turnover	M€	1,334	1,265	1,197	1,179	1,160
Balance sheet total	M€	1,594	1,553	1,512	1,517	1,466
Gross capital expenditure	M€	119	110	210	180	151
- as % of net turnover	%	8.9	8.7	17.6	15.3	13.1
Average number of employees		12,540	12,663	12,791	13,264	13,746
<b>Profitability</b>						
Operating profit	M€	87.1	85.2	61	63	53
- as % of net turnover	%	6.5	6.7	5.1	5.3	4.6
Net profit	M€	66.4	63.1	46	52	41
Return on investment (ROI)	%	7.2	7.0	5.4	5.8	5.1
Return on shareholders' equity (ROE)	%	5.3	5.2	3.9	4.5	3.6
<b>Solvency</b>						
Solvency ratio	%	84.1	83.6	82.8	81.5	83.1
<b>Liquidity</b>						
Quick Ratio		1.4	1.2	0.8	1.0	1.4

### Calculation of key indicators

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

# Board's Proposal on the Distribution of Profit

The parent company's distributable funds were EUR 171.7 million,  
which included a net profit for the year totalling EUR 54.8 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 54,800,000,  
and to be retained under shareholders' equity EUR 116,908,196.

Helsinki, 25 March 2008

Martin Granholm	Maaret Heiskari	Jorma Hellsten
Ritva Ohmeroluoma	Heikki Rusila	Jukka Ruuska
Arja Talma	Markku Tapio	Henri Kuitunen

## Auditors' Report

### To the Annual General Meeting 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 2007. 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, 25 March 2008

KPMG Oy Ab	Jorma Nurkkala, APA,
Authorized Public Accountants	Chartered Public Finance Auditor
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 2007 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.

Helsinki, 26 March 2008

Matti Ahde	Pekka Nousiainen	Eero Akaan-Penttilä	Katja Alvoittu
Eero Hemming	Marcus Henricson	Anne Huotari	Eeva Kokkonen
Timo Koli	Lauri Kähkönen	Anita Mikkonen	Raili Myllylä
Olli Männikkö	Lauri Oinonen	Eero Pennanen	Juha Rannikko
Erkki Rantala	Timo Rautajoki	Jarmo Saarijärvi	Satu Taiveaho
Raija Vahasalo	Tuula Wyssman		

# Statistical Information

Freight services	2007	2006	% change <sup>1)</sup>	2005	2004	2003
<b>Carryings, 1,000 tonnes</b>						
By rail	<b>40,288</b>	43,560	<b>-7.5</b>	40,722	42,663	43,503
Finland	<b>26,204</b>	25,959	<b>0.9</b>	23,479	26,255	24,980
International	<b>14,084</b>	17,601	<b>-20.0</b>	17,243	16,408	18,523
East	<b>9,924</b>	12,590	<b>-21.2</b>	12,937	12,099	14,374
Transit	<b>3,543</b>	4,238	<b>-16.4</b>	3,381	3,199	3,196
West	<b>617</b>	773	<b>-20.2</b>	925	1,110	953
By road	<b>10,849</b>	9,859	<b>10.0</b>	9,107	8,861	8,554
<b>Total</b>	<b>51,137</b>	53,419	<b>-4.3</b>	49,829	51,524	52,057

<b>Tonne-kilometres by rail, million</b>						
Finland	<b>7,581</b>	7,375	<b>2.8</b>	6,607	7,197	6,760
International	<b>2,852</b>	3,685	<b>-22.6</b>	3,099	2,908	3,287
East	<b>1,643</b>	2,135	<b>-23.0</b>	2,037	2,025	2,585
Transit	<b>1,028</b>	1,332	<b>-22.8</b>	806	604	462
West	<b>181</b>	218	<b>-17.0</b>	256	279	240
<b>Total</b>	<b>10,434</b>	11,060	<b>-5.7</b>	9,706	10,105	10,047

