



Annual Report 2011

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VR Group is a versatile service company

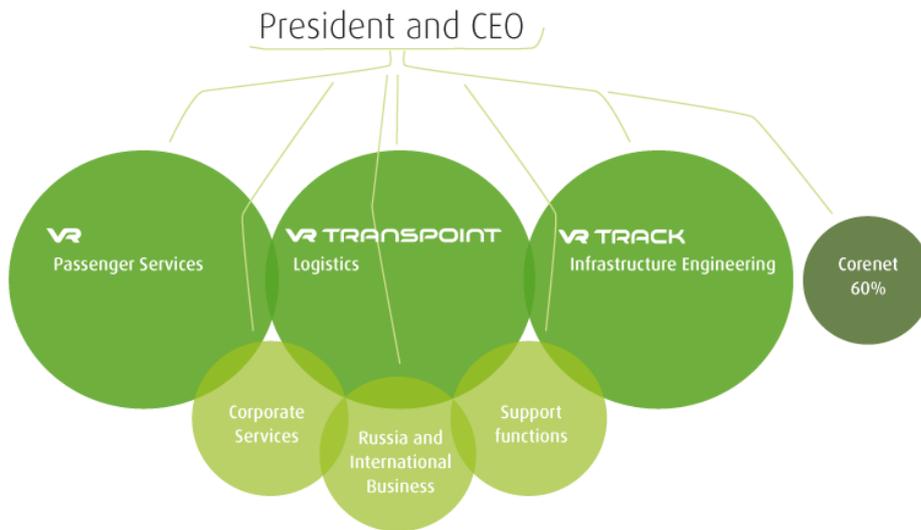
VR Group is an ecofriendly, versatile company with responsible operations offering transport, logistics and infrastructure engineering services. The Group employs 11,500 professionals.

VR Group's net turnover in 2011 totalled EUR 1437.2 million. The Group operates mainly in Finland, but also has operations abroad, in particular in Russia and Sweden. The Group's head office is in Helsinki. VR Group is one hundred per cent owned by the Finnish State and the Group's parent company is VR-Group Ltd. VR Group contains altogether 28 companies and has 8 associated companies.

VR Group comprises three business divisions with operations based around customer segments and two divisions supporting the business operations.

The three business divisions are VR, providing passenger services; VR Transpoint, providing logistics services, and VR Track, specialising in infrastructure engineering. The Corporate Services division and Russia and International Business division support the business operations.

Support functions relating to finance, personnel, safety and security, the environment, communications and IT services, have been consolidated as Group functions.



A time for open dialogue and for customers

For VR Group, 2011 was a difficult year. We carried out major changes for the second year in a row. We have gone through some deep troughs, but through our hard work we have pulled out of these. Thanks are due to our personnel for going the extra mile.

A cold winter with heavy snowfall posed a challenge for VR Group for the second year in succession. The measures taken before the beginning of 2011 to improve the punctuality of rail services proved to be insufficient. We initiated more systematic efforts to improve punctuality in spring 2011, and towards the end of the year punctuality showed a clear improvement. This work is continuing, so that we can regain the confidence of customers.

A new era began in Passenger Services in the autumn, when the first phase was carried out in the pricing renewal. This was the first step towards a model in which demand will affect the pricing for an individual train. We had some technical problems during the first weeks of the new system, but we sorted them out during the autumn. One of the major achievements of the year in passenger services was without doubt the Allegro train, which surpassed all expectations.

For Logistics, the spring and summer went well. Towards the end of the year, the financial crisis in Europe and its impact on Finnish exports were reflected in the volume of freight carryings. The business models at Logistics need reorganizing in order to improve profitability. We have already started this work, in cooperation with our customers.

At Infrastructure Engineering the year began with layoffs. During the year, however, we were successful in competitive tendering for contracts. For example, VR Track won the first alliance contract in Europe, which is based on cooperation between the client, engineer and builder. This will bring much work for VR Group personnel.

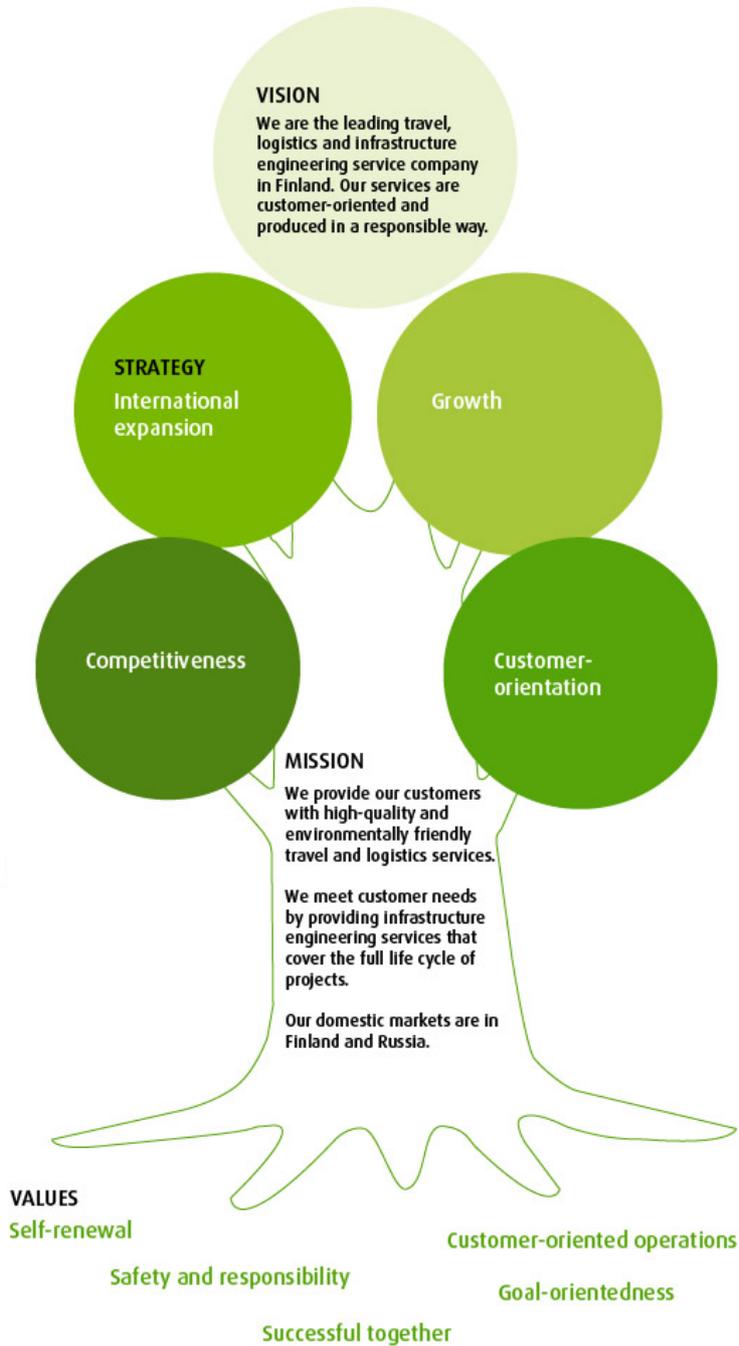
VR Group's personnel have been under considerable pressure in the midst of the restructuring, and the results of the personnel survey reflect this. To correct this situation we have clarified objectives in cooperation with the personnel organisations. Open dialogue with personnel plays a key role. The most important thing is to get everyday work functioning properly, for example by improving the work of supervisory staff.

VR Group has been a pillar of Finnish society throughout its 150-year history. And we aim to be this in future as well. Everything cannot continue just as it has been, however, for the world around us is changing. Together with personnel and customers we are building VR Group into an international service company.

It is time now to focus on customers and on open dialogue with personnel, so that everyone knows the direction we are going and the changes needed to provide better service.

Mikael Aro
President and CEO

Values and strategy



Strategy theme

Customer focus

Situation at end of 2011

Passenger Services

- Problems with punctuality in rail services, more intensive efforts begun to improve punctuality, and punctuality improved towards end of 2011
- First phase implemented in new pricing system
- Extensive customer service coaching begun
- Major purchases of vehicles and rolling stock underway
- Customer satisfaction 71 % on a scale of 1-100 %

Logistics

- New organisation structure and acquisitions make it possible to provide one-stop services
- Customers are divided into division key customers, business unit major customers, and other customers
- Customer account management models take into account individual needs of customers
- Customer satisfaction 3.8 on a scale of 1-5

Infrastructure Engineering

- Customer base has expanded into new growth areas
- New organisation structure enhances current services and supports new growth areas
- Customer satisfaction 3.8 on a scale of 1-5

Goals for 2015

Passenger Services

- To be best customer service company in public transport
- Punctuality rating of 90 % for long-distance trains (max. permitted delay five minutes)
- Commuter train punctuality of 97.5 % (max. permitted delay three minutes)
- Customer satisfaction 88 %

Logistics

- To offer customers the most appropriate form of transport or combination of different forms of transport
- To provide one-stop service on a wider scale
- Customer satisfaction 4.3

Infrastructure Engineering

- To utilise expertise and knowhow in full life-cycle of projects for benefit of customers and for developing entire sector
- Expanding customer base
- Customer satisfaction 4.2

Means

Passenger Services

- Further improving punctuality

- Continuing renewal of pricing
- Further developing customer service, eg. through training and better products
- Utilising new customer programme
- Continuing to replace rolling stock to improve travel comfort, eg. new double-decker InterCity coaches

Logistics

- Developing joint services for rail and road logistics
- Producing more extensive full service packages

Infrastructure Engineering

- Identifying customer needs through active customer care
- Developing work procedures and utilising modern technology, which will for example improve the quality of work and expand the range of services
- Providing better service for customers through networking and partnerships

Growth

Situation at end of 2011

Group

- Study launched to discover joint projects across Group boundaries

Passenger Services

- Train filling rates on average are low
- First phase of new pricing system completed

Logistics

- Situation throughout logistics sector is challenging due to industrial restructuring and global financial crisis
- Trials made in rail logistics with combined transports to Moscow
- Several mine projects pending in Lapland
- Road logistics expanded through acquisitions into added value services and recycling logistics

Infrastructure Engineering

- 2011 extremely challenging year for track construction, net turnover fell, even though succeeded in raising market share
- Net turnover below target in some operations
- Net turnover for electrification, maintenance, planning and materials operations exceeded targets

Goals for 2015

Group

- Growth in net turnover 5 % a year by end of strategy period
- Growth from joint projects across division boundaries

Passenger Services

- To raise rail's market share in all forms of transport to 5.4 %
- Growth of 4 percentage points in filling rates for long-distance trains

Logistics

- Innovative growth in rail logistics, eg. from bio-energy and mine projects
- In road logistics to increase market share and expand into growing, profitable market segments

Infrastructure Engineering

- Growth in projects outside the rail network

Means

Group

- Choosing and implementing development projects across Group boundaries with clear targets

Passenger Services

- Raising train filling rates with demand-based pricing
- Boosting service and reinforcing offering with new rolling stock

Logistics

- Developing new, innovative concepts, such as combined transport trains to Moscow
- Supporting growth through precisely targeted acquisitions

Infrastructure Engineering

- Looking for growth especially in areas that offer opportunities to utilise innovative solutions and VR Track's specialist knowhow, for example in electrification, maintenance, civil engineering and bridge building

International expansion

Situation at end of 2011

Group

- Goals for international expansion revised
- All business divisions have business operations outside Finland
- Russia and International Business division established to support international expansion

Passenger Services

- Allegro service started in December 2010
- Some 300,000 rail journeys between Helsinki and St. Petersburg in 2011, growth of almost 50 %

Logistics

- Business in Russia and CEE countries
- Acquisition of Avain-Trans Oy reinforced position in road logistics in Russia
- Road logistics subsidiary in UK sold in December in management buyout
- Rail-ferry service to Sweden terminated in December 2011

Infrastructure Engineering

- VR Track has grown in Sweden and profitability of projects has improved
- Work load in Estonia has been good, but growth expectations only moderate due to state of market
- First planning assignment completed in Russia

Goals for 2015

Group

- Growth in international net turnover 15 % a year

Passenger Services

- Target of 500,000 journeys a year on Allegro trains

Logistics

- Russia main focus for international expansion

Infrastructure Engineering

- Aiming to grow especially in Sweden

Means

Passenger Services

- Taking advantage of demand-based pricing for Allegro services as well

Logistics

- Looking for organic growth in road logistics in cross-border traffic with Russia and in distribution services in St. Petersburg and Moscow
- Utilising joint ventures in rail logistics

Infrastructure Engineering

- Concentrating on maintenance contracts in Northern Sweden and in track construction on contracts where VR Track's competitive factors give the biggest benefits

Competitiveness

Situation at end of 2011

Group

- Restructuring programme aiming at cost savings progressed according to plan, by end of year achieved an improvement of M€ 66.8 in profitability
- Efficiency achieved by changing business procedures, organisational changes and personnel reductions
- Group has strong balance sheet, for financing rolling stock purchases for example

Passenger Services

- Competition on railways has not begun yet, but is forecast to begin during the 2010s
- Rail already competes with other forms of transport

Logistics

- Competition is beginning in rail logistics
- Efficiency increased, cost structure lightened and organisation structure renewed
- Scale of freight transport system redefined, for example minimum sizes of trains defined and maximum sizes for deliveries
- New procedures introduced in marshalling yards

Infrastructure Engineering

- Market in poor state, operating profit below target
- Good success in competitive tendering for track maintenance and construction

- Productivity tools introduced
- Agreement reached with personnel on methods to improve competitiveness

Goals for 2015

Group

- To raise efficiency
- Operating profit percentage 5 %
- Return on investment 7-9 %
- Restructuring programme impact of EUR 100 million on operating profit by 2012

Passenger Services

- To raise rail market share of all forms of transport to 5.4 %
- To increase filling rate for long-distance trains by 4 percentage points

Logistics

- To ensure competitiveness of operations through restructuring programme, changes in pricing and by integrating rail and road services
- To improve efficiency
- To concentrate on developing profitable operations and identifying innovative pricing models
- To raise efficiency of transport system

Infrastructure Engineering

- To be one of three best infrastructure contractors in Finland

Means

Group

- Supporting business operations with efficient, centralised support functions
- Utilising resources across division and unit boundaries, for example traction services, rolling stock maintenance and production control

Passenger Services

- Continuing renewal of pricing system
- Improving service and travel comfort in various ways

Logistics

- Raising efficiency in transportation, for example switching small loads from rail to road
- Continuing structural changes in freight transport system, eg. rationalising round timber carryings

Infrastructure Engineering

- Improving cost-efficiency by utilising productivity tools
- Further developing service offering and quality
- Taking advantage of experience and knowhow acquired over decades
- Developing and utilising modern technology

VR Group has three business sectors

VR Group comprises three business divisions that operate around customer segments and two divisions that support the business operations.

The three business divisions are VR, providing passenger services; VR Transpoint, providing logistics services, and VR Track, specialising in infrastructure engineering. The Corporate Services division and Russia and International Business division support the business operations.

Passenger Services

Some 90 million journeys a year are made on VR's trains and buses. The Passenger Services division includes rail passenger services and the bus and coach services operated by Pohjolan Liikenne. Vecra provides additional services for passengers on trains and at railway stations with its restaurant and catering services. Vecra is a subsidiary of VR-Group and the international Rail Gourmet Group has a minority holding in Vecra.

Customers

VR's largest customer segments are commuters and business travellers, students, families and other leisure travellers. HSL (Helsinki Region Transport) is a major customer for VR's rail and road passenger services. HSL purchases commuter rail services and bus services from VR in the Helsinki metropolitan area.

Goals

VR aims to

- Enhance the customer's travel experience and improve customer satisfaction
- Increase market share
- Improve punctuality and travel information
- Renew the pricing system
- Reduce journey times and increase the number of rail services within the limits set by the capacity of the rail network
- Increase market share in bus services

Services

Rail services

- VR provides public transport services to meet the work and leisure needs of all sectors of the public.
- VR serves rail passengers daily with 300 long-distance trains and 900 commuter trains in the Helsinki metropolitan area. In addition, the Allegro trains operate four services daily in both directions between Helsinki and St. Petersburg.

Road services

- Pohjolan Liikenne operates local bus services in the Helsinki metropolitan area.
- It provides express coach and regular bus services in southern Finland, south-eastern Finland and the Savo-Kainuu region.
- Pohjolan Liikenne also provides bus and coach charter and contract services.
- Pohjolan Liikenne operates some 100 express coach services and 4,000 city, local and long-distance bus services daily.

Restaurants and catering on trains and at stations

- Vecra provides restaurant and catering services on trains and at stations.
- Vecra operates the restaurant car and trolley sales on 160 trains daily and provides the Extra (business) class services. Vecra also provides all the restaurant services on the Allegro trains.
- Vecra operates 17 restaurant and kiosk outlets at six railway stations. The most important location is Helsinki Central Station, where Vecra has nine sales outlets.

Logistics

VR Transpoint is the leading logistics business in Finland and in traffic between Finland and Russia. It provides railway logistics services and logistics solutions for groupage, bulk carryings and international services by road.

Customers

VR Transpoint's customers are Finnish and international companies in the forest, metal and chemical industries and large and medium-sized companies that need logistics solutions for groupage freight and bulk carryings. Forwarding companies and other logistics businesses are also important customer sectors.

Goals

VR Transpoint aims to

- Increase customer-orientation and provide one-stop services for customers
- Improve management of the supply chain
- Raise efficiency
- Improve competitiveness
- Increase services to and from Russia

Services

Railway logistics

- Railway logistics is the main carrier for Finland's forest, metal and chemical industries in both domestic freight transportation and in services to and from Russia.

Groupage logistics by road

- Groupage logistics collects, transports and delivers groupage carryings all over Finland.
- It also provides supply chain management and warehousing services, according to customer needs.
- Groupage logistics has 32 terminals and service outlets in Finland and more than 250 scheduled service routes.

Bulk freight logistics by road

- Bulk freight logistics provides partial and full-load carryings and warehousing services for industry and the retail and wholesale sectors on the Partnership principle.

International logistics by road

- International logistics is responsible for cross-border road services. It transports groupage freight and partial and full-load carryings daily between Finland, Russia and many other European countries.

- Its services also include added value logistics services, warehousing and customs clearance, refrigerated and other special carryings, and transporting hazardous materials.

Infrastructure Engineering

VR Track is an expert in intelligent, complex systems, specializing in infrastructure construction. It is one of the largest construction companies and engineering offices in its field in Finland. VR Track operates in Finland and in neighbouring countries, mainly in Sweden and the Baltic countries.

Customers

VR Track operates in an open market environment. VR Track's customers include the Finnish State, municipalities, ports, companies using railway services, and other track maintenance main contractors.

Goals

VR Track aims to

- Develop customer-oriented operations
- Produce innovative solutions and intelligent systems for infrastructure engineering
- Improve competitiveness
- Expand operations in the international market and outside the rail network
- Play an active role in project development

Services

- Full service contracts and sub-contracting for track construction
- Management and implementation of large-scale railway projects
- Track inspection, maintenance and upkeep
- Electrical and safety equipment contracting and maintenance
- Working with switchgears and transformer substations and testing
- Monitoring and user services for electricity transmission
- Civil engineering and bridge construction
- Sub-structure construction
- Track materials services
- Design and expert services
- Geotechnical and rock engineering services and surveys
- Documentation and information services

Corporate Service

The Corporate Services division mainly provides services for VR Group's other divisions and for the administrative support units. The division comprises rail traffic, operations centre, rolling stock maintenance and Group purchasing, real estate and legal services.

Customers

The most important customers of Corporate Services are the other divisions and business units in VR Group, as well as the associated companies Pääkaupunkiseudun Junakalusto Oy and Karelian Trains Ltd.

Goals

Corporate Services aims to

- Provide services that meet customer expectations, cost-effectively and in cooperation with the other divisions
- Promote the punctuality and safety of rail services
- Standardise processes in purchasing operations
- Raise the efficiency and quality of rolling stock maintenance
- Enhance the provision of rail services
- Raise the quality of production planning throughout VR Group, in cooperation with the Logistics and Passenger Services divisions

Services

- Rail traffic provides locomotive and driver services for rail and shunting operations as well as traffic control services. It also carries out overall traffic planning and manages the control of rail service provision and obtaining track capacity.
- The maintenance services unit is responsible for maintaining railway rolling stock at six depots and two workshops. VR Engineering provides expert services for railway rolling stock and systems.
- The operations centre monitors and coordinates all passenger and freight rail traffic in Finland. The centre is responsible for managing rail traffic at VR Group when services are disrupted.
- The tasks of the purchasing unit include managing, monitoring and implementing all the Group's purchases, monitoring the supplier market and managing supplier relations, and purchasing.
- The real estate unit is responsible for investments in real estate, for the maintenance and leasing of property, for property development, for zoning and land use, and for soil decontamination.
- The duties of legal services include business law, competition legislation and litigation.

Russia and International Business

The Russia and International Business division promotes and develops VR Group's international business, in cooperation with the business divisions. The Group has international business in passenger services, logistics and infrastructure engineering, mainly in Russia and Sweden. Russia and International Business also looks after the Group's interests on the international front, including EU lobbying and relations with Russia. The division has a representative office in Moscow and an office in St Petersburg.

Customers

Russia and International Business co-operates closely in a matrix with VR Group's other divisions, providing specialist knowhow to reinforce international business.

Goals

Russia and International Business aims at

- Selective international expansion that supports growth in the Group's business operations
- Making Russia the most important area for growth in international business
- Success for VR Group in a changing and increasingly international business environment

Services

- The Russia and International Business division supports, develops and coordinates VR Group's international expansion and international business operations, with a special focus on Russia.
- The division looks after the Group's interests and stakeholder activities on the international front and at EU level.

Many variable factors in VR Group's business environment

VR Group plays a key role in society, since it provides broad-based services to meet the various needs of society. The entire railway sector - and through this a significant part of the operations of VR Group - is strictly regulated at EU and national level. Regulation is dynamic and is continuously changing the business environment in which VR Group operates. A new Finnish Railway Act came into force at the beginning of 2011.

VR Group has a wide range of diverse stakeholders, since many different parties are interested in the Group's operations. Regular interaction with various stakeholders is important so that VR Group can respond to the expectations of different stakeholders and, on the other hand, can improve the conditions for its own business operations.

Because of Finland's geographical location, VR Group has an exceptional business environment when compared to many other countries in Europe. Many worldwide forces, such as climate change and globalisation, also affect the business environment. They offer opportunities for business, but also create challenges.

VR Group uses a variety of means to exert influence on its operating environment. The main priority is on developing the rail network, which is owned by the State and managed by the Finnish Transport Agency, since many of the Group's own development activities, such as reducing travel time and enhancing freight services, depend on improving the infrastructure. Investment by the government in track construction and maintenance would also offer opportunities for VR Track. The differences in conditions between Finland and central Europe must be taken into account in the EU when drawing up legislation.

VR Group has many stakeholders. For more information about different stakeholders, move your mouse over the buttons.

Northern location poses special challenges

VR Group operates mainly in Finland, and the country's geographical position sets special challenges for transport services.