Passenger services <sup>2)</sup>						
<b>Journeys, 1,000</b>						
By rail	<b>66,685</b>	63,803	<b>4.5</b>	63,493	60,134	59,908
Long-distance	<b>12,944</b>	12,554	<b>3.1</b>	12,503	12,129	11,914
Finland	<b>12,545</b>	12,217	<b>2.7</b>	12,235	11,877	11,659
International	<b>399</b>	337	<b>18.4</b>	267	252	255
Commuter	<b>53,741</b>	51,248	<b>4.9</b>	50,990	48,005	47,994
Helsinki metropolitan area	<b>42,255</b>	41,224	<b>2.5</b>	40,897	38,222	38,443
Other	<b>11,486</b>	10,024	<b>14.6</b>	10,093	9,783	9,551
By road	<b>14,443</b>	14,107	<b>2.4</b>	11,926	10,152	13,748
<b>Total</b>	<b>81,128</b>	77,910	<b>4.1</b>	75,419	70,286	73,656

<b>Passenger-kilometres by rail, million</b>						
Long-distance	<b>2,951</b>	2,801	<b>5.4</b>	2,744	2,654	2,642
Finland	<b>2,848</b>	2,708	<b>5.2</b>	2,667	2,582	2,570
International	<b>103</b>	93	<b>11.0</b>	76	72	72
Commuter	<b>827</b>	740	<b>11.8</b>	734	698	696
Helsinki metropolitan area	<b>401</b>	392	<b>2.5</b>	388	363	365
Other	<b>425</b>	348	<b>22.2</b>	346	335	331
<b>Total</b>	<b>3,778</b>	3,540	<b>6.7</b>	3,478	3,352	3,338

<b>VR Group personnel</b>	<b>12,540</b>	12,663	<b>-1.0</b>	12,791	13,264	13,746
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Energy consumption in rail traffic, %						
Electric traction	<b>83.3</b>	79.9	<b>-</b>	80.3	77.8	77.6
Diesel traction	<b>16.7</b>	20.1	<b>-</b>	19.7	22.2	22.4

Tractive stock, number						
Electric locomotives	<b>156</b>	156	<b>0.0</b>	156	156	156
Diesel locomotives	<b>245</b>	249	<b>-1.6</b>	257	258	273
Electric trains	<b>148</b>	147	<b>0.7</b>	147	129	119

Rolling stock, number						
Wagons in freight traffic	<b>10,790</b>	10,971	<b>-1.6</b>	11,162	11,445	11,324
Coaches in passenger traffic	<b>1,024 <sup>3)</sup></b>	1,091	<b>-</b>	1,092	1,029	1,060

The book value of freight rolling stock at the end of 2007 totalled M€ 82.2.

The Finnish rail network <sup>4)</sup>						
Length of rail network, line-km	<b>5,899</b>	5,905	<b>-0.1</b>	5,732	5,741	5,851
Length of electrified lines, line-km	<b>3,047</b>	3,047	<b>0.0</b>	2,617	2,619	2,400
Length of track, track-km	<b>8,816</b>	8,830	<b>-0.2</b>	8,587	8,596	8,707

<sup>1)</sup> % change refers to the change from 2006 to 2007.

<sup>2)</sup> Due to a change in the way the statistics have been compiled, the 2006 and 2007 figures for the number of journeys and passenger-kilometres by rail are not fully comparable.

<sup>3)</sup> A change on the way the statistics have been compiled in 2007.

<sup>4)</sup> Owned by the Finnish Rail Administration.

# Glossary

## 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 Uumaja.

## Carbon dioxide, CO<sub>2</sub>

A greenhouse gas that arises from the use of fossil fuels and causes climate change.

## 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.

## Globalization

A process relating to the integration of the global economy that is affected by factors such as the liberalization of international trade, ever faster developments in technology, and the information society.

## Hazardous substances

Substances that can injure people, harm the environment or damage property because of their explosive, flammable, radioactive, 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 doubledecker 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.

## Passenger-kilometre

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

## Pendolino train

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

## Railcar

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

## 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.

## Telematics

Combining wireless communications and global positioning systems using information technology and automation. The word telematics is formed from the words telecommunications and informatics.

## 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. A wheel flat produces more noise and vibration than a wheel that is in good condition.

# Financial Information in 2008

- The Annual Report is published in Finnish, Swedish, English and Russian.
- The Corporate Responsibility Report is published in Finnish and English.
- Interim Reports will be published in June and October.
- Interim Reports are published in Finnish, Swedish and English.
- The Annual Report, Corporate Responsibility Report and Interim Reports can be downloaded from the Internet at [www.vr.fi](http://www.vr.fi), under the link to VR Group.
- Printed copies can be ordered on the Internet at [www.vrgroup.fi](http://www.vrgroup.fi) or from VR-Group Ltd's Corporate Communications, tel. +358 307 21 167.

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