Services to western Europe require special rolling stock and in almost all cases sea transport. Conversely, transport connections to Russia are excellent, partly because the two countries share a common rail gauge. This makes Russia the natural direction for VR Group's international expansion.

In Finland, the weather conditions, such as snow, wide temperature variations and ground frost, must be addressed for example in transport services and rolling stock purchases. The harsh winter conditions, such as heavy snow and sharp frost, make it more difficult to operate the rail network and affect rolling stock.

Finland has a small population, mostly concentrated in the south of the country. Distances between population centres are long outside southern Finland, and unlike many other European countries most of Finland's railway lines (90 %) are single track. These factors must be taken into account in the planning of passenger services and routes. The high proportion of single track lines is a challenge for the punctuality of rail services.

Climate change is an opportunity

Climate change is continuing, and the reduction of greenhouse gas emissions has been set as a worldwide goal. The EU has set Finland the target of reducing its greenhouse gas emissions from traffic by 15 % in the period 2005–2020.

The problem for the transport sector is that it is almost entirely dependent on fossil fuel, ie oil. In fact transport is the only sector where greenhouse gas emissions have increased during the past few years, and they continue to rise. Transport produces one-fifth of the greenhouse gases that accelerate climate change, but rail's share of the emissions from transport is only 1 %.

Growing concern over the environment and awareness of climate change affect consumer behaviour and the mode of transport that people choose. This offers growth potential for public transport, and especially for environmentally benign rail services. In freight services, a combination of rail and road services can provide the most sensible solution for the environment and the customer. VR Group is constantly working to prevent climate change.

VR Group's corporate image surveys reveal that ecofriendliness is an unbeatable asset for the railways. Environmental factors also influence the decisions made by politicians and civil servants, and can thus strengthen rail's position in Finland. New ways of controlling transport, such as emission taxes and road tolls, are being considered in Finland as elsewhere.

The limited supply of oil and fluctuating prices are encouraging people to switch to means of transport that use other sources of energy. The greater emphasis on environmental factors in the global economy has an impact on energy prices.

Emissions trading for electricity is a burden for rail transport

Greenhouse emissions are restricted in the EU through its emissions trading scheme. Rail is the only form of transport that is indirectly covered by the EU's emissions trading, since the energy it utilizes is electricity. Electricity has been included in emissions trading in the EU since 2008, and the increase in price resulting from this has impaired the competitive standing of the railways. Greenhouse gas emissions from aviation will be included in the EU's emissions trading scheme in 2012.

In the long term, climate change will also have to be addressed in track construction, track maintenance and providing transport services, since it is also reshaping nature and the living environment in Finland.

A responsible approach in international operations as well

A company that aims to grow is forced to look actively outside Finland. VR Group is operating in the international market, and more than 15 per cent of its net turnover comes from international operations.

Carryings over the Russian border account for a significant portion of rail logistics business. VR Group's road logistics offers services in Russia and many European countries. The volume of rail passengers between Finland and Russia has increased considerably since the launch of the high speed Allegro rail service between Helsinki and St Petersburg in December 2010. VR Track has operations in Sweden and the Baltic countries.

VR Group also operates responsibly and in accordance with its values in its international operations. The company observes the legislation and regulations in force in the countries where it operates and only works with reliable, financially stable companies. It is aiming at standard ways of working in all the countries where it has operations. VR Group takes a negative stance to all forms of corruption.

Russia is main focus for international expansion

Russia is the most important area for VR Group's international expansion, and developments in Russia's economy and politics have a key impact on VR Group's business. It must also be taken into account that services to and from Russia may be opened up to competition.

Finland's strengths in services to and from Russia are that it has the same rail gauge, the safety of its routes, and the predictability of delivery times. The pricing of the different phases of the transport chain, as well as various taxes and tariffs, crucially affect the competitive position of transport routes. The vast majority of the road freight traffic between Finland and Russia is carried by Russian trucks, which could have an impact on the success and competitive standing of VR Transport.

Another key factor is developments in foreign trade between Finland and Russia. Russia is joining the World Trade Organisation (WTO), which will reduce customs duties and is expected to boost trade between Russia and Finland. Round timber carryings between Finland and Russia, for example, are expected to increase.

EU legislation also has an impact on VR Group's operating environment. The EU's transport policy still highlights the importance of opening up the railway market to competition, technical harmonization, and the environment. The EU is trying to increase the use of environmentally-based pricing and taxing as a means of both regulation and financing.

Railway services are preparing for competition

International expansion increases competition. Railway services began to open up to competition in Finland in 2004, when it became possible for outsiders to compete on the Finnish freight market in accordance with EU legislation. According to EU regulations, new railway companies must also be granted operating licences and must meet safety and other operational requirements.

During 2011, the Finnish Transport Safety Agency granted the safety certificate required for operating rail services to two companies. To start rail services the companies also need an operating permit from the Ministry of Transport and Communications and a track usage contract with the Finnish Transport Agency. Competition in rail freight services is expected to start in the next few years.

Studies have also been made concerning opening up passenger services in Finland to competition, and the work group set up by transport minister Anu Vehviläinen completed its report in spring 2010. The work group examined the practical and legislative arrangements that would be needed to open up rail services to competition in Finland. The work group proposes that passenger rail services are opened up to competition gradually, one service entity at a time. According to the work group, it would be sensible to start by opening up to competition commuter services in the Helsinki metropolitan area.

VR Group considers that the condition and capacity of the rail network should be improved before opening up to competition, so that competition would genuinely benefit customers. If the rail network is not developed before starting competition, disruptions to services, for example, would be more difficult to manage if the number of rail operators increases.

The Ministry of Transport and Communications and VR have an agreement that gives VR sole rights in rail passenger services on the track sections where VR already provides passenger services. The agreement is in force until 2019. In consideration for the sole rights, the Ministry requires VR to provide public services for passenger traffic.

Competition already intense in many sectors

Although competition has not yet begun in rail services, VR Group does have numerous competitors in many sectors. VR Track operates in the infrastructure market where there is open competition, and it has lost some of the regional track maintenance contracts in consequence of intensifying competition. Government expenditure on track maintenance has declined, and as a result competition in the sector is becoming even more intense. Competition in road services is tough for both logistics and passenger services.

Competition should also be viewed from a broader aspect. In passenger services, for example, rail competes with other means of transport, in particular with private cars.

According to the 2009 Public Transport Performance Statistics published by the Ministry of Transport and Communication, rail's share of all travel in Finland is only about 5 %, which is slightly below the average for EU countries. Private cars account for 85 % of all travel, and travel by car has continued to increase. Rail travel has also increased moderately, whereas air travel and bus services have declined slightly in popularity. The intense competition on price in air services also has an impact on rail travel and VR's business.

Finland competes in freight transport with other transport routes and, for example, with ports in the Baltic countries.

The goals of VR Group's restructuring programme have been to improve the company's profitability and prepare it for competition. In Passenger Services this involves improving the customer's travel experience, for example by improving punctuality, renewing the pricing system and introducing new rolling stock. In Logistics and Infrastructure Engineering, operations have been enhanced in various ways.

Industrial restructuring is a challenge for VR Group

Finland has had much heavy primary industry that has favoured rail transport. According to the Annual Transport Statistics Book produced by Statistics Finland, in 2009 rail services accounted for some 24 % of all freight carryings in Finland, which is considerably higher than the average for EU countries. It has been thought that the railways hold a strong position in Finland's transport sector because of the country's long distances and its industrial structure.

The instability in the European economy creates uncertainty for the transport market. The current structural changes taking place in industry will in the long term pose challenges for VR Transpoint. The restructuring may reduce the volume of carryings and alter transport needs. Customer needs are changing in any case, as individual freight carryings have become smaller in size, for example, and the distances carried are shorter. The development of ports in Russia and the Baltic countries may affect transit freight carryings through Finland.

VR Group has responded to the changes in the market and in customer needs with its restructuring programme. Customers can now, for example, obtain both rail and road transport services more easily from a single point as VR Transpoint has combined its sales organisation.

Social restructuring requires changes in transport services

Changes in the social structure have an impact on the provision of public transport services. Migration from northern to southern parts of Finland is strong. However, growth in urban areas is fastest on the edges of cities and in the rim municipalities. The regional concentration of Finland's population could create a solid base of users for a high density of public transport services, but fragmentation within the region prevents this.

Traffic between regional centres is growing. Fast, punctual and frequent public transport in these markets can form a competitive alternative to the private car.

The ageing of the population and rising living standards throughout society result in changes in the individual needs of customers, in the level of comfort they demand and in consumer habits, so they expect a better level of service from public transport.

Recruitment a long-term challenge

In consequence of changes in the market and its business environment, VR Group has reduced its manpower by altogether 800 person-years during its restructuring programme in the period 2009–2011.

Many of these reductions have been through retirement schemes, and as far as possible the Group has tried to find people within the Group to fill vacancies. The aim has been to retrain people working at tasks where there is less work for jobs where people are needed. The Group's outplacement centre has provided assistance for personnel in finding employment either within or outside the Group.

In addition, VR Track has had to make temporary and permanent layoffs of personnel due to the poor state of the market.

Longer-term challenges that the VR Group faces are the aging of existing personnel and the availability of new labour. New people will be needed as hundreds of employees retire in the next few years. Competition for skilled employees is intense and VR Group is taking a long-term approach to enhancing its employer image.

Involved in many organisations

VR Group contributes to the activities of many major organizations in its operating environment.

Key international players in the rail sector are the Community of European Railway and Infrastructure Companies (CER) and the International Union of Railways (UIC). CER represents the interests of the railway sector within the EU while UIC acts globally as the sector's cooperation organization and at a European level as the cooperation forum on technical issues.

VR Group is an observer in the Organisation for Railway Cooperation (OSJD), which promotes cooperation between railways in Eastern European countries, CIS countries, China and some other Asian countries.

The Group is an affiliated member in the Council for Rail Transport of the CIS States, which coordinates rail services and cooperation between Russia, other CIS countries and the Baltic countries.

VR Group is also a member of the Coordinating Council for Trans-Siberian Transportation, which develops and coordinates transportation on the Trans-Siberian railway.

VR Group is involved in the International Association of Public Transport (UITP), a global advocate for public transport and sustainable mobility, and the promoter of innovations and cooperation in the public transport sector.

In Finland, VR Group is a member of the Association for Finnish Work, the Finnish Association of Purchasing and Logistics (LOGY), the Confederation of Finnish Industries EK, and the Association of Service Sector Employers Palta. The Group also belongs to the Finnish Business & Society's (FiBS) network for responsible business.

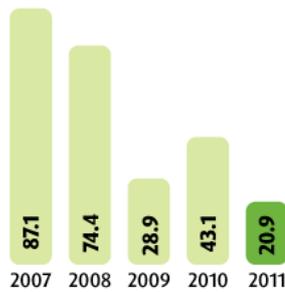
VR Track is a business member of Infra ry. It also belongs to the Electrical Contractors' Association of Finland STUL, the Finnish Geotechnical Society, the Advisory Committee for the Civil Engineering Sector MANK, Talonrakennusteollisuus (Finnish Building Construction Association), and Promaint (Finnish Maintenance Association).

Pohjolan Liikenne is a member of the Finnish Bus and Coach Association and VR Transport of Finnish Transport and Logistics (SKAL). Avekra is a member of The Finnish Tourism and Restaurant Industries Federation (MaRa), while Corenet is a member of the Finnish Federation for Communications and Teleinformatics, FiCom.

Key figures 2011



Net turnover
Million €



Operating profit
Million €



Group net turnover by division 2011

	%	M€
Passenger Services	34	483.3
Logistics	41	594.7
Infrastructure Engineering	18	254.0
Other	7	105.2



Personnel by division 2011

	%
Passenger Services	19.1
Logistics	22.3
Infrastructure Engineering	17.6
Other	41.0



Passenger traffic in Finland, market shares 2010

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



Logistics in Finland, market shares 2010

	%
Road	66
Rail	24
Water	10

Year	2011	2010	2009	2008	2007
Train punctuality in long-distance services, %	79.7	75.8	89.4	90.6	88.2
Train punctuality in commuter services, %	92.1	88.5	95.5	95.9	96.6
Gross capital expenditure, M€	152.3	152.4	134.5	111.6	118.9
Percentage of renewable energy in rail services, %	64	64	65	61	24
Carbon dioxide emissions from rail services, 1000 tonnes	100	101	93	114	239
Rail passengers killed or seriously injured, per billion kilometres	0	0	0	0	0
Accident frequency, accidents per million work hours (deviating from the instructions of the Finnish	35	44	39	49	51

Accounting Board, the figure also includes accidents that did not result in absence from work)

Average no. of personnel	11,391	11,950	12,376	12,516	12,540
New employment relationships	796	664	587	897	591

Statistical information

Logistics	2011	2010	Change	2009	2008	2007
Carryings, 1000 tonnes			% 1)			
By rail	34,827	35,795	-2.7	32,860	41,937	40,288
Finland	23,505	23,249	1.1	21,360	25,484	26,204
International	11,322	12,545	-9.7	11,500	16,453	14,084
East	6,128	7,429	-17.5	6,806	11,208	9,924
Transit	4,966	4,831	2.8	4,426	4,798	3,543
West	228	285	-20.1	268	448	617
By road	8,480	7,919	7.1	6,748	8,971	10,150
Total	43,307	43,714	-0.9	39,608	50,908	50,438
Tonne-kilometres by rail, million						
Finland	6,797	6,915	-1.7	6,141	7,588	7,581
International	2,598	2,835	-8.4	2,732	3,189	2,852
East	937	1,234	-24.1	1,274	1,688	1,643
Transit	1,616	1,541	4.9	1,398	1,386	1,028
West	45	60	-25.5	60	115	181
Total	9,395	9,750	-3.6	8,872	10,777	10,434
Passenger services						
Journeys, 1000						
By rail	68,376	68,950	-0.8	67,555	69,937	66,685
Long-distance	13,274	13,399	-0.9	13,116	13,767	12,944
Finland	12,832	13,053	-1.7	12,766	13,335	12,545
International	443	346	28.1	350	432	399
Commuter	55,102	55,551	-0.8	54,439	56,170	53,741
Helsinki Region Transport	42,946	43,161	-0.5	42,325	43,860	42,255
Other	12,156	12,391	-1.9	12,114	12,310	11,486
By road	23,848	22,731	4.9	18,479	17,012	14,443
Total	92,224	91,681	0.6	86,034	86,949	81,128
Passenger-kilometres by rail, million						
Long-distance	3,003	3,073	-2.3	3,006	3,164	2,951
Finland	2,888	2,983	-3.2	2,915	3,052	2,848
International	115	90	28.1	91	112	103
Commuter	879	886	-0.8	870	888	827
Helsinki Region Transport	408	410	-0.5	402	417	401
Other	472	476	-1.0	468	472	425
Total	3,882	3,959	-1.9	3,876	4,052	3,778
VR Group personnel	11,391	11,950	-4.7	12,376	12,516	12,540
Energy consumption in rail services, %						
Electricity	84.8	84.9	-	84.9	83.1	83.3
Diesel fuel	15.2	15.1	-	15.1	16.9	16.7
Tractive stock, number of units						
Electric locomotives	155	156	-0.6	156	156	156
Diesel locomotives	223	224	-0.4	224	235	245
Electric trainsets ²⁾	158	152	3.9	149	148	148
Diesel trainsets	16	16	0.0	16	16	16

Rolling stock, number of units						
Freight wagons	10,364	10,464	-1.0	10,524	10,934	10,790
Passenger cars	1,102	1,071	2.9	1,033	1,035	1,024

The balance sheet value of freight rolling stock on 31 December 2011 was M€ 131.5

The Finnish rail network ³⁾

Length of rail network, line-km	5,944	5,919	0.4	5,919	5,899	5,899
Length of electrified lines, line-km	3,172	3,073	3.2	3,067	3,047	3,047
Length of track, track-km	8,885	8,862	0.3	8,847	8,816	8,816

¹⁾ Percentage change refers to the change from 2010 to 2011.

²⁾ Includes the Sm5 city trains owned by Pääkaupunkiseudun Junakalusto Oy and the Allegro trains owned by Oy Karelian Trains Ltd.

³⁾ Owned by Finnish Transport Agency.

Achievements 2011

VR Group switches entirely to hydro-electricity

As from the beginning of 2011, all of VR Group has used electricity entirely generated by hydropower. The use of green electricity is one element in fulfilling the Group's environmental promises. The Group aims to reduce the carbon dioxide emissions from its operations and increase the use of renewable energy. Switching to hydro-electricity is a major environmental achievement, for VR Group consumes large amounts of electricity in its operations. VR's rail services have used hydro-electricity since the beginning of 2009, and they switched to green electricity one year before this.

Operations Center starts up

VR Group's new Operations Center began its work in February. The Operations Center monitors and coordinates passenger and freight traffic throughout Finland. It also takes control in managing disruptions to services, which will improve the management of service disruptions as they are managed from a single, central location.

Further rolling stock purchases

In March VR ordered 12 power cars, new products for Finland, and 15 double-decker restaurant cars for passenger services. The new coaches will improve passenger comfort on trains. The power cars will also help improve the punctuality of rail services. The coaches will be taken into service in 2013–2014. Freight services are obtaining 220 new round timber wagons and 106 wood chip wagons in the period 2011–2015. VR Group's Pieksämäki work shop will build the freight wagons. Old peat wagons are being converted to make the wood chip wagons. The new wagons will be more efficient, since they will be easier to load and unload.

Double the number of Allegro trains to St. Petersburg

The number of Allegro trains between Helsinki and St. Petersburg doubled in May. There are now four trains a day in each direction and it is now even possible to make a day trip from Finland to St Petersburg. The volume of rail travel between Helsinki and St Petersburg has picked up considerably since the start of the Allegro service. The new rail connection was launched in December 2010, and the journey between the two cities now takes three and a half hours.

RFID system introduced at all marshalling yards

An RFID (radio frequency identification) rolling stock identification system has been introduced at VR Transport's marshalling yards. Data about wagons and their movements is updated from tags on the wagons using manual terminals. This improves the monitoring of freight transport and makes for more efficient wagon turnover. The application has been tailored for VR Transport. A new feature compared to other systems in operation in the sector is the use of mobile technology. It is also planned to introduce the RFID system in passenger services.

VR Track wins first alliance project in Europe

VR Track won the first contract in Europe to be implemented with project alliancing, for the renovation of Lielähti-Kokemäki track section. The contract includes the development, ie. planning stage of the project, and the implementation, subject to certain conditions. If, after the planning stage, the Finnish Transport Agency decides to carry out the project, track construction will begin in 2012 and continue until 2015. In a project alliance, the client, engineers and contractors form a joint team that is jointly responsible for planning and implementing the project. The parties also share the risks and benefits from the project.

Pendolinos to undergo multi-million euro refit

VR Group and train builder Alstom Transport began technical modifications of the Pendolino trains that will take three years, aiming to reinforce the features of the Pendolinos that make them the fastest trains in service in Finland. The goal of these modifications is to make rail travel on the Pendolinos more reliable, faster and more punctual, especially in winter. The work will mainly be carried out in 2012-2014. The total cost will be some M€ 10, and VR Group will pay roughly half of this.

New rail tickets and pricing

In September VR launched a new pricing system for rail tickets that gives passengers new options and the Advance ticket that has a lower price than other tickets. In connection with these changes, the range of online services expanded, new ways to purchase rail tickets were introduced, and the names of the travel classes changed. The sales system for ticket sales and other services was also upgraded. The changes are the first step towards a model in which demand drives the pricing for an individual train. The changes in pricing will be phased in over a period of several years. The new system had some technical problems during its first weeks in operation, but these were sorted out during the autumn.

Major purchases of locomotives began

VR Group began the purchase of 80 electric locomotives. The contract includes an option for a further 97 electric locomotives. The final number of electric locomotives to be purchased will be decided later. This is the largest single rolling stock investment in the history of VR Group. The new locomotives represent new technology and are also more eco-friendly than the old locomotives. They will replace the Sr1 locomotives that are coming to the end of their useful life. VR Group is also planning to purchase new diesel locomotives in the next few years.

VR took many measures in preparation for winter

VR Group took many measures in 2011 to improve the reliability of rail services in winter. It enhanced rolling stock maintenance and took steps to ease the congestion in the Helsinki yard, for example by operating more standard train units. An extra margin was added to the timetables for long-distance trains. VR drew up various plans in preparation for service disruptions. Altogether some M€ 10 was spent on improving the reliability of winter rail services, and during the first part of the winter the punctuality of rail services has been at a good level.

Three business areas

VR Group has operations in three business areas. VR provides rail passenger services. Pohjolan Liikenne, which operates bus and coach services, is part of the Passenger Services division. VR Transpoint provides logistics services by rail and road. VR Track is responsible for the infrastructure engineering business.

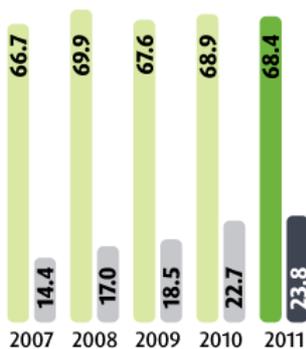
VR aims to give best customer service in public transport

For VR, 2011 was a year characterised by many changes. VR wishes to increase rail travel by making it more appealing. At present only five per cent of all journeys in Finland are made by train, whereas the car is the means of transport for almost nine out of ten journeys.

The changes are also preparing VR to face competition. This is expected to begin in rail passenger services even during this decade.

VR's goal is to be the best provider of customer service in public transport by 2015, and it will achieve this goal by improving the customer's travel experience in many ways.

VR is constantly working to improve the punctuality of rail services. It is improving customer services through personnel coaching and with a completely new service culture. The new ticket system gives customers greater choice in buying tickets. Rail travel is becoming more comfortable as VR replaces its rolling stock.



Passenger journeys

million

■ Rail services
■ Road services

Many actions to improve punctuality

VR's rail services failed to run as smoothly as they should in the winters of 2009–2010 and 2010–2011.

Temperatures that were well below zero and heavy snow falls affected rail rolling stock and the rail network. In spring the extensive frost damage to the track and the speed limits imposed by this disrupted rail services for several months.

VR launched an intensive action programme to improve punctuality after two difficult winters, in cooperation with Helsinki Region Transport (HSL) and the Finnish Transport Agency, which is responsible for the rail network. The goal was to return to the high level of punctuality in rail services that existed a few years ago.

Changes were made to practices in rolling stock maintenance to enable trains and their technology to better withstand the challenging conditions in winter. Marshalling yard work at the Helsinki depot was re-planned to enable trains to leave the depot on time.

■ VR made various changes, including adjusting train timetables, in order to improve punctuality.

New traffic models helped ease congestion in the Helsinki railway yard. For example, standard unit trains were introduced in commuter services in the Helsinki metropolitan area, so fewer coaches are now disconnected from trains outside peak hours.

VR added a margin to long-distance train timetables, especially on the Tampere–Jyväskylä–Pieksämäki line which is especially vulnerable to disruption. Disruptions to service there quickly have a knock on effect on rail services in other parts of Finland. Various emergency plans have been drawn up in case of disruptions.

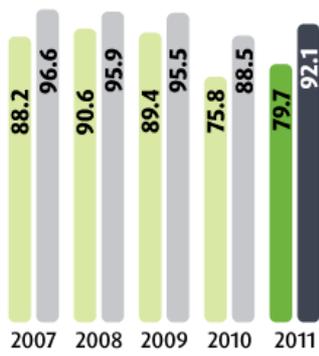
Positive developments

The intensified efforts to improve punctuality produced results, and the punctuality of rail services start to pick up in autumn 2011. The punctuality figure for the whole year was almost four percentage points higher than in the previous year.

Vulnerable rail services

Rail services in Finland are vulnerable to disruption. Some 90 % of the rail network in Finland is single track, which means that the impact of even a minor disruption can spread quickly and affect rail services throughout the country. The cramped railway yard in Helsinki increases the delays when services are disrupted.

There are several players in rail services in Finland. VR is a railway operator and is responsible for running the trains. The Finnish Transport Agency is responsible for the rail network, for its maintenance, for traffic control and for providing customer information at stations. Helsinki Region Transport HSL plans all public transport in the Helsinki metropolitan area and is responsible for pricing tickets in the HSL area. It purchases commuter rail services from VR.



Rail services punctuality

%

- Long-distance
- Commuter

Best service provided by skilled personnel

VR's goal is to be the best customer service company in public transport by 2015, and it will work systematically in the next few years to achieve this goal. It is aiming to turn its entire service culture in a new direction.

At VR, service means service at stations, on trains, at customer service centres and also on the web and in mobile channels.

At the heart of the best service is expert personnel. In November 2011 VR launched its 'Best Service' coaching scheme, which will equip personnel with common resources to serve customers even better. The entire customer service personnel will participate in the training. This new-style coaching is the biggest investment in customer service training in the 150 year history of VR.

Customer service coaching for personnel is a continuous process at VR. Its success will be monitored by customers and VR's own personnel. Rewards will be given for good work.

Difficult times affected customer satisfaction

VR measures customer satisfaction monthly. The problems with punctuality in the winter and the teething problems with the new pricing system aroused dissatisfaction among rail passengers in 2011.

The new Advance ticket and the extra options available in online sales were given a warm reception, however. Praise was also given for the friendliness and expertise of VR's customer service personnel even on awkward days.

- Rail passengers appreciate the expertise and friendliness of VR's customer service personnel.

VR has in the past often received negative comments about communications during disruptions to rail services. In this respect service has taken a step in the right direction, and customer satisfaction surveys also show positive progress in this area.

The customers in restaurant cars give positive feedback about the standard of the products and about the service. There is still room for improvement in smooth service, to cut queuing times. The prices of some products also arouse comments from some customers.

Passengers on Pohjolan Liikenne's buses and coaches consider the company provides good service, has clean and tidy vehicles, and offers a wide range of services. Customers wish for better information services during the journey and more up-to-date ways to buy and pay for tickets.

Feedback does matter

VR receives tens of thousands of items of customer feedback from rail passengers a year. It has tried to make it as easy as possible for customers to give feedback with an electronic feedback form. Most customer feedback does in fact come by electronic channels. Customers can if they wish submit their comments in a letter, by phone or directly to personnel.

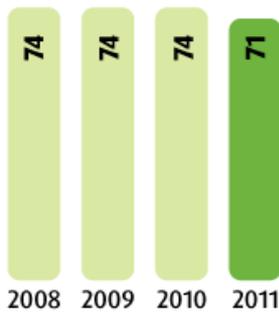
VR's customer service centre in Riihimäki processes all customer feedback and claims. It has the target of processing feedback within one month. Sometimes when dealing with claims, customers are asked for more information, and this lengthens the response time. At times VR receives so much feedback that processing times get longer. VR tries to answer as many items of feedback as possible.

All feedback comments are recorded in the information system, and a summary report is drawn for them each month, and this is used in planning and developing services. Feedback sometimes serves as the spark for that sets off new service experiments.

Veturi – new channel for making an impact

In connection with the new pricing system, in September VR launched the Veturi customer program, for which customers can register on VR’s website. After registering, customers can obtain information about VR’s services and special offers and it simplifies doing business in various purchasing channels.

Registered Veturi users also have a unique opportunity to participate in developing services. VR received through the Veturi program thousands of development proposals and new service ideas from customers during its first autumn.



Rail passenger customer satisfaction

%

The figure shows the number of satisfied customers as a percentage of all the long distance passengers interviewed during 2011 (n= 9 822).



Customer feedback from rail passengers 2011

%

Train services	51
Service at station	9
Service on train	8
Tickets, prices, terms of sale	8
Online service	8
Call centre	6
Rolling stock	4
Restaurant services	1
Other	4

New options for buying rail tickets

VR is gradually switching in the next few years to a new pricing model for rail tickets, in which demand affects the price for a single rail journey. The first phase in this change was carried out in September 2011.

Travellers obtained greater choice in the price of a rail ticket when VR introduced the Advance ticket, which is purchased on-line in advance and is cheaper than other tickets. The names of the classes on the trains were changed to the Eco class and Extra class, and at the same time the price of what was formerly the Business class was reduced by ten per cent. The range of on-line services was extended, and new ways to purchase rail tickets were introduced, such as telephone sales.

VR's new pricing system gave customers new options.

At the same time as these changes, VR renewed the ticket sales system that functions in the background for ticket sales and customer service, making the new pricing system possible. For customers the new system means new features and services in online sales and on ticket machines.

High level of interest jammed ticket sales

The interest shown by travellers in new prices, services and in particular the Advance ticket exceeded expectations. This jammed the new online sales system during the first weeks of the new pricing system and slowed customer service in other sales channels as well.

Technical faults were also identified in the sales system, and corrections were made to this throughout the autumn. The work on developing the sales system continues in 2012.

VR aims to steer demand for rail journeys in future increasingly by pricing. Some train services especially during the rush hour are in very high demand and are crowded. The goal is to make more space on peak period trains and offer customers more options in prices and timetables.

Allegros already have individual pricing for each train

The pricing for the Allegro trains switched to individual train pricing in December 2011. Some departures are now cheaper than they used to be, and the price of a ticket on the most popular trains has risen.

The new pricing model aims to balance out demand and also to offer customers lower cost options.

New trains increase comfort

VR is improving the travel comfort of customers by modernizing its rail rolling stock. In summer 2011 the first new double decker IC coaches came into service. Passengers can travel on these on all IC and IC2 rail routes in Finland. Altogether 40 of the new coaches have been ordered.

New service coaches were also taken into service, with special places for families and for passengers with restricted mobility. The new coaches mean that these services are available on an increasing number of trains.

The IC trains have a full range of services, and they are some of the most popular trains among customers, which is why VR has purchased more of them.

Completely new coaches are on the way

In spring 2011 VR ordered from Transtech 12 power cars and 15 restaurant cars. Both coaches are double decker and are new types of coaches in Finland.

A visit to the restaurant car is an essential element in travelling by train in Finland, and this is why VR is purchasing more of these. The restaurant car has a restaurant area for 50 people on the lower deck and the intermediate level, and passenger seats for 40 on the upper deck.

Customers have participated in the design of the coach right from the start, and various options for using the areas are being tested with customers and personnel.

■ VR is purchasing new rail rolling stock to improve travel comfort.

The power cars combine the features of a locomotive and a passenger coach. The car has a driver's cab at one end, and has 100 seats.

Having a power car makes it possible to drive the train from both ends without having to change locomotive, which will ease congestion, especially in the cramped Helsinki railway yard. The introduction of power cars will improve the punctuality of rail services throughout Finland.

The new coaches will be taken into service in the period 2013–2014.

Allegro off to a fine start

The Allegro train began operating between Helsinki and St. Petersburg in December 2010. The first months for the new train have been successful. Rail travel between Finland and Russia has increased considerably since the launch of the Allegro service.

Altogether more than 300,000 journeys were made between Helsinki and St. Petersburg in 2011, an increase of almost 50 % on the previous year. The service has the goal of 500,000 journeys a year on the Allegros by 2015.

Factors contributing to this growth have been not just the shorter journey times and modern rolling stock but also an increase in the number of train services. The Allegro service started with two services in each direction. At the end of May 2011 the number of daily services rose to four each way.

Several minor changes in restaurant services

Avecra, which provides restaurant services on trains and at stations, made several changes to its on-train services and at its station restaurants in 2011.

The company introduced the 'We look good' campaign throughout the company, with the goal of improving the appearance of products and displays, and of service outlets and staff uniforms. The changes aim to make Avecra outlets more attractive and improve the customer experience so that customers make more frequent use of the services.

■ Restaurant car customers give positive feedback about service.

The product selection in the restaurant car and on the sales trolley on domestic long-distance trains was changed twice. Beverage sales using a coffee backpack, which have already been tried on commuter trains, were tested on two IC2 trains between Helsinki and Turku in November and December. Avecra has also been actively involved in the design of the new double decker restaurant car.

New look for restaurants

Avecra gave two of its station restaurants a new look in 2011. In March the Minuuttibaari at Tampere station was refurbished and converted into the Tampere City Lounge. In June the kitchen and customer area at the Aseman Wursti sausage grill at Helsinki Central Station underwent a total renovation. A colour scheme combining black, orange and oak created a modern, fresh appearance for the restaurant.

Changes on the Allegros too

Avecra is also responsible for restaurant services on the Allegro trains. When the number of Allegro services increased in May, Avecra took on and trained more personnel for the trains.

During 2011 the product selection in the Allegro's Bistro restaurant car was changed twice. Changes were made to the interior décor of the Bistro, and customers can now study food terms on the table surfaces. Sales trolleys were also tried out on the fully booked trains in the summer, and the decision on whether to continue this will be taken during 2012.

A year of preparations in bus and coach services

For Pohjolan Liikenne, 2011 was a good year financially and in terms of quality. Contract services in the HSL region expanded significantly thanks to the service routes won by the company.

Another strong feature of 2011 was having to learn new ways of operating and creating new procedures, since the provisions of the EU's Service Contract decree that came into force in December 2009 and of the Finnish Public Transport Act are gradually being put into practice in the next few years.

■ The number of bus services operated by Pohjolan Liikenne increased in 2011.

Scheduled service permits were replaced by operating contracts for the transition period. The system changed for compensation for subsidised city and regional tickets and tickets for travel to work. Efforts are being made to clarify the role of scheduled permit services that operate on market terms.

Pohjolan Liikenne aims to take advantage of the opportunities given by the new legislation on a competitive basis and to provide the highest quality public transport services in its area of operations.

New incentives, better service

Pohjolan Liikenne has an incentive scheme for drivers that rewards drivers who drive with economy and safely, look after their own work fitness, and serve customers well. The incentive award is paid each year in cash, and there are clearly defined indexes for obtaining the award that cover a broad and diverse range of factors in all key areas of a driver's work.

VR Transpoint looks to the future

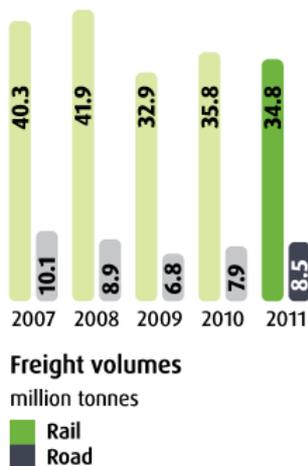
VR Transpoint has a year of fluctuation behind it. The start of the year looked promising, with the volume of carryings by rail and road beginning to rise as the economy picked up.

Domestic demand in railway logistics was stable in the first part of the year, but started to decline half way through the year. Traffic to and from Russia continued the decline that had begun in autumn 2010. Carryings by road logistics developed positively, as Russian services expanded, and carryings of recycled materials and for the construction industry remained at a healthy level throughout the year. Developments in the groupage logistics market were moderate in 2011.

The outlook for the transport market is uncertain in 2012. If the economic situation does not improve, competition is expected to intensify.

VR Transpoint has taken steps in preparation for tougher competition by carrying out as planned its restructuring programme that aims to raise efficiency and cut costs. Future goals are to further improve competitiveness and in particular to increase Russian services.

VR Transpoint faces the challenges of the future as a single division in which rail and road logistics provide complementary services. The division can offer customers a seamless transport chain utilising trains and road vehicles. The most appropriate form of transport is chosen to meet the customer's need on a case by case basis.



Customer satisfaction at a good level

Customer satisfaction is at a good level at all VR Transpoint units, although the results of the customer satisfaction survey showed a slight decline in 2011.

Customer service in rail logistics has improved as the new business models for the service centre and marshalling yard control have become established and part of everyday activities.

Positive feedback has been received in groupage logistics especially concerning transport and customer service.

Praise for bulk goods logistics comes for the scope of the business, its capacity and for keeping its promises. One area for improvement is in keeping to schedules. Delivery reliability has been raised considerably, especially in transport solutions tailored for individual customers.

International road logistics stands out to its advantage with its personal service that adapts to customer needs.

During 2011 the quality, environmental, occupational health and work safety management systems at all VR Transpoint's business units were certified. VR Group and the Finnish Transport Agency have put much effort into improving the reliability of rail services, especially in winter. Quality assurance is a key area in strengthening competitiveness.



**VR Transpoint
customer satisfaction**
Scale of 1-5

Changes to boost competitive standing

Competition is a very relevant topic at VR Transpoint. Competition is about to start in rail logistics, and is already intense in road logistics. VR Transpoint is working with a long-term approach to improve its competitiveness.

The restructuring programme helped raise its efficiency and lightened its cost structure. The work continues of building more rational business models and improving service in cooperation with customers.

Railway logistics has worked with customers to develop solutions for various transport needs. The goal is partnership that benefits both parties in a situation of changing demand.

The measures to improve the competitiveness of rail logistics include the reorganisation of marshalling yard operations.

A new business model for round timber carryings, for example, is currently being tested. In this, the procedure for ordering transport is changing gradually to a model in which loads are combined at terminals that serve as collection points, resulting in greater efficiency in rail transport.

The rail logistics offering was redefined to bring it in line with the level of demand. Efficiency in marshalling yard activities was raised through new operating models and the use of new technology. A major issue in raising efficiency is matching the expectations of customers with the needs of VR Transpoint.

Synergy

VR Transpoint has the advantage that it can offer rail and road transport services from a single point in accordance with customer needs. Customers are offered total service packages with transport provided by rail and road, depending on the destination and amount of goods. The competitive position improves by exploiting synergies.

Cooperation in road logistics groupage and bulk deliveries has increased in direct deliveries of large batches of goods direct to the customer and in terminal-to-terminal transport. The aim is to make maximum use of joint resources. Cooperation between railway and bulk goods logistics is being increased through common customers.

Modern technology for marshalling yards

In rail logistics, changes have been made to marshalling yard activities and the supporting information systems. The goal is to raise efficiency and improve management of carryings.

The biggest change is the introduction of an RFID-based system for identifying moving rolling stock at all the freight marshalling yards. The system provides real time information on the location of wagons and on the composition of trains. This improves the tracking of carryings and enhances wagon turnover. Information is obtained more quickly and is more precise, which also helps the work of VR Transpoint's customers and partners in different phases of the transport chain. VR Transpoint is pioneering the use of RFID technology on the railways in Europe.

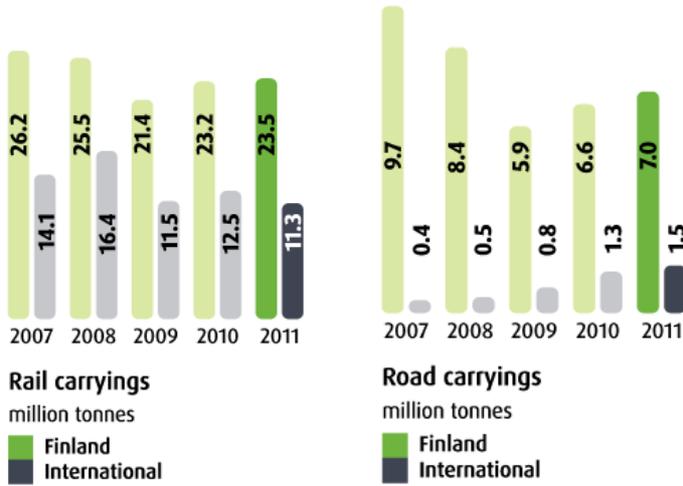
The use of radio-controlled locomotives in marshalling yards has increased, and new machines to replace conventional shunting locomotives have also been tested. Dual mode vehicles, which can travel on rails and on level ground, have been tested in several locations. The first radio-controlled robot locomotives were taken into trial operation towards the end of 2011. Lightweight locomotives for shunting will be chosen based on the experience gained in trial operations, and they will replace the old locomotives used in shunting in the next few years.

New vehicles and rolling stock

VR Transpoint is refurbishing and replacing its wagons and road vehicles so that it can more effectively meet the transport needs of customers. For example, 220 new round timber wagons are being obtained by 2015 for

railway freight carryings. The prototype for the new covered wagon is being tested by customers. A further 1200 freight wagons will be refurbished by the end of 2013 so that they comply better with customer needs.

Road logistics has purchased 60 new trucks that span all sizes, from 12 tonne delivery trucks to 60 tonne tractor trailers. The new trucks will be used in domestic and international transport. In Finland the trucks are used during the day for deliveries and at night for terminal-to-terminal transport. The new trucks are fitted with an automatic gearbox in which economy driving software has been installed.



Punctuality in rail freight services

87.9%

The method of calculation has changed, so figures for comparison are not available.

Winning new areas in Finland

The transport market in Finland has only a limited size and natural growth is not possible. In order to grow, VR Transpoint has expanded its operations abroad, but has also moved into new business areas in Finland.

There is growth potential particularly in added value services for road logistics, in warehousing and in services for managing the transport chain.

VR Transpoint strengthened its warehousing services for road groupage logistics through the purchase in summer 2011 of PT Logistiikka Oy, which operates in the Helsinki metropolitan area and specializes in warehousing, picking and packing, and related information management.

Itella and VR Group are currently looking into opportunities for cooperation in groupage logistics in Finland. They are looking for synergy benefits from cooperation that would help both companies in a market where competition is intense. There could be benefits for example in the joint use of terminals or in raising efficiency in transport capacity. The companies are also looking at the potential for cooperation in road services to and from Russia.

Road logistics has expanded its operations in Finland into new business sectors, such as recycling logistics.

The bulk freight logistics operations of VR Transpoint and Speedyex Oy, which was acquired in 2010 and specialises in recycling logistics, were merged during 2011, which has improved customer service, efficiency and capacity. The prospects for recycling logistics are positive, as customer needs expand to new products and upgrading and recycling solutions. The processing of recycled products has resulted in operations expanding outside Finland, as some of the material is taken to Sweden for processing.

VR Transpoint has looked for domestic growth in railway logistics for example by actively participating in the preparations for mine projects.

Russia main focus for growth and international expansion

Russia is the most important area for VR Transpoint's international expansion, for both rail and road logistics. One third of the tonnage carried by rail logistics comes from Russia and the CIS countries, although the volume of carryings fell in 2011.

The potential for growth in carryings is strong, however, so VR Transpoint has developed new rail logistics services for traffic to and from Russia.

VR Transpoint has made trial runs conveying trailers by rail to Moscow.

The most attractive new service is conveying trailers by rail from Finland to Moscow, and trial services were made during 2011. The results have been positive and the technical facilities are in place for success in these carryings. The goal is to begin regular trailer on train services during 2013.

Growth in road logistics in Russia

For international road logistics the year has been a time of growth, despite the challenging economic situation, and much of this growth comes from Russian traffic. The operations of Avain Trans Oy, which was acquired in 2010 and specialises in Russian traffic, were successfully integrated into VR Transpoint. This has been reflected in positive developments in carryings between Finland and Russia and in the terminal, delivery and storage services available in Russia.

VR Transpoint believes that it is well placed to succeed in the Russian market, since it is considered to be a responsible, reliable partner. In its Russian operations VR Transpoint operates in accordance with the values of the whole VR Group and complies with local legislation and regulations in each country where it operates. It aims at standard operating procedures in all countries where it has operations.

In February it was discovered that VR Transpoint had incorrectly applied the collective bargaining agreement in road logistics between Finland and Russia. VR Transpoint and the Transport Workers' Union AKT agreed that Russian drivers be paid a one time payment in compensation for unpaid wages.

VR Transpoint transferred its vehicle fleet that operates services between Finland and Russia to the Russia vehicle register at the end of 2011. At the same time the Russian drivers already working for the company transferred to the Russian wages scheme. The purpose of these changes is to improve VR Transpoint's competitive standing in the fiercely contested Russian transport market.

VR Track slims down to face competition

For VR Track, 2011 was a challenging year. The government has spent less on track maintenance than in the past, and this means that VR Track's work load has declined. Competition has intensified in the infrastructure construction market. VR Track has been successful, however, in engineering and electrification projects.

VR Track is moving into the future with the goals of retaining its market share in the railway sector, growing outside the railway environment, and expanding internationally in the countries close to Finland. If it is to achieve these goals, the company has to raise its competitive standing.

The restructuring programme launched in 2009 and the resulting changes have laid the foundation for future work. VR Track has raised the efficiency of its operations and reorganised its working methods in order to improve its competitiveness.

VR Track uses modern tools as it responds to the needs of customers.

The productivity project that started at the beginning of 2011 has improved working methods at work sites. Construction sites have introduced standardized operating methods and tools, such as preparatory plans, weekly plans, weekly meetings and production meetings. This work continues in 2012, and productivity activities are also beginning at VR Track's other business units.

The organisation was restructured, and as from the beginning of 2011 each of VR Track's seven businesses has been responsible for services and customer relations relating to their specialist knowhow. Together these seven businesses can offer customers solutions that meet all a customer's needs, from the planning stage through to maintenance, even for the entire life cycle of a project. Through ongoing technical development, VR Track can put the latest work procedures and solutions at the disposal of customers.



Breakdown of net turnover

%	
Track construction	38
Track maintenance	30
Track engineering, materials and other services	21
Projects outside railway environment	11

Identifying customer needs through active collaboration

The customer is the starting point for VR Track's operations as the company develops innovative solutions to meet customer needs.

VR Track's biggest customer is the Finnish Transport Agency, which is responsible for the rail network and its maintenance. As VR Track expands outside the rail network, so its customer base also grows. The company is actively involved in customer care to identify the needs of these new customers as well.

VR Track can offer new customers innovative solutions for constructing and maintaining transport channels. VR Track has many years' experience in building and maintenance with minimum disruption to traffic.

VR Track's customer satisfaction is at a good level. In its completely new format customer satisfaction survey, the company received a grade of 3.8 on a scale of 1-5. The customer satisfaction survey was conducted through interviews, and it aimed to identify areas for improvement, from a list of 45 options, that would increase customer satisfaction.

VR Track's strong points are its reliability and that it keeps its promises. Customers also appreciate its professional expertise, traffic safety and safety at work. In the opinion of customers, areas that still have room for improvement are in having adequate resources and in keeping schedules.

Customer satisfaction

3.8

scale of 1-5

VR Track is using a new method to measure customer satisfaction, so figures for comparison for previous years are not available.

Modern technology

Technical development and the use of modern tools are the keys to VR Track's success. VR Track was chosen in 2010 to be Finland's flagship company in the Infra FINBIM development project run by the infrastructure sector, that aims at introducing product modelling throughout the infrastructure sector by 2014.

During 2011 VR Track has developed a business model based on product modelling for planning and implementing construction projects. Product modelling involves obtaining and producing the specifications for a construction site, transferring the data to the design software, carrying out the design work in a 3D environment, and then transferring the data from the design model to machine control.

■ Laser scanning helps build a 3D model of a construction site.

Product modelling simplifies the work, saves time and reduces the likelihood of mistakes, since the specifications are transferred directly as the basis for the design and as the source data for construction and for machine control. Machine control helps improve productivity since there is less wasted time and effort.

VR Track has installed machine control based on product modelling in all its earth moving machines, and it has already been tested in one machine for removing foundation ballast. Customers will benefit from the fruit of this development work once the new technology is in effective use.

Laser scanner measures terrain

VR Track's traditions in terrain surveys go back to 1858. Today, VR Track can utilise all measurement technologies in conducting surveys, and also makes surveys outside the railway environment.

One surveying application where some of the fastest developments are taking place is laser scanning, which can provide precise, high quality 3D information without having to make any physical contact with an area. Laser scanning provides a 3D point cloud, in which each point has a 3D coordinate. A digital photograph is usually taken of the area as well. Laser scanning and digital photography form the most effective method for 3D modelling of built up terrains.

VR Track won first alliance contract in Europe

Although 2011 was a quieter year than previous years for VR Track in its traditional sector of track construction and maintenance, the company did achieve some victories in this area and worked on several sites around Finland.

VR Track's biggest achievement in 2011 was winning the first contract in Europe that is being implemented with project alliancing. The contract is for the renovation of the Lielähti-Kokemäki track section, and includes the development stage, ie. planning, and the implementation, subject to certain conditions. If the Finnish Transport Agency decides to carry out the project after the planning stage, track improvement work will begin in 2012 and will go on for three years.

Biggest contract on Seinäjoki-Oulu track section

VR Track's most significant job in the past few years has been on the Seinäjoki-Oulu track section. In 2011 VR Track built a double track between Seinäjoki and Ruha. Construction work on three traffic locations was also completed during 2011. The company also carried out one bridge construction project between Ylivieska and Oulu.

VR Track worked on several track construction sites around Finland in 2011.

Track construction suffered a setback in March when the Finnish Transport Agency suspended the life cycle project for the double track between Kokkola and Ylivieska. VR Track had been making preparations for competitive tendering for the project for almost a year.

Renovation of the Tornio-Kolari track section continued in 2011, and VR Track replaced the superstructure over a distance of 52 kilometres. The project includes replacing the old wooden sleepers with concrete sleepers, replacing rails, and converting the sections of line with short rails into continuous rail line. Safety at level crossing was also improved by building alternative road connections for level crossings that are being eliminated.

On the Äänekoski-Saarijärvi line VR Track carried out work on renewing the superstructure, on the Kontiomäki-Vartiuss track section it replaced sleepers, and on the coastal railway near Salo it renewed the track superstructure and the pile slab and built facilities for technical equipment. VR Track has had an earthworks contract in Helsinki, and has also made alterations to signalling equipment. VR Track has also built the track superstructure at the Ilmala marshalling yard.

In addition to these, VR Track has carried out maintenance on railway lines around Finland. The Finnish Transport Agency has divided Finland into 12 maintenance areas, and VR Track is responsible for eight of these.

In the competitive bidding held in 2011, VR Track won the maintenance contracts for the Finnish Transport Agency's areas three, six and nine. Area three extends from Riihimäki to Kokkola. Area six includes the Kouvola-Lahti, Kouvola-Pieksämäki, Kouvola-Kotka and Loviisa-Lahti track sections. Area nine extends from Kokkola to Oulu, including the branch line to Raahe. VR Track is also responsible for three of the Transport Agency's four electrical maintenance areas.

Electrification outside the railway environment

The track construction market in Finland has a limited size, and for that reason VR Track aims to obtain a larger foothold outside the rail network.

The decades of experience and high level of skills in track construction and maintenance that it possesses can be transferred to other traffic routes.

In 2011 VR Track expanded its operations outside the rail network in particular in electrification projects. The most important contract was made with Fingrid Oy, for maintenance services for its substations in Western Finland, Eastern Finland and Häme. Maintenance began at the beginning of 2012 and continues for three years.

VR Track's business expanded into new markets especially in electrification projects.

VR Track also had major electricity substation projects in 2011: replacing the substations and the switchgear equipment in Ylikkälä and Hikiä and refurbishing the Ruukki substation. A framework agreement was signed with Helsinki City Transport HKL for the construction and maintenance of electricity and telecoms systems on its properties. The property covered by the agreement includes metro stations, a few railway stations and metro and bus depots.

VR Track has automated systems, installed indoor and outdoor equipment and cables, and installed platform gates for Helsinki metro. VR Track also won the contract for metro line ballast tamping in 2011–2017.

New traffic routes - canals

VR Track expanded its maintenance work operations for the first time to canals, when in May it began maintenance work on the Keitele canal. The work will continue for at least two years, and the contract contains an option for an extension for 2013–2014. The Finnish Transport Agency opened up the maintenance of inland waterways and canals to competitive bidding in 2010, and this is the first contract won by VR Track in this field.

VR Track's bridge building unit has carried out work on the roads. Three road bridges were repaired in Forssa and one in Vihti. In Kotka VR Track repaired the Mutalahti overpass.

One of the biggest road and bridge construction sites for VR Track in 2011 was the Rongankatu subway in Tampere. The tunnel was built under the Tampere railway yard, and the trains ran normally during the project. The tunnel was made in sections that were moved into place using VR Track's own bridge moving technology one section at a time, causing minimum disruption to traffic.

Sweden provides most international business

VR Track has the goal of increasing the company's operations in the countries close to Finland. In its international business the company utilises the long-term experience it has in railway construction, maintenance and planning.

VR Track reorganised its operations in Sweden in 2011. It established a subsidiary, VR Track Sweden AB, and Swedish operations will be subordinated to this once the necessary official permits have been obtained.

As the result of the new maintenance contracts, the number of personnel in Sweden increased sharply. Some 150 VR Track employees were working there at the end of the year. The biggest construction projects underway in Sweden were completed in 2011.

Sweden provided the biggest work sites outside Finland in 2011.

The company also had contracts in Estonia, and the biggest contract there was track laying on the track section between Türi and Viljandi. The job was completed in September.

In Russia VR Track produced a consultant's report concerning the options for reinforcing the base of the railway embankment on a seven kilometre stretch of railway between Tammissuo and Vozrozhdenie.

The work included laboratory tests carried out in Finland on soil samples taken by Russian personnel. The laboratory tests were to find out if technical solutions used in Finland, such as deep stabilisation, could be used on a track construction site.

Five essential areas of responsibility

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

Corporate responsibility encompasses a broad spectrum. At VR Group, corporate responsibility means looking after finance, customers, personnel, safety and the environment. These five areas of responsibility were identified through a materiality analysis, last updated in 2010.

- For customers, the vital issues are safety, the punctuality of rail services and information.
- The most important areas in financial responsibility are maintaining reliable finances and profitability and the appropriate use of the Group's funds.
- For personnel, some of the main issues are being a good employer and developing management and the work of supervisory staff.
- Key matters in safety activities are the work of supervisors and developing the safety culture.
- A key issue in environmental responsibility is the impact on the environment of transport services, through energy consumption and air emissions for example.

The most relevant points to be reported by VR Group arise from what major stakeholders expect of the company's operations. When defining which items are relevant, high priority has been given for example to customer feedback, issues raised by the media and wishes expressed at various interactive events, as they are indicative of the general public's interest in VR Group.

One important viewpoint used to define relevance comprised VR Group's strategy and matters that help the Group achieve its strategic objectives or have a significant financial impact.

Getting there together with customers

Customers are the focus for VR Group's business, and customer-orientation is the most important of the Group's values. The customer is also seen at VR Group as one of the key themes in corporate responsibility alongside the other established themes.

All three VR Group business divisions are putting in much effort into renewing their operations so as to serve their customers even better. The Group's goal is to provide high quality, eco-friendly services that meet the needs of the customers of passenger services, logistics and infrastructure engineering. The Group is also involving customers more closely in developing services.

Read more about the different business operations and their customer care activities in the section

Customer relationship management

VR Group's values in customer relationship management

VR Group's values state that the customer is the focus for its business. The other values – safety and responsibility, goal-orientedness, self-renewal and being successful together – also play a key role in customer relationship management. VR Group offers high-quality, safe and easily accessible services that are developed in collaboration with customers.

The customer in the strategies of the business areas

The customer is a key focus in the strategies of all the business areas. Customer service models have been created based on the needs of different customer groups. Products and services are being targeted so that they better meet and anticipate the needs of the customer groups. VR Group's business operations aim to be customer-oriented, high quality and self-renewing.

Customer service goals

- Improving customer satisfaction
- Continuous development of services
- Developing customer service skills of personnel
- Dynamic, high quality operations
- Increasing customer value
- Implementing internal quality criteria

Successes and setbacks in customer service



- Decisions on developing passenger and freight services to and from Russia
- Improvements in service quality and formats
- Positive feedback from customers about friendliness and service-minded attitude of customer service personnel
- New ticket options give customers greater choice



- Managing exceptional circumstances and customer communications in connection with these
- Further improvement in quality of customer service

Opportunities and risks in customer service



- Ability to serve internationally
- New service concepts and modern rolling stock enable growth
- Dynamic, self-renewing customer service
- Strong expertise and easy cooperation
- Better management of disruptions and producing customer information
- Product and procedure development and market leadership in technology



- Competition between different transport modes and new railway operators, tougher competition in infrastructure engineering
- Heavy regulation compared to other modes of transport
- Economic recession

Changes in systems or structures during the review period that improve customer service

- Changes in channels for ticket sales and electronic services
- International expansion of road logistics into Eastern Europe
- Actions to improve quality of rolling stock
- Actions to improve quality of day-to-day customer service
- Account management at new business units, re-organization

Acting with responsibility even through hard times

The success of VR Group depends on skilled, contented personnel who work together as a single team for the good of the customer.

The uncertain economic situation and VR Group's restructuring programme have affected the company's personnel during the past three years. The work of some of the personnel has changed through the restructuring programme. At the end of 2011 VR Group had 800 fewer employees than at the start of the programme in 2009. The goal is to have 1200 less people working for the Group when the programme aiming at greater efficiency ends in 2012. A large part of these reductions has been achieved through various pension schemes.

To support employees who are facing redundancy, the Group set up an outplacement centre that helps employees cope with the situation and find new work with VR Group or elsewhere. Altogether 250 employees have transferred to the outplacement centre, and about 30 of these have obtained a new permanent or fixed term job at VR Group with the centre's assistance. Some 65 of the people who transferred to the outplacement centre chose a redundancy package during their first month in the centre.

In addition, VR Track, which provides infrastructure engineering services, had to make temporary and permanent lay-offs of personnel due to the weaker state of the market.

VR Group personnel have also been tested by two harsh winters in succession, which caused problems in rail services resulting in extra work for the Group's employees.

VR Group wishes to be a good employer even when times are difficult, acting responsibly and taking a long-term approach. The Group is working purposefully to improve those areas in which so far it has not performed well enough. The Group is developing its management and the work of supervisory staff. It improves the well-being of personnel and safety at work with preventive measures. In addition VR Group aims to improve its employer image both inside and outside the Group.

Personnel (31.12.2011)	2011	2010	2009	2008	2007
Employment relationships started ²⁾	796	664	587	897	591
Employment relationships ended ²⁾	1,200	997	963	788	835
Total turnover ²⁾ , %	8.9	6.8	6.1	6.6	-
Permanent employees ³⁾	11,693	12,059	12,285	12,480	12,252
Fixed-term employees ³⁾	95	159	286	336	288
Personnel working outside Finland	517	452	275	290	-
Average length of employment ²⁾ , years	20	21	21	22	23
Personnel by gender ²⁾					
men, %	83	83	84	84	85
women, %	17	17	16	16	15
Retirements ²⁾					
old age	501	441	431	274	283
disability	88	101	104	102	77
Sick leave absence ^{1) 2)} , %	6.3	5.8	5.6	6	6
Average retirement age ²⁾	57.9	57,7 ¹⁾	57,8 ¹⁾	56,9 ¹⁾	57 ¹⁾
Disability retirement rate ²⁾ , %					
Disability retirements / total personnel	0.8	0.8	0.8	0.8	0.5

1) The figures do not include data for Pohjolan Liikenne or VR Transpoint's road logistics.

2) The figures do not include data for the operations outside Finland of VR Track and VR Transpoint or for the Logistics subsidiaries SpeedyEx, PT Logistiikka and Arcus Oy.

3) The employment of personnel at VR Transpoint's operations outside Finland is counted as of indefinite duration since no information has been collected about fixed term employment contracts.



Person-years

* VR Transpoint does not collect data on person years at its operations outside Finland, so the number of personnel has been used instead for these operations

Good work is done by contented personnel

VR Group's personnel have two challenging years behind them. The restructuring programme has affected personnel in many ways, and the problems caused by the winters created extra work.

The difficult times were reflected in the personnel survey carried out towards the end of 2011. The commitment index based on this survey declined from the previous year to 30. The target for 2012 is 40. The entire Group personnel participated in the personnel survey, apart from those in logistics operations and infrastructure engineering outside Finland. The response level rose from the previous year to 58 (54) %.

VR Group expanded the range of keep fit and sports services available to personnel.

VR Group has used various means to promote the well-being of personnel and help them cope at work. A separate steering committee headed by the senior vice president, human resources, monitors and develops well-being activities.

VR Group launched a new well-being scheme in spring 2011, based on the new well-being programme. The measures in the programme affect both individual employees and the work community, looking at the work itself and the work of supervisors and management.

VR Group offers its personnel various opportunities to improve well-being. For example, during the year sessions were arranged with occupational health care personnel for those working in customer service duties to help them resolve difficult situations. The different work groups at VR Group were also able to participate in projects designed for each group, aiming to improve staff morale during challenging times.

Coupons that can be used for keep fit and culture services were given to the entire personnel in spring 2011 as an expression of thanks for going the extra mile during the winter.

Well-being market informs about services

Every year VR Group holds well-being markets in different locations for the entire personnel, where various partners present the well-being services available to personnel. Cooperation on well-being takes place for example with partners in the areas of employment pensions, accidents at work, sports and fitness, and occupational health. At the market employees can assess their own well-being, for example by measuring their balance, blood pressure and general fitness. Personnel have also had the opportunity to talk with HR experts and assess the state of management in the Group.

In 2011 well-being markets were held in Helsinki, Tampere, Pieksämäki, Kouvola and Oulu. More markets are to be held in different parts of Finland in 2012.

Wider range of sports and keep fit services

The biggest change at VR Group in 2011 to improve personnel well-being was extending the keep fit services subsidised by the employer to all of Finland. VR Group personnel can now participate in keep fit activities subsidised by the employer at more than 250 locations.

In 2012 the Group is introducing an electronic keep fit card, with which personnel can themselves monitor their use of keep fit subsidies. The employer in turn can monitor the use of various services and then target subsidies more effectively. A questionnaire is also planned to find out how successful sports and keep fit services have been, whether personnel have used the services, and how effective they have been in maintaining health.

About one thousand VR Group office workers participated in a well-being experiment in the second half of the year. The participants were offered well-being coaching to improve their lifestyle and to manage stress and the work load. The survey and coaching will also be utilized at other work places in the Group.

One action to promote good health was the launch in autumn 2011 of a campaign, and appropriate support, to help people give up smoking. This will continue until the end of 2012.

Supervisors look after work fitness

Maintaining the work fitness of personnel is part of the work of supervisors. They are supported in difficult situations by personnel coordinators. Work fitness activities have been enhanced at VR Group's work places, and this is reflected for example in an increase in the number of work fitness discussions.

VR Group's supervisory staff undergo training each year to help them include work fitness and well-being activities in their work as supervisors. Almost 300 supervisors took part in 2011 in training on the revised work fitness programme.

Key elements in the revised work fitness programme are the means available for supporting a worker returning to work at their old job or in new duties after a long absence.

Comprehensive occupational health services

VR Group provides a wider range of health services for its personnel than the average. Occupational health care was put out to competitive tendering in autumn 2011, and as a result the occupational health centre for some 3500 VR Group personnel changed in February 2012. The services remained unchanged, however.

The number of physical examinations at VR Group has increased, which is due to the ageing of personnel and new legislation. The sick leave and accident absence rate at the end of 2011 was 6.3 %, compared with a target of 5.5 %.

Good supervisors play key role

When a company is going through changes, it is especially important for the work of supervisors and managers to be of a high standard. This holds true for VR Group as well.

The Group needs supervisors to take a new, more active approach in their work if the Group is to continue to be successful in the future. For this reason VR Group has started systematic development of the work of supervisors and management.

The main pillars for VR Group's management vision are that management should be objective-oriented and pioneering, that it should implement change and accept responsibility, and that it should be solution-driven, open and motivating. The management vision underlies all efforts to develop the work of supervisors and the initial training of new supervisors.

Important elements in the work of supervisors at VR Group are accepting responsibility, being goal-oriented, and encouraging personnel.

What the work of supervisors at VR Group should involve has been defined on the basis of a survey carried out at VR Group.

Tools for supervisors

VR Group has drawn up common business models and tools for supervisors to use, which will help them in achieving common goals. For example, the work of management teams has been developed by improving meeting procedures so as to give more time for dealing with issues that are most important for the business operations.

A training course portfolio has been put together to support supervisors, and both new and more experienced supervisors can choose courses from this portfolio to suit their needs. The topics covered by the courses include the skills of a new supervisor, how to bring up difficult issues for discussion, and change management.

VR Group has introduced a guide for supervisors, which describes the business approach in the Group and the various tools available for the work of supervisors. The guide is updated at six month intervals to keep the information up to date.

A wide range of supervisor training was held at VR Group in 2011. VR, which provides passenger services, launched supervisor coaching with the goal of improving customer service. In the Corporate Services division, the maintenance unit tested training in change management and the rail traffic unit currently has a two-year coaching programme underway for future team leaders. Changes are also being made in the organizational structure at different units in the Group to make it possible for a system of supervisors and their work to function effectively.

Systematic development of personnel skills

Skilled and contented personnel are VR Group's biggest resource, and the Group aims to continually develop personnel skills. The new systems and business models assist in personnel development and in the work of supervisors that is closely connected with this.

VR Group has introduced a performance management system for keeping a record of the individual targets for employees for each year, of their main areas of responsibility, of skill development needs, and any action by the employee or their work community to improve well-being. The system is also used to monitor the success in achieving the targets and the action taken for personnel development.

The system has been introduced initially among those participating in the management bonus scheme. It is planned to extend the use of the system during 2012 to include other supervisors and experts.

■ VR Group personnel are offered many opportunities for training and personal development.

The Group also operates a Talent Management business model, which helps identify the key positions in the Group and uses successor planning to ensure that VR Group has sufficient skilled personnel in key positions, both now and for the future.

At the same time the Group seeks to identify potential key individuals within its personnel and to develop their expertise.

VR Group's goal is for 95 % of its personnel to have a development discussion with their superior. At the development discussion, employee and supervisor together set individual targets for the employee and consider the options for developing the employee's skills. In 2011 65 % of VR Group's personnel participated in development discussions.

Initial training for new work

Initial training for new work plays an important role in personnel skills. New tools have been developed for initial training, and a broader info package has been put together to help the initial trainer. A revised check list for preparing for training and an initial training plan are available. A description is given on the intranet of the different phases in initial training and the responsibilities and tools in the different phases.

A list has been put together of the various material available in electronic format that new employees can use to get to know their new employer on their own initiative. During 2011 the online course 'Tervetuloa taloon' (Welcome to the company) was also completed. The course teaches the new employee about VR Group and its businesses.

New people are needed

In the long term VR Group needs many new employees, as hundreds of skilled personnel in the Group are retiring. Competition for skilled workers is intense, and for this reason VR Group is developing its employer image with a long-term approach.

A reputation as a good employer derives from a good employer image within the Group.

To improve its internal employer image, VR Group has launched an exchange student programme throughout the Group, in which 150 VR Group employees will get to try out each others' work for two days at different VR Group units around Finland.

VR Group has launched an exchange student programme within the Group, in which VR Group personnel can get to know about each other's work.

The goal of the exchange student programme is to increase appreciation of customer service and to boost solidarity throughout the Group. The programme was tested in summer 2011, with positive results. Some of the Group's senior management also participated in the programme.

Particular focus on adequacy of personnel

The personnel situation at VR Group became difficult in the second half of 2011. VR had to cancel about 300 commuter train services during the summer and autumn when it could not obtain conductors for the trains. In August, when there were most cancellations, some 24,000 commuter train services were in operation.

This situation was the sum of many things. Mistakes were made in personnel planning. More people were on sick leave than had been forecast. More personnel than forecast transferred to other duties within the Group and elsewhere. The dates for training for rail personnel were changed to the holiday period, when fewer personnel are in any case available for train services.

Personnel planning is calculated based on the number of trains driven during the year. The plan takes into account personnel training, annual holidays, retirement, and forecasts for sick leave and other absences.

To ease the difficult situation with personnel, it was decided to start conductor training earlier than had been planned and to increase the number of conductors to be trained. The first new conductors started work in the middle of December. Personnel planning has also been improved, and it now, for example, aims to take more account of changes in the business environment.

All in all, the number of trains cancelled due to the lack of conductors was small in relation to the number of train services driven daily.



Personnel age structure 2011

Age, years	%
15-19	0.2
20-24	3.0
25-29	9.1
30-34	9.5
35-39	7.2
40-44	7.2
45-49	11.6
50-54	26.5
55-59	19.1
over 60	6.6

* The figures do not include data for the operations outside Finland of VR Track and VR Transpoint or for the Logistics subsidiaries SpeedyEx and PT Logistiikka and Arcus Oy.

Human resources management

VR Group's values in human resources management

The VR Group's values – safety and responsibility, self-renewal, successful together, goal-orientedness and customer-oriented operations – are an essential tool in creating the human resources strategy.

Human resources strategy

The strategic priorities for human resources and expertise are: management that supports objective-oriented operations; expertise for the future; ability to predict developments in human resources and efficient, flexible allocation of them; proactive management of well-being at work and occupational safety; and a good reputation as an employer.

Ground rules for personnel and their implementation

The main content of human resources management and internal interaction is described in the personnel ground rules prepared in cooperation with personnel organizations. In line with these rules, VR Group operates as a responsible employer with a long-term approach.

Goals for human resources management

- Renewing the roles and clarifying the responsibilities of supervisory staff
- Performance management
- Developing compensation

Successes and setbacks in HR activities



- Many job applicants for VR Group's advertised vacancies
- Launch of Talent Management process
- Work of outplacement centre in assisting personnel to find new employment and adjust to new situation
- Negotiations for collective bargaining agreements within national framework agreement
- New sports and keep fit services supported by employer
- Increase in number of respondents in personnel survey
- Improvement in coverage and quality of development discussions



- Lower commitment of personnel to changes and general developments in personnel job satisfaction
- Skills of supervisors in managing changes
- Personnel planning and resources
- Continued increase in sick leave absences

Risks and opportunities in HR activities



- The ageing of personnel and the availability of new labour
- Turnover and availability of key personnel



- Calibrating personnel resources and flexible use of these
- Broad-based personnel skills
- Change management and management culture
- Commitment of personnel to change and overall job satisfaction

Changes in systems or structures during the review period that improve HR activities and results

- Information system covering the whole Group introduced to support performance management and help establish targets

A year of fluctuation in finances

For VR Group, 2011 was a year of fluctuation in its finances, and this reflected the state of the market. The year got off to a promising start, but at the end of the second quarter the first signs of a slowdown in growth could already be seen.

Economic uncertainty prevailed in Europe, and this affected the financial markets and demand especially for logistics and infrastructure engineering. And this market uncertainty still continues.

A large proportion of the demand for infrastructure engineering depends on the level of expenditure by the state on track maintenance and construction. The finance allocated to these purposes has been considerably reduced.

Net result down on last year

VR Group's net result for 2011 was positive. However, it was considerably weaker than in the previous year, since demand did not grow as forecast. Fixed costs play a major part in VR Group's cost structure, which makes it difficult to adjust costs at short notice.

The Group's financial situation remained good thanks to its strong cash funds. However, liquidity follows developments elsewhere, and it was slightly lower at the end of 2011 than at the beginning of the year.

During a recession, it becomes even more important for a company to assess the need for purchases it is planning and to keep costs under control. If the recession continues for a long time, this places greater emphasis on measures that bring about long-term changes in the entire cost structure. These actions will also help the company through the next recession and are essential for permanent changes in the cost structure.

Another reason why it is necessary to change the cost structure at VR Group is because the Group has to finance its several hundred million euro investments in railway rolling stock, and this will place a burden on the Group's cost structure and liquidity in the coming years.

One of the main objectives in VR Group's restructuring programme is to lighten the cost structure. Financing future investments will also require growth and more effective management of working capital.

Financial indicators	2011	2010	2009	2008	2007
Balance sheet total, M€	1,748.1	1,721.9	1,629.7	1,623.1	1,593.5
Dividends paid to government, M€	-	-	-	54.8	30.4
Track usage fee*, M€	61.2	62.1	55.3	63.4	61.8
Income taxes, M€	3.7	11.7	9.9	23.7	24.3
Wages and salaries, M€	469.2	486.9	483.6	474.1	449.5
Materials and services, M€	515	500.2	470.6	548.3	420.1
Return on equity, %	1.6	2.3	1.5	4.4	5.3
Return on investment, %	1.7	3.3	2.4	6.3	7.2
Solvency ratio, %	81	80.9	83	82.4	84.1

*) Includes track taxes and investment fee

Restructuring programme cuts costs

One target in VR Group's restructuring programme is to achieve a EUR 100 million improvement in profitability by the end of 2012, for example by lightening the cost structure. Raising profitability is essential for safeguarding the Group's competitiveness when competition begins in rail services.

In the restructuring programme, the structure of VR Group and its working procedures have been changed so as to reduce the amount of manual work, but without putting safety at risk. Investments have also been made to improve profitability that have streamlined working procedures.

The changes have had a positive impact on finances, which can be seen in the Group's cost structure in particular as a reduction in personnel costs.

Personnel costs are a major element in the cost structure of service companies such as VR Group.

VR Group aims to grow

Profitable growth is a strategic goal for VR Group. This is important for financing the future major purchases of rolling stock. The Group is looking for growth in its domestic market from both new and existing customers and business sectors.

Raising market shares requires punctual, reliable and cost-effective operations. Which is why VR Group has put much effort in particular into customer care activities and improving punctuality. In addition, it has worked for example with logistics customers to develop services together and discover new solutions in a changing world.

VR Group has also grown through acquisitions, mainly in VR Transpoint's road logistics operations.

VR Transpoint has gained an opening in the distribution market in Russia. Russia is the most important focus for international expansion at VR Group. Profitable operations in the Russian market require investments and a long-term approach.

More effective management of working capital

Management of working capital will become increasingly important for VR Group in the next few years as the Group's financial standing changes with the upcoming major capital expenditure. The Group cannot finance these purchases entirely with internal financing but also needs to obtain financing on the financial markets.

The responsibility of the business operations and the measures they take will play a greater role in managing working capital.

Responsible business operations are based on effective management of finances

Responsible, objective-oriented financial management lays the foundation for responsible business operations. Systematic planning, and the goals of a stable financial result, a positive cash flow from operations and a high solvency ratio, are the central principles in VR Group's financial management.

The Group's funds are invested in line with the principles approved by the Board of Directors and avoiding unnecessary risks. When making capital expenditure, the Group looks into the financing solutions available and chooses the lowest cost option.

VR Group's financial operating principles are confirmed in the general instructions for financial management approved by the Board of Directors of VR Group.

Financial management

VR Group's values in financial management

Responsibility is the VR Group value that provides a sound footing for financial management. By operating competitively and profitably, the company creates the framework for conducting business responsibly. In its financial activities, VR Group encourages its businesses to focus their costs and investments on areas that support responsibility.

Strategy for financial management

VR Group's strategy is to operate efficiently and purposefully, and to seek profitable growth. A strong solvency ratio and cash flow financing obtained through growth form a firm foundation for future investment and for developing the business.

Financial management policies and their implementation

The goals and methods of financial management and the responsibilities and operating principles for financial security are clearly defined in the financial management guidelines. Financial assets are managed in a safe, productive and liquid manner. The underlying principle is a low issuer risk.

Results-based objectives for financial management

Each year VR Group's Board of Directors sets financial targets for the Group in line with the Group's short- and long-term strategy. These targets are taken into account in the business plans, which are drawn up on the basis of the strategic targets and aiming to achieve these. The targets take into account ownership steering policies.

Successes and setbacks in financial affairs



- Profitable operation
- Solvency ratio consistently high
- VR Group has performed well in international comparisons
- Cash funds still strong, despite sharp fluctuations in business operations



- Managing cost pressures created by exceptional conditions
- Rapid changes in business environment and finance market create challenges for planning finances to support business operations
- Weakening in profitability due to sharp changes in demand

Opportunities and risks in financial management



- Strong solvency ratio: investments with internal financing in the short term
- Mitigation of climate change forms a springboard for growth, for logistics and passenger services
- Growth opportunities for VR Group outside Finland
- Opportunities for automation and enhanced efficiency
- Success in implementing restructuring 2012 programme



- Restructuring in business environment and impact of developments in the Russian economy on business
- Rising payroll expenses and prices for energy and materials
- Impact of condition of track on business operations related to rail services

Changes in systems or structures to improve financial management and financial results during the reporting period

- Preparing service centre model for financial administration
- Developing content of monthly reporting
- Continuing project to update reporting system
- Continuing project to replace accounting system
- Developing payments processing
- Enhancing cash flow planning

No compromise on safety

Safety has always been one of the main pillars in VR Group's operations. The Group's task is to ensure that passengers and freight reach their destinations safely. The Group minimizes risks to safety at the work place.

Safety activities are not simply a matter of avoiding damage or injury. They also play an important part in safeguarding the viability of the Group's business operations in all circumstances. Safety at VR Group is an integral part of everyday work — it is a continuous activity, with no compromise on quality.

The priorities in safety activities at VR Group have been traffic safety and on-the-job safety. The work has focused particularly on maintaining and improving safety in rail traffic, shunting and work on the track, and the Group has succeeded well in these areas. There have been no major accidents for many years, and the number of accidents at work has declined.

■ Safety is part of everyday work at VR Group.

Although safety is at a high level, the work of maintaining and improving these standards continues. In 2011 the Group failed to achieve all its safety targets, and it will pay particular attention to these areas in future.

It is not possible to significantly improve safety at VR Group with new technical solutions, so the most important matter is everyday work and how people react to issues. The Group is trying to develop the safety culture into a model of doing things together, where everyone bears responsibility for their own work and also helps their colleagues.

The start of competition on the railways will also demand a new approach to safety. Maintaining traffic safety will require cooperation between rail operators. Cooperation with traffic control must also remain smooth and effective after this is split off to form a separate unit that is independent of the railway companies.

Safety and security must also be seen in a larger sense as corporate security. As well as looking after the safety of passengers, freight and personnel, it is also necessary to have a more systematic examination of data security and the security of business premises.

Traffic safety of the highest level

The most important goal for VR Group's safety activities is for the Group to maintain its standing as having one of the best records on railway safety among the EU countries.

Management of safety in VR Group's rail services is based on the safety management system, which was revised in 2011. The main structure of the system remained almost unchanged, but it took into account the requirements of the new Finnish Railway Act and new official regulations.

Following the changes in the Railway Act, VR Group also became an infrastructure manager, and the company had to apply not only for a safety certificate and operating permit but also for a safety permit. VR Group's current operating permit and safety certificate expire in April 2012. The safety certificate and permit are issued by the Finnish Transport Safety Agency and the operating permit by the Ministry of Transport and Communications.

Safety management at VR Group is assisted by the new safety information system (TUTTI), which replaced the previous reporting and administration system for deviations to work and traffic safety. The system not only provides reporting on deviations but also enables the use of various procedures for monitoring and developing safety, such as sampling techniques for risk management and occupational safety.

Exceptional conditions form biggest safety risk

During 2011 an extensive risk assessment of rail services was carried out at VR Group in partnership with various rail service experts and personnel organisations. The assessment will help target efforts effectively at the biggest risks to safety.

According to the risk assessment, the most probable and biggest risks to rail services are connected to coordinating traffic and work on the track, to traffic in exceptional conditions and during disruptions, and to shunting in marshalling yards. These risks had already been identified previously, and the assessment did not discover any completely new risks.

The key factors in being prepared for risks and preventing accidents are observing correct working methods and formal communications, and VR Group emphasizes the importance of these. The Group and the Finnish Transport Agency are developing systems to identify the location of trains on the rail network.

Effective traffic communications is one of the keystones in maintaining safety in rail services.

Railway safety is improved by the new Raili radio network, which is now in use for traffic communications. The new radio network was introduced for rail services and track work back in 2010, and was extended to shunting operations in 2011. By the end of the year two thirds of shunting communications took place on the Raili network.

The new system has many advantages over the old analogue radio system. Above all, the new radio network is more reliable, since it functions in the GSM network, which has a dense array of base stations. It is also possible to make emergency calls that override all other calls. This can prevent accidents.

VR Group's operations centre, which started up in February 2011, also helps improve safety in rail services during exceptional conditions and disruptions to services. It has the task of managing disruptions to rail services at VR Group so that they cause minimum inconvenience to the Group's customers. The Finnish Transport Agency's rail service centre remains responsible for the actual management of traffic during disruptions to services.

Research to improve traffic safety

VR Group participates in various research projects that aim to improve traffic safety.

VTT's Juna varo (Watch out for the train) project ended in 2011. The system developed and tested in the project met its targets. The system warns vehicles approaching a level crossing of an on-coming train. To be able to utilise the system in practice, however, it would be necessary to improve the reliability of the system, and that depends on further studies.

One part of VTT's Safe Traffic 2025 research project involves looking at how safety events are handled and learning from them in the railway sector. The study recommended the introduction of a common register of exceptional events and conditions in the railway sector, since this would improve the flow of information and learning from what has happened. As part of the same research project, an initial survey was made of safety cultures in traffic systems in general. The project continues in 2012.

Safety measures in road services

Pohjolan Liikenne, part of VR Group, installed alcolocks on more than 50 buses and coaches during 2011, and plans to install them on all the company's new buses. Recording security cameras were installed on 21 new city buses to monitor passenger areas.

New trucks and trailers purchased by VR Transpoint were fitted with reflective tape to improve visibility in compliance with new regulations. There were 60 new trucks and 66 trailers.

New approach to safety at work

One of the main goals in occupational safety at VR Group is to change from employee supervision and control to having each employee take responsibility for their own work and also for their colleagues. Many means are being used to encourage personnel to make this change in the safety culture.

An important element in developing the safety culture at the workplace is the commitment of management. VR Group's senior management has been more active in visiting different workplaces in the Group during 2011. Management occupational safety tours and discussions have also been introduced.

Safety discussions and tours involving supervisors and employees help increase awareness of occupational safety and the exchange of ideas. They also demonstrate the interest of supervisors in occupational safety issues. The discussions deal with every day work and safety issues.

■ VR Group aims to develop a new safety culture at work places.

VR Group has also given a boost to activities at individual work places by taking on an occupational safety manager in each division, with the task of developing safety in cooperation with management, supervisors and personnel. The activities of the occupational health and safety organisation have been enhanced by training the members of the organisation and creating standard operating procedures for planning activities.

Stoppi – preventing accidents at work

At the beginning of 2011 VR Group launched Stoppi, a four-year safety at work programme, to motivate personnel to adopt a new approach to occupational safety at their own work place. The programme consists of 12 occupational safety topics, and each division and unit chose four of these in 2011 to carry out at their work place.

In the first year of the Stoppi programme, supervisory staff were given training in the programme. Material was also put together to assist supervisors in introducing the new approach to safety at their work place. Personnel were informed about the programme at well-being markets around Finland and at safety briefings at the workplace.

Personnel are also being motivated to change their approach to safety and to better safety at work with safety at work contests. In these, groups of personnel are rewarded for accident-free periods and for making proposals and comments on safety at work issues. The personnel group is competing with itself, since its chances of obtaining a prize are affected by its own level of activity. The contests are continuing in 2012, but in a slightly different format.

Positive developments in safety at work

The number of accidents at work and the accident frequency declined significantly in VR Group in 2011. The accident frequency, ie. the total number of accidents at work per million hours worked, was 35 (44).

Despite this encouraging development in safety at work, two fatal accidents at work occurred in VR Group in 2011. A locomotive driver died in February in a train collision in Nokia. In December a Pohjolan Liikenne bus driver died when a bus and a truck were in collision in Siuntio. In addition, a serious accident occurred in the locomotive shed in Kemi involving the VR Track driver of a track maintenance machine, when an employee was seriously injured.

Two collisions in rail services

Safety in rail services has been at a good level for a long time, and there have been no train collisions for many years. In 2011, however, two collisions occurred, and in the accident in Nokia at the end of February the driver of one of the trains died.

In this accident the locomotive pulling a freight train to Mäntyluoto lost power and another train that came to its assistance ran into the last wagon of the train it came to help. The Accident Investigation Board Finland has not completed its report yet. VR Group has revised its instructions for situations where trains give assistance.

A train carrying timber and a locomotive collided in Nurmes at the beginning of February, but no one was seriously injured. The damage to property was significant however. The Accident Investigation Board Finland has not completed its report yet. VR Group has issued temporary instructions for traffic control on this track section.

During 2011 there were no accidents resulting in death or serious injury to passengers.

The number of level crossing accidents declined from the previous year to 25 (33), and the number of fatalities fell to 2 (8). The number of people injured 9 (10) was similar to the previous year.

The number of traffic accidents in the Group's road services declined from the previous year to 324 (431). The number of people injured also declined, to 57 (85), but there were two fatal accidents.

Safety management

VR Group's values in safety management

Safety is one of VR Group's key values.

Safety policy

VR Group has a safety policy that defines the importance and meaning of safety in the company. The safety policy forms the basis for the Rail Safety Programme and long-term safety activities. Occupational safety is an integral part of VR Group's human resources strategy.

Safety Programme and its implementation

The Rail Safety Programme is confirmed for four-year periods. It contains safety goals for the period, and achievement of the goals is monitored through the safety management system. Each Group company confirms an occupational safety programme that contains occupational safety objectives and activities for the strategic period. Implementation of the programme is verified through VR Group's occupational health and work safety management system.

Safety goals

- Keeping rail safety at a high level compared to other EU countries
- Safety is a common issue and requires action by everyone
- Making risk assessment part of all decision-making
- Annual accident rate of 36, no serious accidents

Successes and setbacks in safety management



- Number of level crossing accidents staying at same low level as in two previous years
- No deaths or serious injuries to passengers
- Achieving target for accident frequency rate
- Management getting out and visiting work places
- Divisions obtain their own occupational safety managers



- VR Group's rail and road services each had one accident that resulted in the death of an employee

Safety risks

The most probable and dangerous hazards in rail services are related to coordinating rail traffic and work on the track, to traffic in exceptional conditions and disruptions, and to shunting.

Changes in systems or structures during the review period that improve safety activities and results

- Revision of rail safety management system
- Introduction of new safety information system
- Safety strategy for 2011-2015
- External audit of occupational health and work safety management system
- Approval of new occupational health and safety joint agreement

Getting there together – for the good of the environment

The environment is an important issue for VR Group for many reasons. Eco-friendliness is a strongpoint for rail services, for trains generate less emissions and consume less energy than other forms of transport – and VR Group intends to polish up this competitive asset.

VR Group believes that it is always possible to do more. In December 2007 VR Group made 12 environmental promises that it aims to fulfil by the end of 2012. It has already fulfilled some of these promises ahead of schedule. Some of the promises are so challenging that they will not be achieved by the deadline. This is partly due to changes in the business environment that could not be foreseen when the promises were made.

Rail is the most eco-friendly form of transport since it produces less carbon dioxide emissions and consumes less energy than other forms of transport.

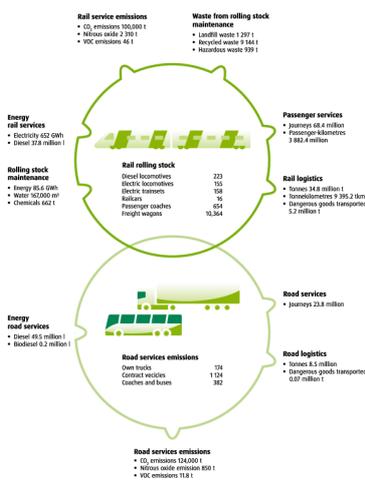
The environmental promises form the backbone for all of VR Group’s environmental activities. Transparent monitoring of common targets ensures that the work to fulfil the promises is ongoing.

Since the promises have been an effective means for managing environmental activities, the Group also plans to make new promises after 2012. In this way the work that has started so well will continue.

The promises are part of VR Group’s environmental management system and environmental principles, which were revised in 2011. Thanks to the changes made in this revision, environmental issues now form a clearer distinctive entity, making it easier for every Group employee to find information on environmental issues.

The allocation of responsibility for environmental activities was also updated. The environmental management system and environmental principles set down the overall guidelines for the Group’s environmental activities, the promises are goals that are made public.

The most significant goals for VR Group’s environmental activities concern reducing carbon dioxide emissions and energy consumption. Looking after the environment is the business of all VR Group employees, which is why personnel training plays a key role in environmental activities.



* The figures for road services do not include data for the non-Finnish companies operated by international logistics.

Environmental promises

By the end of 2012 VR Group will

1	cut carbon dioxide emissions from rail traffic, by 50 %	100 %
2	cut energy consumption by rail traffic, by 20 % per passenger	20 % ¹⁾
3	improve tidiness in trains and attractiveness of station areas	40 %
4	ensure that no important incident or leakage occurs in transports of hazardous substances	100 %
5	reduce noise and vibration impacts, jointly with the Finnish Transport Agency	80 %
6	enhance the viability of transport chains and increase the share of combined transports	20 %
7	consider environmental impacts in purchases of materials and services	60 %
8	improve its waste management and recycling	100 %
9	upgrade the fuel distribution stores and fill-up points for its diesel engines and remove any underground fuel tanks	80 %
10	ensure that no harm occurs to the environment or human health in land owned by VR Group	100 %
11	train its personnel to adopt an environmentally responsible behaviour	20 %
12	commit itself to extensive and open discussion and communication concerning environmental issues	40 %

* The percentage figure shows to what extent a promise has been fulfilled.

¹⁾ The percentage has been calculated using 2010 figures, since the 2011 figure will only be available after the annual report has been published.

Trains run on hydro-electricity, zero emissions

Greenhouse gas emissions from transport have increased in the past few years, and they continue to grow. Finland has the target of reducing carbon dioxide emissions from traffic by 15 % in the period 2005–2020.

The EU wants to reduce dependency on fossil fuels and cut greenhouse emissions by 60 per cent by 2050.

To meet these targets it will be necessary to improve energy efficiency, utilise renewable energy and switch traffic to forms of transport that favour the environment, such as the railways. The transport system throughout Europe needs changing.

VR Group is making a major contribution to these efforts. In December 2007 it set the target of halving carbon dioxide emissions from rail services, and has succeeded in this. These emissions have fallen by 65 % since 2006.

Carbon dioxide emissions from rail services have declined 65 % since 2006, because the trains run on hydro-electricity.

The biggest factor in reducing emissions is that rail services switched to hydro-electricity in 2009, and to green electricity one year before that. All of VR Group has used electricity generated by hydro-power since the beginning of 2011.

Rail services operated with electric traction no longer create carbon dioxide emissions. Nine out of ten passenger trains run on electricity, and seven out of ten freight trains.

More and more renewable energy

Switching to hydro-electricity means that the proportion of renewable energy in the energy consumption of VR Group has increased. Renewable energy accounts for less than half of the energy used by the entire Group, but nearly two thirds of the energy used by rail services comes from renewable sources.

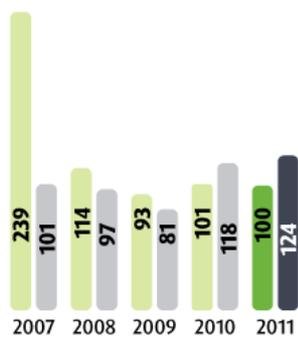
The proportion of renewable energy used by VR Group's road services is being raised by increasing the use of biodiesel. Pohjolan Liikenne, which operates the Group's bus services, started to use biodiesel in 19 of its city service buses in autumn 2011. The biodiesel is obtained from waste fat from the food industry, and it reduces greenhouse emissions by some 75 % and also cuts other exhaust emissions.

Apart from carbon dioxide emissions, other significant emissions from traffic are nitrogen oxide and particle emissions, and the volume of these remained unchanged from the previous year.

Low emission vehicles

VR Transport has purchased 60 new trucks that comply with the Euro 5 emissions standards. The vehicles have an automatic gearbox fitted with software for economy driving. Fuel consumption is kept as low as possible through ongoing monitoring of driving habits and through training.

VR Group set a limit of 160 g/km for carbon dioxide emissions for company cars for employees, and plans to reduce this figure in future. VR Group maintains a strict company car policy, and encourages the use of public transport instead.



Carbon dioxide emissions from rail and road services

1 000 tonnes

■ Rail
■ Road

Progress in small steps to save energy

Energy efficiency is one of the key means in international climate policy for slowing down the rate of climate change. The EU has the goal of improving energy efficiency by 20 % by 2020.

Energy efficiency is also a major focus in VR Group's environmental activities. However, the Group will not achieve its target of reducing energy consumption per passenger by 20 % by the end of 2012. To succeed in this would have required higher growth in passenger numbers. But the Group continues to take small steps towards this goal.

■ To reduce energy consumption per passenger, more people will have to travel more often by rail.

VR Group is committed to the energy efficiency agreements for public transport and freight transport that have the target of reducing energy consumption by 9 % by 2016. VR Transpoint's rail logistics achieved this target six years ahead of the deadline.

Some 80 % of the Group's total energy consumption is by rail and road services. Rail accounts for two thirds of this and road services for one third. The remaining 20 % is mainly consumed in heating and lighting buildings and by track maintenance equipment.

Rail is most energy efficient

Rail is the most energy efficient form of transport. Energy efficiency is based on the low rolling resistance between the metal wheels and the rail, on the high payload, and on smoothly scheduled services that reduce the need for braking and stopping.

In the newer rail rolling stock, use is made of the kinetic energy from braking by converting it into electricity and feeding it back into the network. In commuter services, the energy returned in this way may account for as much as half the energy taken from the network.

More passengers, better energy efficiency

The fuller a train is, the higher the energy efficiency per passenger. And VR is putting much effort into getting more and more people to travel by train. The renewal of the pricing system in autumn 2011 offers customers a greater choice of tickets and prices. Much effort has been put into improving the punctuality of trains, and this has improved after two successive difficult winters.

One step to improve the punctuality of rail services was the introduction of standard length train units in commuter services in the Helsinki metropolitan area in August 2011. Shorter trains are no longer used to the same extent outside peak hours. This increases the energy consumption by rail services, but in return improves punctuality.

The energy efficiency of rail freight carryings can be improved by increasing the size of trains, reducing the amount of shunting and making this more efficient with the new rolling stock. Road services also aim to increase the size of the loads conveyed and reduce the amount of driving with empty trucks.

Economy driving gives energy savings

Driving habits have an impact on energy consumption. VR Group trains its locomotive and road vehicle drivers in economy driving.

Recommendations for speeds between individual stations have been drawn up for locomotive drivers in commuter services to assist in economy driving. Models of track sections have been made for long-distance passenger and freight trains. These show for example the places suitable for free wheeling. Freight trains can free wheel for even tens of kilometres at one go. When free wheeling, a train does not take power from the overhead line.

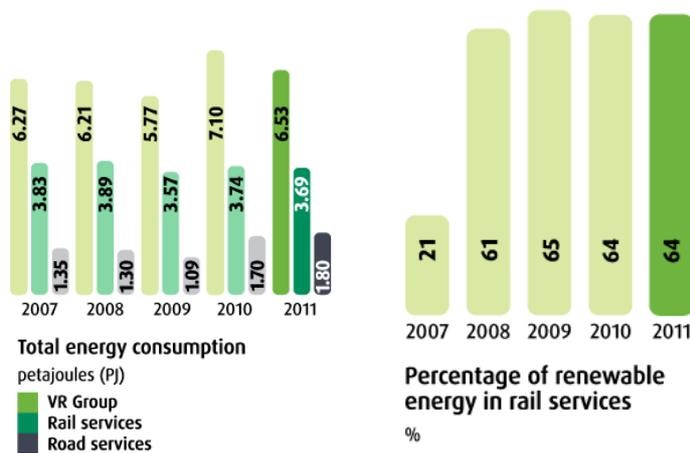
Traffic controllers also receive guidance in energy efficient services, since in practice they decide the extent to which drivers can take advantage of economy driving. The fewer the disruptions and smoother the traffic, the less the energy consumed.

Electricity is more energy efficient than diesel

The energy efficiency of rail services improves as the proportion of electric traction increases. The energy consumed in a journey is cut to less than half when the switch is made from diesel fuel to electricity.

Nine out of ten passenger trains run on electricity, and seven out of ten freight trains. The volume of rail services with electric traction can be increased by electrifying track sections and by purchasing new rolling stock. VR Group has started the purchase of at least 80 new electric locomotives. The Finnish Transport Agency is responsible for track electrification.

A new section of electrified track between Vaasa and Seinäjoki was opened to rail traffic in December 2011. Now all the Pendolinos and IC trains going to Vaasa and some of the regional and express trains are operated with electric traction. It is planned to increase the proportion of trains with electric traction in the future.



Trains are cleaned every day

Clean and tidy trains form an important element in the customer's travel experience. Cleanliness is also an environmental issue. So VR cleans trains daily at 26 locations around Finland.

All trains arriving in a depot are usually cleaned once a day. The goal is that trains departing from the terminal station are always clean and tidy. Quality criteria have been set for cleaning, and quality inspectors and conductors check to see that these are met.

Keeping trains clean and tidy during a journey poses the biggest challenge, so VR has increased the amount of cleaning during the journey and at intermediate stations. Particular attention is paid in cleaning during the journey to toilets and children's play areas.

VR has increased the amount of cleaning on trains, paying particular attention to the cleanliness and tidiness of toilets.

The cleanliness and tidiness of toilets on trains are a common topic in customer feedback, which is why the main focus in cleaning is on keeping them clean. A new tool is high pressure cleaning with hot steam, which removes even the worst ingrained dirt. Odour removers are installed in new and refurbished rolling stock. Efforts to develop new materials and find more effective methods are ongoing.

VR and the Finnish Transport Agency are participating in the project 'Our Common Stations' run by the Environmental School of Finland SYKLI and Helsinki Metropolia University of Applied Sciences, that aims to make stations more functional and attractive, cleaner and tidier, and to improve accessibility.

Avecra, which provides restaurant and catering services, has launched a 'We look good' campaign, with a focus on better products and cleaner and tidier restaurant premises.

Cleaning involves the whole Group

Cleanliness and tidiness are important matters everywhere in VR Group, not just on passenger trains and at stations. For example, VR Transpoint, with its logistics business, keeps its terminals and the areas around them tidy by cleaning the yard areas and collecting scrap. VR Track, which provides infrastructure engineering services, monitors the tidiness of its work sites weekly using the MVR index for civil engineering sites, and office and storage premises are evaluated with the ELMERI+ work environment assessment index.

VR Group encouraged its personnel to keep premises clean and tidy by holding a cleaning contest in summer 2011. Prizes were awarded to the teams that achieved the best results. To further encourage personnel in keeping the Group's offices and production premises tidy, the Group also drew up guidelines on the distinctive signs of a good work environment.

No accidents in transportation of hazardous substances

VR Group transports substances classified as hazardous for the most part by train, and most of this takes place in Eastern Finland. Hazardous substances are mainly transported from Russia to the ports of Kotka and Hamina and to Sköldvik in Porvoo.

No accidents or major leakages have occurred at VR Group in the transportation of hazardous substances for many years. Altogether 10 minor leakages occurred in rail and road services in 2011.

Prevention and preparation

Prevention and being prepared for an accident play a key role in safety in the transportation of hazardous substances. Preventive measures include various safety reports, inspections and personnel training.

- Wagons carrying hazardous substances are inspected several times during transport.

VR Group trains all employees who are involved in the transportation of hazardous substances on the railways, and holds refresher courses for them at five year intervals. ADR training is held for road transport drivers. The Group has also trained new safety consultants, whose job is to provide guidance for personnel and customers in transport matters.

Wagons are inspected during the journey

Wagons carrying hazardous substances are inspected several times during transport. The condition is checked of the wheels and undercarriage of wagons arriving from Russia and their valves and hatches are inspected to ensure they are tightly sealed. As well as inspection by personnel, the wagons are also monitored by automatic gauges that identify leakages of gas and liquids from trains as they drive past.

VR Group began to draw up a safety report for railway marshalling yards handling dangerous goods in cooperation with the Finnish Transport Agency, and this work will continue in 2012. There are 12 of these yards in Finland. The guidelines in case of a railway accident were also updated. A chemical decontamination fire truck was acquired in Hyvinkää.

A decree of the Ministry of the Interior came into force in 2011 concerning an outdoor emergency plan for sites and buildings that constitute a particular hazard. The decree requires the emergency services and the enterprise together to draw up an emergency plan for marshalling yards handling dangerous goods and to test it in practice at least every three years to ensure that it is effective. Work on the emergency plan will begin when the railway yard safety reports have been completed.

VR Group and Finnish Transport Agency combine forces to combat noise

Noise from traffic damages health and weakens the amenity value of the living environment. It is estimated that 48,500 Finns are exposed to a noise level of more than 55 decibels from rail traffic. Noise from road traffic disturbs 350,000 people.

The noise from rail traffic is caused by the locomotive engines and fans, by the rolling noise generated by wheel-rail contact, and at high speeds also by the noise caused by wind resistance.

VR Group machines train wheels to reduce the disturbance from noise.

Wheel-rail noise causes the greatest inconvenience, and the structure of the track, the condition of the wheels and the train speed all contribute to this. The smoothness of the surface of rails and wheels are a major factor in wheel-rail noise. If the rails and wheels both have smooth surfaces, the noise level can be 10 decibels lower than when they are worn.

The Finnish Transport Agency is responsible for the structure of the track and VR Group for the condition of its rolling stock.

Refurbishment to reduce wheel-rail noise

VR Group is reducing wheel-rail noise by replacing rolling stock, making modifications that reduce noise levels, and machining wheels. Faulty wheels are either replaced with completely new wheels or are machined as quickly as possible to reduce noise. A new wheel lathe was taken into use at the Helsinki railway yard that has helped speed up the reconditioning of wheels. Two axles, ie. four wheels, can be machined at one time on the lathe.

VR Group is participating in the Europe Train project being carried out by UIC (the International Union of Railways), testing quieter brake blocks made from artificial materials.

Noise from the shunting of locomotives and maintenance work at the Kouvola marshalling yard disturbs residents in the area. To reduce this nuisance, VR Group is planning to build a noise barrier between the depot and the residential area, and work on this is beginning in 2012.

Vibration is a particular problem for rail traffic. The vibration occurs when heavy freight trains run on tracks built in areas where the ground is soft. Measures to reduce the vibration that affect the soil are expensive, so the Finnish Transport Agency has imposed local speed limits for heavy freight trains weighing more than 3000 tonnes to reduce the vibration.

Cooperation between different forms of transport

In many cases the most ecofriendly way to make a journey and convey freight is a combination of different forms of transport that serve to complement each other.

Passenger service customers may for example begin their journey to work by car or bicycle and then switch to a train at the nearest station. For freight transport, rail can provide long-distance terminal-to-terminal transport and trucks deliver to places where there is no railway.

VR Group cooperates with many different parties to make transport chains as smooth and ecofriendly as possible.

By train, bus, bicycle

VR provides passenger services and has the goal of improving the efficiency of the public transport system. One key area for improvement is the transport chain, in other words making it easy for passengers to change from one form of transport to another on their journey.

VR has participated in travel centre projects, which aim to make it easy for customers to use different means of transport during their journey.

VR Group works together with other providers of public transport. VR has participated, for example, in projects to create travel centres. VR also sets up its own cycle parks and car parking areas close to stations, to make it as easy as possible to change from one form of transport to another.

Trucks on trains for long journeys

Ecofriendliness in freight transport can be increased by the joint use of rail and road services. One option is the combined transport, where goods are conveyed for the whole journey in the same 'box', but using different forms of transport at different stages of the journey. For example, rail can provide long-distance terminal-to-terminal transport and a truck can deliver the goods. Goods are normally loaded in containers, but trucks, trailers and articulated vehicles are also carried by train.

VR Group has had the goal of increasing combined transport, but the frost damage caused by the harsh winters in 2009 and 2010 and problems with the punctuality of trains put freight carryings back on the road. The combined transport rail service between Tampere and Oulu was terminated, and between Helsinki and Oulu the service was cut from two pairs of trains to one a day, five days a week.

Despite these setbacks, there is growth potential for combined transport. There are combined transport terminals in Helsinki and Oulu. Several other places have shown interest in starting combined transport and feasibility studies have been carried out for them. These projects have not progressed yet to actual steps.

VR Transport made some trial runs conveying trailers to Moscow in summer 2011. The goal is to start a regular combined transport rail link between Finland and Russia.

Life cycle approach in procurement

VR Group uses large amounts of different materials and many different services in its operations. To ensure that they have the minimum possible environmental load, procurement aims to take into account the entire life cycle of a product and its impact on the environment.

The Group only works with partners that operate in accordance with sound ethics and with legislation.

One of VR Group's biggest purchases is electricity. The electricity contract was put out to competitive tender, and since the beginning of 2011 all the electricity used by the Group is renewable energy, produced by hydropower.

One of VR Group's biggest purchases is electricity. The electricity used by the Group is produced by hydro-power.

The Group has started major purchases of rolling stock. Passenger services are obtaining new double-decker coaches. New round timber and wood chip wagons are being acquired for freight services. The purchase of 80 new electric locomotives has also begun. The Group has updated the design guidelines for rolling stock, with an emphasis on a life cycle approach and environmental aspects. For example, certain conditions have been laid down for the locomotives and their energy efficiency and level of noise.

VR Transpoint purchased 60 new trucks in which environmental aspects have also been taken into account. The trucks have engines that comply with Euro 5 emissions standards, and have an automatic gearbox that is fitted with economy driving software.

A carbon dioxide emissions limit of 160 g/km was set for company cars leased for employees, and it is planned to lower this figure in the future.

Reducing the number of chemicals

It is VR Group's goal to reduce the number of items in the chemical register. Surveys of the chemicals in use at the Hyvinkää workshop and at Pohjolan Liikenne's depot in Helsinki were carried out with the supplier in order to reduce the number of items. A survey was also made of the situation concerning personnel protective equipment and first aid equipment and of the need for improvement. Based on the survey, a filling point for chemical bottles where propellant gas is not used was taken into trial use at the Hyvinkää workshop. The surveys are continuing in 2012.

The VR Group workshops are developing painting systems to reduce VOC emissions. The Hyvinkää workshop, for example, introduced a painting system that uses paints that contain only small amounts of solvents. Similar work has been carried out previously at the Pieksämäki workshop.

Sorting waste and recycling are part of everyday work

Effective waste management and recycling saves natural resources and helps prevent the volume of waste from growing. VR Group has the goal of reducing the amount of waste and increasing recycling and the potential for sorting.

It also aims to increase the proportion of energy waste in municipal waste.

VR Group has been fairly successful in reaching its targets for waste management and recycling. Personnel are given training and waste guidelines are updated at regular intervals.

■ VR Transpoint's new round timber wagons will be made from old wagons that have been recycled.

The Group's head office has the right to use the Green Office label. The Group has managed to increase the proportion of energy waste in municipal waste. In rolling stock maintenance it is already more than one third. In some locations, increasing the proportion of energy waste is restricted by the number of incineration plants and their location.

One of the biggest successes in recycling is the manufacture of the new round timber and wood chip wagons by converting old peat wagons.

Sorting coming to restaurant cars

Recycling and sorting are also becoming possible in the restaurant cars on trains. A system for sorting biowaste has been built in the refurbished Bistro restaurant cars on IC trains. It will be taken into use once sorting at stations is working effectively.

It is also planned to have a sorting system in customer areas and in the kitchens on the new restaurant cars coming into service in 2013–2014.

Improvements are being planned for waste management at Helsinki Central Station, with the goal of starting these improvements in spring 2012.

Modernisation of fuelling depots in its final stages

VR Group has promised to clean up the fuel storage facilities for diesel locomotive fuel and fuelling depots and remove the underground fuel tanks so as to reduce the environmental damage and risks to the environment.

In 2000 a programme to modernize fuelling depots was prepared under which the amount of automation has increased and underground tanks have been replaced with above ground double wall storage tanks. To date, 20 out of 21 fuelling depots have been modernized.

■ VR Group has modernized all but one of its fuelling depots.

In 2011 the fuelling depots were modernized in Rauma, Helsinki and Tampere. Two one million litre diesel tanks were removed at the Helsinki depot and replaced with one 90,000 litre tank, made possible by the decline in the use of diesel rolling stock. The modernization of the Kouvola fuelling depot still remains. The underground tanks there will be replaced at the same time as a noise barrier is built.

M€ 0.7 spent on soil decontamination

The soil at VR Group's depots and fuelling points has been polluted as the result of the fuelling and maintenance of rolling stock before the Group was incorporated. The Group is committed to ensuring that the land areas it owns do not harm the environment or damage people's health.

VR Group has for many years been decontaminating polluted land areas when land usage changes or construction is planned on a site and as the result of inspections and surveys. In 2011 the Group spent M€ 0.7 (0.6) on soil surveys and decontamination. Soil decontamination took place at two sites and surveys were carried out at six. Surveys were also made at Pohjola Liikenne's land areas that have been transferred to VR Group.

Oil hydrocarbons have been found in the groundwater at the Hyvinkää workshop and the Riihimäki depot. The pumping of groundwater began in Riihimäki in January and in Hyvinkää in September.

VR Group carries out soil surveys and decontaminates polluted soil systematically.

The Helsinki depot and Ilmala marshalling yard are built on the site of a former refuse tip. VR Group and the Finnish Transport Agency applied for an environmental permit for the area in 2006 for some building projects.

In accordance with the terms of the permit, the surface runoff water from the area was channelled into the waste water sewers until November 2011, when it became possible to feed it into the rainwater sewers in accordance with an amendment to the environmental permit granted by the Southern Finland Regional State Administrative Agency. The quality of the surface runoff is monitored under a control plan approved by the Uusimaa Centre for Economic Development, Transport and the Environment.

At the end of December oil was noticed in the Kumpula stream, and the surface runoff water was diverted temporarily to the waste water sewers. The incident was caused by a leak when filling a wagon. At the same time there was a fault in the oil separator, so the oily water ended up in the rainwater sewers.

Several measures were taken at the Helsinki depot after the leak. Supervision of tanking was enhanced, instructions were updated, refresher training was held for personnel, and the oil separator drains were inspected and serviced. The surface runoff water was switched back to the rainwater sewer in January 2012 after inspection by the authorities.

Glycol de-icing equipment does not pose risk to soil

VR Group introduced two anti-/de-icing machines at the Helsinki depot at the end of 2010 as part of its efforts to improve the reliability of rail services in winter. Train undercarriages are sprayed with propylene glycol to prevent snow and ice building up on train structures.

Environmental issues have been taken into account from the very start in the use of the equipment. The glycol is sprayed over a run-off basin and the equipment has a closed cycle. As a further step, the functioning of the equipment is monitored round the clock. Propylene glycol for spraying is not classified as a hazardous chemical, and use of the equipment does not require an environmental permit.

Some of the glycol remains on the train undercarriage after spraying, but most of this drips off into the run-off basins. After one winter's experience in using the systems, the run-off basins were lengthened by 12 metres to increase the proportion of glycol that is recovered.

So only an extremely small amount of glycol ends up on the railway embankment. There it decomposes and does not build up in the soil. Consumption of glycol will in any case decline significantly as in future only the train bogies will be sprayed.

Every VR Group employee is responsible for the environment

If VR Group is to succeed in meeting its environmental targets, the entire personnel must know how to act in accordance with them. Environmental training ensures that the environmental promises are carried out in everyday work.

New business models and procedures were introduced in training on environmental issues in 2011. The Group's environment business unit made a tour of the regions, visiting major railway locations. On the tour the unit presented the updated environmental management system, showed the progress being made in meeting the environmental promises, and discussed environmental issues that were of current interest and on people's minds. It is planned to repeat the tour annually in future.

An online training program on the environmental promises was developed in support of personnel environmental training. The program can be found on VR Group's intranet and is available to all employees.

VR Group regularly trains its personnel in environmental issues, for example concerning the transportation of hazardous substances, economy driving and waste management.

Open communications inform about environmental activities

As part of its environmental promises, VR Group is committed to comprehensive, open communications on environmental issues. The Group uses different channels to keep its different stakeholders informed of what is happening on the environmental front.

Customers can have a look at VR Group's environmental activities on VR's environment website. This contains for example an emissions calculator, which travellers can use to check the emissions from a rail journey and the energy consumed. The calculator now also shows the emissions from a journey on the Allegro to St. Petersburg.

VR Group reports on its environmental activities for example at events at stations.

Children and young people were encouraged to think about environmental issues with a writing contest that had the theme of climate change. This was held in partnership with the Society for Environmental Education in Finland. Hundreds of children took part. The prize for the winners was a class outing by train. Their writings can be seen on VR Group's website or in the posters on display at stations and on trains.

The partnership with the Finnish Association for Nature Conservation in looking after heritage landscapes continued at five adopted sites. VR Group also takes part annually in the nationwide Energy Savings Week. In autumn 2011 an energy happening was held at Helsinki Central Station.

Environmental management

VR Group's values in environmental management

Responsibility and safety are the VR Group values that in particular create a solid framework for environmental management. The environment is a central theme in VR Group's current strategy.

Environmental strategy and vision

VR Group is the safest and most environmentally friendly partner for customers and society. VR Group is a pioneer and is active in developing its operations. Climate change is an opportunity for VR Group, with the focus on using renewable energy. Reducing and preventing harm to the environment are an integral element in environmental activities.

Environmental policies and their implementation

The environmental programmes of VR Group companies and divisions are based on a common environmental policy and applying the principles of sustainable development. Implementation of the Group's environmental policy and environmental promises is an element in VR Group's management system.

Environmental goals

- Raising efficiency in energy consumption
- Reducing carbon dioxide emissions
- Increasing use of renewable energy
- Increasing proportion of electrically-powered trains
- Ensuring safety of carryings of goods classified as hazardous
- Reducing noise and vibration
- Raising efficiency in waste management and recycling
- Improving personnel's environmental expertise
- Reducing environmental impacts of procurements

Successes and setbacks in environmental affairs



- Customers value VR Group's ecofriendliness and environmental communications
- Rail services achieved its target of halving carbon dioxide emissions
- Renewable energy accounts for high proportion of rail services
- Safety in transportation of hazardous substances is at high level
- Health and environmental risks in land areas are under control



- Energy consumption per passenger in rail services has not declined according to plan
- Volume of combined transport has declined
- Difficulties in reducing noise and vibration

Environmental opportunities and risks



- Rail transport mitigates climate change
- More efficient use of energy and using renewable energy both reduce emissions
- Good environmental performance increases customers and cuts costs



- Restrictions/requirements in rail services due to disturbance from noise and vibration
- Accidents may cause contamination of soil and groundwater and other environmental damage
- Extreme weather conditions more frequent, causing disruption of services

Changes in systems or structures during the review period that improve environmental activities and results

- Implementation of VR Group's 12 environmental promises continued
- Environmental management system taken into use
- Environmental certification obtained for main businesses in line with new organizational structure
- Continued to introduce green corporate image

Management of responsibility – every day

All VR Group's activities, operations, and management are based on common values. The values also play a key role in defining the Group's vision. Based on these values and vision, the Group formulates its strategy – in other words, ways to fulfil the company's goals. VR Group updates its strategy annually.

Corporate responsibility at VR Group is part of normal, every day operations. So the Group does not have a separate strategy for corporate responsibility but has integrated this into the overall Group strategy. VR Group takes into account its corporate responsibility when making strategic decisions.

Management of corporate responsibility at VR Group is part of normal, every day operations.

VR Group's management model also does not address responsibility as a separate entity, but instead the plans and actions relating to it are the responsibility of each Group division and business unit and an integral part of the company's objective-oriented operations.

Corporate responsibility is also emphasized through various campaigns, projects and training as well as through other ways of exerting influence

VR Group's management model is based on an efficient structure in which the business operations are organized around customer groups. The aim is seamless cooperation between the different Group companies, divisions and business units in order to meet the needs of customers and other stakeholders.

Annual reporting plays an important role in the way VR Group manages its responsibilities. The aim is to embed the management of corporate responsibility and monitoring of results as an established element of the Group's day-to-day operations.

Scope of Annual Report and sources

You are reading VR Group's first annual report in electronic format. The Group's stakeholders are increasingly looking for information on the Internet, so the Group has started reporting on the Web. This is VR Group's third annual report that is a combined annual report and corporate responsibility report.

Objective

The purpose of this annual report is to give the reader a balanced view of VR Group's business operations in 2011. It aims to report on major events affecting VR Group's business operations and on its financial results, and to describe the Group's commitment, policies and the results achieved in the area of corporate responsibility. The annual report examines key themes relating to VR Group's business operations and corporate responsibility.

Previous reports

VR Group has previously published two combined annual and corporate responsibility reports for 2009 and 2010 and three corporate responsibility reports for 2005, 2007 and 2008. Before this the Group published an environmental report every second year from 1998 onwards. The annual report has been published each year.

Target groups

VR Group's annual report is intended for all who are interested in the Group and its business. The different sections of the online report contain information that may interest different stakeholders. Many sections of the report are meant primarily for policy makers, the public authorities and the Group's corporate customers.

Scope

The information in this annual report is for the 2011 financial year. The annual report includes all the business operations of VR Group. The corporate responsibility data reported for Pohjolan Liikenne and Avekra in the Passenger Services division, for road logistics in the Logistics division and for Infrastructure Engineering is the information that can be collected with the systems currently in use. This does not have a significant impact on the data for the Group or subsidiaries or on the comparability of the figures.

The annual report of VR Group does not include information about the operations of subcontractors and only reports briefly on the activities of associated companies. The report does not cover the rail network or its development or any other operations for which the Finnish Transport Agency or the Finnish Transport Safety Agency is responsible.

Sources

A large number of people from VR Group's various businesses participates in compiling the figures in the annual report. A coordination team, comprised of experts in the various fields of corporate responsibility, oversees the work and defines which aspects are relevant and in accordance with the strategy. The annual report is submitted to VR Group's Board of Directors and Supervisory Board.

The data for this report has been collected from numerous sources.

- Information about financial responsibility is derived from the Group's audited accounts and adopted financial statements.
- Figures for personnel are based on the Group's staff statistics.
- The safety indicators are based on the Group's safety statistics.
- The environmental figures for energy consumption, the use of materials and chemicals, and waste are based partly on monitoring data compiled by the business units and partly on supplier reports and invoicing. Data on traffic emissions is obtained using the LIPASTO system of calculations applied by the Technical Research Centre of

Finland (VTT). The origin of the electricity and the energy sources used in electricity production are based on data provided by electricity suppliers.

The different management systems are defined in the ERP systems of the different Group companies, and in the environmental management system, the rail safety management system, the occupational safety management system, the financial security administration and management system, and the data security management system. More detailed information about management systems is given in separate tables under each of the five themes of this report.

The Global Reporting Initiative (GRI) G3 guidelines have been used as the reference framework for this report. In VR Group's own assessment, the Group has applied the B+ reporting guidelines. KPMG has checked the scope of reporting. GRI calculation models are not yet fully applied for all indicators. VR Group also reports the GRI supplementary indicators for the transportation sector where applicable.

In its 2011 reporting VR Group switched from the A+ to the B+ standard, since the standard previously applied contained many indicators that are not an integral part of VR Group's business operations and therefore do not offer the reader any essential extra information about the Group.

GRI content index

Applying the GRI Guidelines:

Reported according to GRI
 Reported partly according to GRI
 Not reported, see Comments column

1. Strategy and Analysis		Location	Comment
1.1	CEO's statement	CEO's review	
1.2	Key impacts, risks and opportunities	Operating environment	
2. Organizational Profile		Location	Comment
2.1	Name of the organization	VR Group	
2.2	Primary brands, products and services	Business operations	
2.3	Operational structure	VR Group	
2.4–2.5	Location of organization's headquarters and operations	VR Group	
		Geographical locations	
2.6	Nature of ownership and legal form	VR Group	
2.7–2.8	Markets served and scale of the reporting organization	VR Group	
		Geographical locations	
2.9	Significant changes regarding size, structure or ownership during the reporting period	Changes in corporate structure	
2.10	Awards received in the reporting period		No awards or other form of recognition as intended by GRI
3. Report Parameters		Location	Comment
3.1–3.3	Reporting period and cycle, previous report	Scope of Annual Report and sources	
3.4	Contact information	Contact information	
3.5	Defining report content	Scope of Annual Report and sources	
3.6–3.8	Report boundary, limitations, and reporting principles	Scope of Annual Report and sources	
3.9–3.11	Data measurement, re-statements and significant changes in the report	Scope of Annual Report and sources	

3.12	GRI content index	GRI content index	
3.13	Assurance policy and practice	Assurance report	
4. Governance, Commitments and Engagement		Location	Comment
4.1	Governance structure of the organisation	Corporate Governance	
4.2	Position of the Chairman of the Board	Board of Directors	
4.3	Independence of the Board members	Board of Directors	
4.4	Mechanism for shareholder and employee consultation	Supervisory Board	
4.5	Executive compensation and linkage to organization's performance	Incentive schemes	
4.6	Processes for avoiding conflicts of interest	Board of Directors	
4.7	Processes for determining expertise	Board of Directors	
4.8	Mission and values statements, code of conduct and other principles	Values and strategy	
4.9	Procedures of the Board for overseeing management of sustainability performance	Management and reporting of responsibility	
4.10	Processes for evaluating the Board's performance	Board of Directors	
4.11	Addressing precautionary approach	Environment	
4.12	Voluntary charters and other initiatives	Energy efficiency	Energy efficiency agreements
4.13	Memberships in associations	Membership of organisations	
4.14	Key stakeholder groups	Operating environment	
4.15-4.16	Identification and selection of stakeholders, approaches to stakeholder engagement	Operating environment	Stakeholders identified through stakeholder analysis.
4.16	Key topics raised through stakeholder engagement	Operating environment	
5. Management Approach to Responsibility (Principles, goals, achievements,		Location	Comment

responsibilities, training, surveillance)

Customer relationship management	Customer relationship management
Financial management	Financial management
Environmental management	Environmental management
Safety management	Safety management
Human resources management	Human resources management

Economic Performance Indicators

Location Comment

EC1	Direct economic value generated and distributed to stakeholders	Key figures	
		Finance 2011	
EC2	Risks and opportunities due to climate change	Climate change	Described in words
		Safety and environment	
EC3	Coverage of defined benefit plan obligations		Pension commitments are fully covered.
EC4	Significant subsidies received from government	Passenger Services	Rail services purchased by state
EC6	Spending on local suppliers		Major purchases through public tendering for individual purchases, other purchases by competitive tendering on leasing basis
EC7	Local hiring		Almost all of VR's operations are located in Finland. Local staff is recruited for operations in other countries, but they account for a very small proportion of VR's total operations.
EC8	Infrastructure investments provided for public benefit	Capital expenditure and rolling stock purchases	

Environmental Performance Indicators

Location Comment

EN1	Materials used	Environment	
EN2	Recycled materials used	Waste management and recycling	
EN3	Direct energy consumption	Environment	
		Energy efficiency	
EN4	Indirect energy consumption	Energy efficiency	
EN5	Energy saved due to conservation and	Energy efficiency	

EN6	efficiency improvements Initiatives to provide energy-efficient or renewable energy based products and services	Energy efficiency	
EN8	Total water withdrawal	Carbon dioxide emissions Environment	Water consumption in maintenance of vehicles and rolling stock reported
EN11	Location and size of land owned, leased, managed in areas of high biodiversity value		VR does not own this land. The Finnish Transport Agency manages the rail network.
EN12	Significant impact of activities, products, and services on biodiversity in protected areas		VR does not own the land. The Finnish Transport Agency manages the rail network.
EN13	Habitats protected or restored		
EN16	Greenhouse gas emissions	Carbon dioxide emissions Environment	
EN17	Other relevant indirect greenhouse gas emissions		Indirect emissions are not material in relation to EN16 emissions.
EN18	Initiatives to reduce greenhouse gas emissions	Carbon dioxide emissions Environment	
EN19	Emissions of ozone-depleting substances		Not material, ozone-depleting substances have been replaced.
EN20	Other significant air emissions	Environment	
EN21	Water discharge	Soil	VR has no discharge into the water system for waste water is processed at municipal wastewater treatment plants.
EN22	Waste	Environment	
EN23	Significant spills	Transport of hazardous substances	
EN26	Environmental impacts of products and services	Environment Carbon dioxide emissions Energy efficiency	
EN27	Reclaimable products and reuse		Not material in VR Group's operations
EN28	Non-compliance with environmental regulations		No non-compliances as intended in GRI
Social Performance Indicators		Location	Comment

LA1	Total workforce by employment type, employment contract and region	Personnel	
		Recruitment and employer image	
LA2	Employee turnover	Personnel	
LA3	Employee benefits	Personnel well-being	
LA4	Coverage of collective bargaining agreements		
LA5	Minimum notice period regarding operational changes		
LA6	Safety committees		
LA7	Injuries, occupational diseases, lost days, fatalities and absenteeism	Accidents	
		Personnel well-being	
LA8	Prevention programmes regarding serious diseases		
LA10	Employee training	Personnel skills	Described in words, Still unable to calculate average amount of training per person.
		Management and supervisory work	
LA11	Skills management and lifelong learning	Personnel	
		Personnel skills	
		Management and supervisory work	
LA12	Performance and career development reviews	Personnel skills	
LA13	Diversity of governance bodies and employees	Personnel	
		Recruitment and employer image	
		Board of Management	
		Board of Directors	
LA14	Ratio of basic salary of men to women		
HR1-HR2	Human rights in investment agreements and procurement practices	International expansion	Ethics included in terms of contracts with partners
HR4	Prevention of discrimination		

HR5-HR7	Freedom of association, forced and child labour	International expansion	Ethics included in terms of contracts with partners
S01	Managing impacts of operations on communities		VR does not have a separate programme for managing community impacts.
S02-4	Corruption		The approval procedure in accordance with the Group's policy aims to ensure that improper use of funds does not occur.
S05	Participation in public policy development	Market conditions and operating environment	
S08	Fines and sanctions for non-compliance with laws and regulations		No non-compliances as intended in GRI
PR1	Assessment of health and safety impacts of products		Not material in VR Group's operations
PR2	Non-compliances with health and safety requirements for products		No non-compliances as intended in GRI
PR3	Product and service information		Not material in VR Group's operations
PR5	Customer satisfaction	Passenger Services/ Customer service and satisfaction Logistics/ Customer service and satisfaction Infrastructure Engineering/ Customer satisfaction	
PR6	Voluntary principles of marketing communications	Communications policy	
PR9	Non-compliance concerning products and services		No incidents of non-compliance as intended in GRI
LT2	Breakdown of fleet composition	Environment Statistical information	
LT4	Initiatives to use renewable energy sources and to increase energy efficiency	Energy efficiency	
LT5	Initiatives to control air emissions (e.g., bio fuels, economic driving)	Carbon dioxide emissions Energy efficiency	

		Carbon dioxide emissions	
LT7	Procedures for noise abatement	Noise and vibration	
LT11	Policies and programmes regarding substance abuse		Intoxicating substance policy is zero tolerance.
LT12	Road accidents	Accidents	

Independent assurance report

Translation from the original Finnish report

To the Management of VR-Group

We have been engaged by the Management of VR-Group to provide limited assurance on the responsibility information presented in the sections "VR Group", "Business Operations", "Responsibility" and "Corporate Governance" of VR-Group's electronic Annual Report 2011, from the reporting period 1.1.-31.12.2011 (hereafter: Responsibility Information). The information presented in the section "Finance 2011", for which a separate auditor's report has been given, is not subject to this engagement.

The Management of VR-Group is responsible for the preparation and presentation of the information subject to the assurance in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 (G3), as well as for the presented data, statements and the related gathering of information. The management of VR-Group has approved the information presented in the Annual Report 2011.

Our responsibility is to carry out a limited assurance engagement and to express an independent conclusion on the information subject to the assurance based on the work performed. We have conducted the engagement in accordance with the Finnish Institute of Authorised Public Accountants' Standard 3000 Assurance Engagements other than Audits or Reviews of Historical Financial Information. Amongst others, this standard requires that the assurance team members comply with the requirements of the IFAC Code of Ethics for Professional Accountants to ensure their independence. Our assurance report is prepared in accordance with the terms of our engagement with VR-Group. We do not accept or assume responsibility to anyone other than VR-Group for our work, for this assurance report, or for the conclusions we have reached.

The evaluation criteria used for our assurance are the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 (G3).

Limitations of the engagement

Data and information related to responsibility are subject to inherent limitations applying to data accuracy and completeness, which are to be taken into account when reading our assurance report. The presented Corporate Responsibility Information is to be considered in connection with the explanatory information on data collection, consolidation and assessments provided by VR-Group. Our assurance report is not intended for use in evaluating VR-Group's performance in executing the responsibility principles VR-Group has defined. To assess the financial position and performance of VR-Group, VR-Group's audited Financial Statements for the year ended 31 December 2011 are to be consulted.

The work performed in the engagement

Our assurance procedures are designed to obtain limited assurance on whether the information subject to the assurance engagement is presented in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 (G3) in all material respects. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Corporate Responsibility Information in the Annual Report 2011, and applying analytical and other evidence gathering procedures, as appropriate. The evidence gathering procedures mentioned above are more limited than for a reasonable assurance engagement, and therefore less assurance is obtained than those for a reasonable assurance engagement.

In our engagement we have performed the following procedures:

- Interviews with two members of senior management to reassert our understanding of the connection between VR-Group's responsibility procedures and VR-Group's business strategy and operations as well as responsibility objectives.
- An assessment of data management processes, information systems and working methods used to gather and consolidate the Corporate Responsibility Information, and a review of VR-Group's related internal documents.

- Comparison of the presented Corporate Responsibility Information to underlying rules of procedure, management and reporting systems as well as documentation.
- An assessment of the Corporate Responsibility Information's conformity with the principles of the GRI-guidelines.
- A review of the presented performance data and assertions subject to the assurance engagement, and an assessment of information quality and reporting boundary definitions.
- Testing of data accuracy and completeness through samples from the Group's information systems and original numerical information.

Based on the assurance procedures performed, nothing has come to our attention that causes us to believe that the information subject to the assurance engagement is not presented in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines 3.0 (G3) in all material respects.

Helsinki, 6. March 2012

KPMG OY AB

Petri Kettunen
Authorized Public Accountant

Nathalie Clément
Senior Manager, Corporate Responsibility Advisor

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. Duties relating to state ownership steering are handled in the Ownership Steering Department of the Prime Minister's Office. VR-Group Ltd's field of business is providing railway and road transport and other related or supporting services, either directly or through subsidiaries or associated companies.

The Finnish Transport Agency, a civil service department subordinate to the Ministry of Transport and Communications, directly owns and manages the rail network. The Finnish Transport Safety Agency (Trafi), a government department subordinate to the Ministry of Transport and Communications, monitors and develops railway safety and inter-operability.

VR Group's largest subsidiary is VR Track Ltd, which specializes in track construction and maintenance. VR Group also includes the Pohjolan Liikenne companies, which offer bus and coach services. VR Group also includes other companies, as listed in the appendix to the Report by the Board of Directors.

Composition and functions of Supervisory Board

VR-Group Ltd's Supervisory Board comprises at least six (6) and at most twelve (12) members. The chairman and members of the Supervisory Board are elected by the Annual General Meeting. A person aged 68 years or older may not be elected as chairman or member of the Supervisory Board. The Supervisory Board elects a deputy chairman from among its members. The term of office for members of the Supervisory Board is one year. The Annual General Meeting decides on the fees paid to members of the Supervisory Board.

Representatives of employee organizations also belong to the Supervisory Board of VR-Group Ltd. The Finnish Railwaymen's Union, the Finnish Locomotivemen's Union, Rautatiealan Teknisten Liitto (Union of Railway Technical Personnel), Rautatievirkamiesliitto (Union of Railway Officials) and VR Akava are represented on the Supervisory Board. The personnel organization representatives have the right to be present and to speak at meetings, but are not full members of the Supervisory Board.

The functions of the Supervisory Board are to:

- supervise the management of the company that is under the responsibility of the Board of Directors and the President and CEO, and ensure that the company's affairs are managed in compliance with sound business principles, with good profitability as the aim, and in accordance with legislation, the articles of association and the decisions of the Annual General Meeting;
- give the Board of Directors instructions on matters of wide-ranging or fundamental significance;
- submit an opinion on the financial statements and the auditors' report to the Annual General Meeting, and
- review the financial and annual plans that include proposals for substantial changes to the main service offering, and monitor the implementation of these plans.

The fees paid to the Supervisory Board under the decision of the Annual General Meeting on 19 April 2011 were:

Chairman EUR 470/month
Vice Chairman EUR 340/month
Member EUR 260/month

In addition, the chairman and members of the Supervisory Board members are paid an attendance fee of EUR 500 per meeting. In 2011 the Supervisory Board was paid fees totalling EUR 74,260.00.

Supervisory Board members also received a free VR rail pass.

Supervisory Board of VR-Group Ltd 2011

Chairman:

Matti Ahde, b. 1945

Vice Chairman:

Raija Vahasalo, b. 1961, M.Ed., Member of Parliament

Members:

Outi Alanko-Kahiluoto, b. 1966, Ph.D., Member of Parliament

Thomas Blomqvist, b. 1965, B.Sc. (Natural Resources), Member of Parliament

Timo Korhonen, b. 1959, Member of Parliament

Kari Kärkkäinen, b. 1970, Student

Raili Myllylä, b. 1950, B.Sc. (Social Services), Farmer

Lauri Oinonen, b. 1947, M.Th., Agriculture and Forestry Entrepreneur

Aino-Kaisa Pekonen, b. 1979, Practical Nurse, Member of Parliament

Satu Taiveaho, b. 1976, M.Soc.Sc., President and CEO

Raimo Vistbacka, b. 1945, Senior Lawyer

Representatives of personnel organisations:

Vesa Mauriala, Chairman, Finnish Railwaymen's Union

Risto Elonen, Chairman, Finnish Locomotivemen's Union

Esko Salomaa, Chairman, Rautatiealan Teknisten liitto (Union of Railway Technical Personnel)

Tarja Turtiainen, Chairman, Rautatievirkamiesliitto (Union of Railway Officials)

Teppo Sotavalta, Chairman, VR Akava

In addition to the above, during 2011 **Eero Akaan-Penttilä** was vice chairman and **Peter Östman** an ordinary member of the Supervisory Board until 19 April 2011.

Board of Directors

The Board of Directors is responsible for the administration of the company and for the proper arrangement of its business activities. The Board of Directors is responsible for ensuring that supervision of the company's accounting and financial management has been arranged appropriately.

As part of its duties, the Board of Directors takes major decisions concerning business principles, strategy, investments, organization and financing. In addition, the Board decides on the selling or purchasing of business operations, on company acquisitions and on major property transactions.

In addition the Board of Directors:

- approves the annual business plan and budget;
- signs the annual and interim financial statements;
- approves the annual report and interim reports;
- approves the company's organisational structure and incentive schemes;
- appoints and dismisses the President and CEO;
- appoints the members of the Group's Management Team;
- approves the terms of employment for the President and CEO, members of the Group's Management Team, and other main key personnel in the Group;
- appoints the members of committees set up by the Board and confirms the working procedures for the committees;
- directs and oversees senior management;
- monitors operations to ensure that they comply with legislation, rules and regulations;
- approves long-term goals;
- approves the Group's values and the principles and policies concerning the control and risk management system;
- prepares matters with the President and CEO that are to be considered in the Supervisory Board and
- convenes the general meeting of shareholders.

The Board of Directors has approved rules of procedure for itself that contain the main duties of the Board and the principles for assessing the work of the Board. The Board confirms changes and updates to the rules of procedure.

The Annual General Meeting of VR-Group Ltd elects the chairman and other members of the Board of Directors annually. The Board of Directors elects a deputy chairman from among its members. The Board of Directors comprises the chairman and at least four (4) and at most eight (8) ordinary members. A person aged 68 years or more may not be elected chairman or member of the Board of Directors. If the chairman or a member of the Board reaches the age of 68 during their term of office, their term of office will end at the end of the first annual general meeting following their 68th birthday.

The Board of Directors evaluates its work each year mainly by self-assessment and where necessary utilising an external assessor, to ensure the effectiveness of its work and work procedures and to further develop these.

The Board members are independent of the company and of the shareholder, apart from Markku Tapio, who represents the Ownership Steering Department of the Prime Minister's Office.

As a rule the Board of Directors meets once a month. During 2011 the Board met six times and the average attendance rate for Board members was 93.8 %.

Fees and other benefits paid to Board members

Members of the Board of Directors were paid the following fees in 2011, as decided by the Annual general Meeting on 19 April 2011:

Chairman of the Board EUR 54,750 /year
Deputy Chairman of the Board EUR 25,800 /year
Board member EUR 22,800 /year

In addition, Board members are paid an attendance fee of EUR 600 per meeting for Board and Board committee meetings. In 2011 the Board of Directors was paid fees totalling EUR 290,550.

Board members also received a free VR rail pass.

Committees of the Board of Directors

The Board of Directors has formed two committees from among its members: the audit committee and the human resources 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.

Audit committee

The committee focuses in particular on preparing matters concerning financial reporting and supervision for the Board to consider. The committee also looks after contacts with the auditors and the internal audit.

The duties of the audit committee include:

- reviewing the annual budget;
- monitoring the financial statement reporting process;
- monitoring the effectiveness of the company's internal control, internal audit and risk management systems;
- reviewing the description of the main features of the internal control and risk management systems relating to the financial reporting process included in the statement on corporate governance issued by the company;
- monitoring the statutory audit of the parent company and consolidated financial statements;
- assessing the independence of the auditor and audit firm prescribed by law and in particular the offering of non-audit services to the company being audited;
- monitoring the financial situation of the company and the Group (interim financial statements);
- supervision of financial reporting such as interim and annual reports, financial statement releases and other similar press releases concerning communications;
- reviewing auditors' reports and the audit plan, and contact with the auditor;
- reviewing internal audit reports and audit plans and contact with the internal audit, and
- preparing the resolution on the election of the auditor

On 10 May 2011 the Board of Directors elected the following as members of the audit committee: Arja Talma (chair), Riku Aalto, Maaret Heiskari and Antti Mäkelä. During 2011 the audit committee met six times and the average attendance rate for its members was 71 %.

Human resources committee

The human resources committee focuses on preparing matters relating to developing incentive schemes for the President and CEO, other management and personnel and on preparing key appointments, for the Board of Directors to consider.

The duties of the committee include:

- preparing matters relating to the salary and other benefits of the company's President and CEO;
- preparing matters relating to the remuneration of persons belonging to the Group's Management Team and other senior management;
- preparing matters relating to the appointment of the President and CEO, members of the Group's Management Team and where necessary of other key personnel;
- preparing matters concerning the company's incentive schemes, and
- carrying out other duties specifically allocated to it by the Board of Directors and to the extent decided by the committee considering other issues affecting personnel such as personnel development, development of the work of supervisors, successor plans and developing safety at work.

On 10 May 2011 the Board of Directors elected the following as members of the human resources committee: Hannu Syrjänen (chair), Christer Granskog, Soili Suonoja and Markku Tapio.

During 2011 the human resources committee met four times and the average attendance rate for its members was 88 %.

Board of Directors 2011



Hannu Syrjänen

Chairman of the Board of Directors

- Born 1951, LL.M., M.Sc. (Econ.)
- Previously employed as President and CEO of Sanoma Corporation
- Board Chairman: Orion Corporation
- Board member: Realia Group Oy and the Finnish Fair Cooperative
- Chairman of VR-Group Ltd's Board since 19 April 2011



Christer Granskog

Deputy Chairman of the Board of Directors

- Born 1947, M.Sc. (Eng.)
- CEO of Oy Piceum Ab
- Previously employed as President and CEO, Kalmar Industries Oy,
- Senior Vice President, Partek Oy, and CEO of Partek Cargotek AB, Sisu Group and Valmet Automation Oy
- Board Chairman: Patria Oy and Lannen Tractors
- Board member: Cavotec MSL, Sarlin Oy and Actiw Oy
- Member of VR-Group Ltd's Board since 4 April 2008



Riku Aalto

- Born 1965, M.Sc. (Admin.)
- President, Finnish Metalworkers' Union Metalli
- Previously employed as financial manager, Finnish Metalworkers' Union Metalli
- Board Chairman: VVO Group plc
- Board member: Central Organisation of Finnish Trade Unions (SAK) and of the Board of the Social Democratic Party SDP
- Member of Supervisory Board: Unemployment Insurance Fund
- Member of VR-Group Ltd's Board since 19 April 2011



Maaret Heiskari

- Born 1966, B.Sc. (Linguistics), JOKO 57 Executive education
- Regional Director, Russia, Kone Corporation
- Previously employed as Executive Programme Director, Sitra – the Finnish Innovation Fund, Head of Moscow Office of Finnish- Russian Chamber of Commerce, and Managing Director of ZAO Unertek
- Member of VR- Group Ltd's Board since 30 March 2006

**Antti Mäkelä**

- Born 1952, M.Sc. (Econ.)
- Previously employed as President and CEO of Sanomapaino Oy, Sanoma Lehtimedia Oy and Kymen Sanomalehti Oy
- Board member: Hansaprint Ltd (Deputy Chairman), Länsi- Savo Oy, Etelä- Savon Viestintä Oy and Finex Oy
- Member of VR-Group Ltd's Board since 4 April 2008

**Soili Suonoja**

- Born 1944, Home Economics Teacher, MBA, Commercial Counsellor
- Previously employed as President and CEO, Fazer Amica
- Board Chairman: Alko Inc., Finavia Corporation, Finnпилot Pilotage Oy, Leijona Catering Oy, Reilukauppa ry and Huoltoliitto ry
- Board member: Hoiva Oy, Nurmijärven Linja Oy and Eilakaisla Oy
- Member of VR-Group Ltd's Board since 4 April 2008

**Arja Talma**

- Born 1962, M.Sc. (Econ.), eMBA
- President, Rautakesko Oy
- Previously employed as CFO and as Financial Director, Kesko Corporation; Director, Oy Radiolinja Ab; and APA Auditor, KPMG Wideri Oy Ab
- Board member: Luottokunta and Sponda Plc
- Member of VR-Group Ltd's Board since 30 March 2006

**Markku Tapio**

- Born 1948, M. Pol. Sc.
- Senior Advisor, Prime Minister's Office
- Previously employed as Director, Ownership Policy Unit and Assistant Head, Industrial Section, Ministry for Trade and Industry
- Board member: Neste Oil Corporation
- Member of VR-Group Ltd's Board since 15 May 2007

Lauri Ratia was Chairman of the Board and Lauri Ihalainen was a Board member until 19 April 2011.

President and CEO and Management Team

The President and CEO manages the day-to-day administration of the Group in accordance with the instructions and regulations laid down by the Board of Directors.

The President and CEO is chosen and dismissed by the company's Board of Directors, which also determines the remuneration.

The company's President and CEO since 1 July 2009 has been Mikael Aro (born 1965), eMBA. Before this he was employed as Senior Vice President, Northern Europe, Carlsberg and CEO of Sinebrychoff, part of Carlsberg.

VR Group has a Management Team comprising the President and CEO (chair), the Senior Vice Presidents of the Passenger Services and Logistics divisions, the Managing Director of VR Track Ltd, the Senior Vice President of the Corporate Services division, the Senior Vice President of the Russia and International Business division, and the Group's Senior Vice Presidents for Finance, Human Resources, Corporate Development, and Corporate Relations and Environment.

The Management Team addresses matters of strategic or other major importance for VR's business operations, drafts plans and monitors their implementation, and manages more important daily activities and operative issues. The Management Team generally convenes once a week.

Management Team 2011



Mikael Aro
President and CEO

- b. 1965, eMBA
- President and CEO, VR-Group Ltd
- Previously employed as Senior Vice President, Northern Europe, Carlsberg and CEO of Sinebrychoff, part of Carlsberg
- Member of Management Team since 1 July 2009



Antti Jaatinen

- b. 1949, M.Sc. (Econ.)
- Senior Vice President, Passenger Services, VR-Group Ltd
- Previously employed as Director, Passenger Services, VR Ltd
- Member of Management Team since 20 August 2009 until 31 January 2012



Rolf Jansson

- b. 1969, M.Sc. (Eng.), M.Sc. (Econ.)
- Senior Vice President, Logistics division as from 30 November 2011 and Senior Vice President, Corporate Development, VR-Group Ltd
- Previously employed as Director, Nordea Corporate Finance, and Management Consultant at Booz Allen Hamilton
- Member of Management Team since 27 July 2009



Timo Koskinen

- b. 1968, LL.M.
- Senior Vice President, Human Resources, VR-Group Ltd
- Previously employed as Vice President, Human Resources, VR Ltd and VR-Group and as Legal Advisor at Elisa
- Member of Management Team since 20 August 2009

**Otto Lehtipuu**

- b. 1968, M.Sc. (Eng.)
- Senior Vice President, Corporate Relations and Environment, VR-Group Ltd
- Previously employed as Head of Environmental Affairs, VR Group
- Member of Management Team since 1 December 2010

**Heli Lehtonen**

- b. 1963, M.Sc. (Econ.)
- Senior Vice President, Finance, VR-Group Ltd
- Previously employed as Finance Manager, VR Ltd, Head of internal audit at Stockmann and as auditor at KPMG
- Member of Management Team since 1 January 2009

**Päivi Minkkinen**

- b. 1959, MA (Translation)
- Senior Vice President, Russia and International Business, VR-Group Ltd
- Previously employed as Head of International Affairs, VR Group
- Member of Management Team since 20 August 2009

**Pertti Saarela**

- b. 1957, LL.M.
- Senior Vice President, Corporate Services, VR-Group Ltd
- Previously employed as Director, Administration, VR-Group Ltd
- Member of Management Team since 12 April 1999



Ville Saksi

- b. 1971, B.Eng.
- Managing Director, VR Track Ltd
- Previously employed as Executive Vice President, Skanska Civil Finland
- Member of Management Team since 1 January 2010

Erik Söderholm, Senior Vice President, Logistics division, was a member of the Management Team until 14 October 2011.

Antti Tiitola took over as Senior Vice President, Passenger Services and became a member of Management Team on 1 February 2012. Antti Jaatinen will retire during 2012.

Financial reporting

According to the Limited Liabilities Companies Act, the Board of Directors ensures that supervision of the company's accounting and financial management has been arranged appropriately. The President and CEO ensures that the company's accounting complies with legislation and that financial management is arranged reliably. The Group's management is responsible for ensuring that the Group's business operations comply with applicable legislation and with the decisions of the company's Board of Directors, and that risk management has been appropriately arranged in the Group.

Internal and external reports are made of the financial situation. Senior management monitors the achievement of financial targets in the Group's Management Team monthly, through internal reporting at Group level and for the individual business sectors. The reports monitor the net result, investments and their implementation, the financial situation, the number of personnel and volume of traffic. The Group's financial situation is reported to the Board of Directors once a month.

External reporting involves preparing the quarterly interim reports and the annual report. The Board of Directors reviews all interim and annual reports before they are published.

The Group's finance unit is responsible for the accuracy of the Group's financial reporting. Financial reporting complies with legislation and other regulations and with generally approved accounting principles and other rules governing companies. The aim is to ensure that the Group's financial reporting produces the essential and correct information for internal reports and the reports that are released for publication. Financial reporting takes place in the Group's reporting system, and internal and external reports are based on the information in this.

VR Group has an independent internal audit unit that reports to the President and CEO and to the audit committee of the Board of Directors. The internal audit complies with the international professional standards for internal audit and operates in cooperation with the auditors. The Board of Directors has confirmed operating procedures for the internal audit, and confirms the plan of operations for the internal audit each year. The internal audit unit monitors the Group to ensure that its internal controls are effective and have been appropriately arranged. The internal audit reports on its observations to the audit committee at every meeting of the committee.

Incentive schemes

The Board of Directors of VR-Group Ltd has confirmed the incentive scheme for Group management. The incentive scheme was last reviewed on the decision of the Group's Board of Directors on 23 November 2011.

The incentive scheme comprises a short-term and a long-term incentive scheme. The Group's Board of Directors confirms the overall criteria for the scheme and the persons included in the scheme, as well as the more detailed criteria for the incentive schemes, the threshold values, and entry, exit and other governing rules. The rules and principles in force in the scheme at any particular time are described in the Group's remuneration handbook, which has been reviewed by the human resources committee of the Board of Directors and is maintained by the HR unit.

The incentive scheme complies with the policy decision taken by the Council of State. Under the terms of the scheme the Board of Directors may in exceptional circumstances amend the terms of the scheme and postpone payment of the bonus.

Short-term incentive scheme

The review period for the short-term incentive scheme is one (1) year. The scheme is divided into five organisation levels (L1-L5). In 2011 508 people belonged to the scheme. The President and CEO belongs to level L1, other members of the Management Team to level L2 (9 persons) and other senior management to L3 (91 people). The other people selected for the bonus scheme are in positions as supervisors or experts that have a significant impact on business operations, and they belong to levels L4 and L5 (altogether 408 people).

The Group's Board of Directors confirms each year the people to be included in the scheme.

The targets, indexes and threshold values for the short-term incentive scheme are set each year so that there are a maximum of six indexes. The Group/unit operating profit is one index with a weighting of 60-10 % depending on the job content, and the other indexes supporting the strategy and unit targets have a weighting of 40-90 %. The maximum potential bonuses in the short-term incentive scheme are for level L1 40 %, L2 30-25 %, L3 25-20 %, L4 20-15 % and L5 10 % of the annual salary (including benefits in kind and holiday pay).

VR Group has no share-based incentive schemes.

Any incentive scheme bonuses are paid on the basis of how annual targets have been met in the spring of the year after the earnings year once the financial statement figures have been confirmed.

Long-term incentive scheme

The persons in the target group for the long-term incentive scheme belong to levels L1-L3 in the organisation (in 2011 altogether 45 people). The scheme has an earning period of 3 years (2010-2012) and the earnings index is the cumulative operating profit (EBIT). Maximum bonuses under the long-term incentive scheme calculated on an annual level are for level L1 80 %, for L2 80-70 % and for L3 40-30 % of the annual salary (including benefits in kind and holiday pay). The theoretical maximum amount for the three year earning period can be calculated by multiplying the percentages mentioned above by three.

Any bonuses are paid after the end of the earning period in accordance with how the operating profit target has been achieved. Any bonus is paid in stages over a three year period (60/20/20) after the end of the earning period.

Information on President and CEO's employment relationship and main positions of trust

The salary paid to the President and CEO in 2011 totalled EUR 504,600.00 and the bonus paid to him for 2011 under the short-term incentive scheme was EUR 146,342. The President and CEO also belongs to the long-term incentive scheme described above. The President and CEO was not given a bonus of shares or share-based rights during the year.

The President and CEO Mikael Aro is entitled to a company car but has elected not to use it. The President and CEO has a cell phone benefit valued at 20 euros per month. He does not have other fringe benefits. In addition to a salary, bonuses and fringe benefits the President and CEO has received a VR free pass.

The retirement age (63 years) and pension for the President and CEO are in accordance with the Employees' Pensions Act. The President and CEO has a personal supplementary pension insurance paid by the employer (annual payment in 2011 was EUR 9,604.50), that includes life insurance in case of death.

The period of notice for the President and CEO is six months, and the normal salary is paid for this period. In addition, the President and CEO is paid a redundancy bonus corresponding to 12 months' salary if the President and CEO is dismissed by the employer.

Mikael Aro is the chairman of the board of Finnkino Oy (from 3 February 2012) and member of the boards of Varma Mutual Pension Insurance Company and Altia Plc. In addition, Mikael Aro is the vice chairman of the board and chairman of the labour market committee of Service Sector Employers PALTA and board member of the Finnish-Russian Chamber of Commerce.

Bonus system of Management Team

The Board decides on the bonus system and other terms of employment of the Group Management Team.

Members of the Management Team are within the incentive remuneration system as described above.

Salaries and fringe benefits of members of the Management Team excluding the President and CEO amounted to 2,215,088.78 euros in 2011 and incentive remuneration shares to 559,430.75 euros (in 2010) ie. in total 2,774,519.53 euros.

Members of the Management Team have a phone benefit valued at 20 euros per month but no other fringe benefits. In addition to a salary, bonuses and fringe benefits the members of the Management Team have received a VR free pass.

Audit

According to its Articles of Association, VR-Group Ltd shall have one (1) auditor, which must be a firm of Authorised Public Accountants certified by the Central Chamber of Commerce. The term of office of an auditor ends at the close of the Annual General Meeting following the auditor's election. The auditor is elected by the AGM.

The AGM elected KPMG Oy Ab, Authorised Public Accountants, as auditor for 2011, with Petri Kettunen, APA, as principal auditor. Fees paid to the auditor during the 2011 fiscal period totalled EUR 65,000.

Risk management

VR-Group Ltd has a risk management policy confirmed by the Board of Directors. The policy states that business operations must not be allowed to give rise to risks that could put at risk the achievement of business goals.

The Chief Executive Officer is responsible for arranging risk management in the Group. The Group does not have a separate risk management organization, but risk management is the responsibility of the executive management at each business and support unit.

Risk management is integrated into the strategy process. Major risks relating to implementing the strategy are identified in the different business sectors and are assessed during the strategy process. Measures are prepared to prevent major risks from occurring and a person is appointed to be responsible for each risk. Reports are given on risks to the President and CEO quarterly in connection with monitoring the strategy and to the Board of Directors at least once a year when reviewing the strategy.

Management of financial risks is described in the financial and hedging policies approved by the Board of Directors. The policies are reviewed and updated by the Board once a year. Management of the Group's financial risks comprises liquidity, foreign currency, interest rate, counterparty and asset risks.

The company has protected itself against risks to fixed assets and business operations with insurance against loss or damage and against business interruption.

Communications policy

VR Group's communications are based on VR's values, vision, mission and business strategy. Communications are pro-active, interactive and reliable.

VR takes the initiative in informing customers, other stakeholders and its own personnel. Information is given as speedily as possible, but without compromising reliability.

Market conditions and operating environment

Changes in the general economic situation affect VR's businesses in different ways. It takes longer for the impact to be felt in passenger services than in logistics and infrastructure engineering. During the review year of 2011 Finland's economy was moving into recession. Growth in Finland's gross national product was very moderate and industrial output was low. Exports from Finland slowed down and were lower than in the previous year.

VR's logistics volumes consist almost entirely of carryings for the forest and paper, mechanical and chemical wood processing, metal and mechanical engineering and chemical industries. There was no significant increase in production volumes especially in the forest, paper and wood processing industries in 2011, and this kept any growth in the volume of logistics carryings at a moderate level.

Russia plays a significant role in rail freight traffic, since roughly one third of these carryings has been import, export and transit traffic over the border with Russia. Russia's own trade policies and practices and developments in rail freight have a very big impact on services to and from Russia. Changes can take place very quickly, which makes it more difficult to make reliable predictions about the volume of traffic. The customs duties imposed on round timber have had a fundamental impact on the volume of traffic from Russia, since they increased the price of timber imports. Russian membership of the World Trade Organization is expected to bring some relief to customs practices and to boost imports and exports.

The volume of passenger services is affected by factors such as consumer and travel habits, the regional distribution of the population, developments in the infrastructure and transport services for different forms of transport, and the eco-friendliness of different forms of transport. Fast and punctual services also affect demand for long-distance transport services.

After frequent services, in the Helsinki metropolitan area some of the most important factors especially for commuter rail services are 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.

The condition of the railway infrastructure for its part determines how rail services can be developed. Government spending on the traffic infrastructure affects the track construction and maintenance business. Government funding for maintaining and building the rail network has declined significantly over the past few years, which has had a serious negative impact on VR Group's infrastructure engineering business and in particular on the punctuality of passenger services. The shrinking infrastructure engineering market is also intensifying competition in track construction and maintenance.

VR Group plays an active role in contacting national and local decision makers in order to obtain better conditions for developing eco-friendly rail services.

Consolidated net turnover, result and liquidity

The Group's net turnover in 2011 totalled M€ 1,437.2 (M€ 1,422.6). Net turnover for Passenger Services increased 1.0 %. Net turnover for rail passenger services declined 0.2 % and for road services increased 9.0 %. The growth came mainly from the new bus service lines won in the Helsinki metropolitan area.

Net turnover for Logistics increased 3.0 %. Net turnover for rail logistics fell 2.9 %, due to low demand. Net turnover for road logistics in turn increased 10.2 % from the previous year, and the companies acquired in 2010 and 2011 were factors in this growth, contributing M€ 19.1 to the growth in net turnover. The comparable change in net turnover for road services was 2.3 %.

Net turnover for infrastructure engineering fell 4.9 %, and the shrinking construction market was the main factor in this decline.

The consolidated operating profit was M€ 20.9 (M€ 43.1) and net profit for the period M€ 15.3 (M€ 30.0). The biggest factors in the significant decline in the net profit were slower growth than expected in logistics and infrastructure engineering. By adjusting some of the costs, however, the net result remained positive.

The 2011 result was weakened by the extra costs for energy and in personnel expenses arising from the cold winter and by the expenditure to improve punctuality. The net result includes one-time items totalling M€ 7.0 (M€ 0.6) from profit on the sale of assets, loss provisions for infrastructure engineering projects, and other one-time items. VR Group's operating profit excluding these items was M€ 13.9 (M€ 42.5).

The Group's liquidity remained good throughout the period. Liquid assets stood at M€ 174.6 (M€ 170.8) at the end of the year. Net financial income and expenses amounted to M€ -0.2 (M€ 0.4). The Group took out no long-term loans, and it had no outstanding commercial papers at the closing date.

The Group did not pay a dividend for 2010.

The other financial indicators are given in Note 24.

Main events during the year

The restructuring programme launched at VR Group in 2009 and continuing until 2012 has progressed according to plan. The purpose of the programme is to respond to changing market conditions and changes in demand. It aims to improve VR Group's long-term profitability by some M€ 100 a year. Improving profitability requires considerable cost savings, the expansion of business operations and investments.

The impact of the programme on personnel is the need to reduce the work force by an estimated 1,200 people. The personnel cuts have mainly been achieved through retirement and relocation and by using the outplacement centre. During the restructuring programme, natural wastage is about 1,300 people. By the end of 2011 the restructuring programme had achieved a permanent impact of some M€ 60 on profitability. Through the programme the number of personnel has been reduced by 800 man-years, and most of these have retired.

To implement the restructuring programme, logistics operations have continued their efforts to raise efficiency. In passenger services rolling stock is being replaced, in order to improve customer service and the travel experience. To raise efficiency in administrative support functions these have been centralised into group-level functions and service centres.

In connection with the restructuring programme, an extensive development project began in maintenance at VR Group, aiming to enhance the maintenance network for rail rolling stock and its operations. The project comprises all maintenance activities at the depots and production activities for rail rolling stock at the workshops.

In passenger services, the number of daily Allegro train services each way between Helsinki and St. Petersburg was raised in the spring from two to four. The Allegro has quickly become popular among customers and the number of passengers has been high. The Allegro trains were purchased by the joint venture Oy Karelian Trains Ltd, which is jointly owned by VR-Group Ltd and Russian Railways OAO RZD.

A new ticket sales system was launched in the autumn, which will make it possible to introduce demand-based pricing. The range of online sales products was considerably extended in the new sales system. Problems in the system and in the technical environment that came to light when the system was launched were corrected afterwards, and the system was brought into a stable state in the final quarter.

During the review year a major investment decision was taken to start the purchase process for 80 new electric locomotives. The new locomotives will replace the old electric locomotives, most of which were purchased in the 1970s. The purchase includes an option for 97 locomotives, but the precise final number of locomotives to be purchased will be determined at a later date, when it is known how the government is continuing the electrification of the rail network. The expenditure will be financed entirely by VR Group internal financing and by financing obtained externally.

VR Track won the contract for the renovation of the Lielähti-Kokemäki track section that will be implemented with project alliancing. This is the first project alliance contract in public sector purchasing to be carried out in Europe. In a project alliance, the client, engineers and contractors form a team, an alliance, that is jointly responsible for planning and implementing the project. The parties work closely together, share information with each other openly, and also share the risks and benefits from the project.

The contract includes the development phase of the project, and the implementation, subject to certain conditions. The development phase includes planning, specifying the work content, setting the project schedule, and preparing a target cost estimate. The cost estimate for the development activities is about M€ 50 and for the implementation phase M€ 90.

VR launched a new 'Junat kartalla' (Trains on the map) service on its website, so that passengers can follow the movement of trains in real time online or as a mobile service. The information provided by the service is based on GPS positioning of the trains, so the information is in real time. GPS technology supplier ESRI gave the 'Junat kartalla' service a "Special Achievement in GIS" global innovation award. ESRI gives a similar award each year to some 20 companies out of more than 100,000 companies that use ESRI technology.

In November VR Group and Itella began a study to look into opportunities for closer cooperation in domestic transport operations at VR Transpoint and Itella Logistics. The study is focusing on business operations that are not directly connected with rail logistics or the postal business. The aim is to find potential synergy benefits, for

example in the joint use of terminals or in more efficient use of transport capacity. The study should be finished within six months and decisions on further action will be taken based on the results of the study.

VR Group and Itella are also looking at the potential for closer cooperation in their Russian operations. The goal is to ensure that the future plans of two state-owned companies do not clash with each other and to make the most of existing projects.

Logistics

VR Transpoint is responsible for logistics within VR Group. VR Transpoint provides rail logistics, groupage transport services by road (groupage logistics), and bulk freight and storage by road (bulk logistics). Transpoint International (FI) Oy with its non-Finnish subsidiaries provides international freight services by road

Total logistics net turnover rose 3.0 % to M€ 594.7 (M€ 576.0). Net turnover for rail logistics including sales to Group companies totalled M€ 321.8 (M€ 331.1) and for road logistics was M€ 277.4 (M€ 252.4). Rail logistics net turnover declined 2.9 % and road logistics net turnover increased 9.9 %.

Low demand, especially in international traffic, contributed to the decline in rail logistics sales. The company acquisitions in 2010-2011 boosted road logistics sales. The recently acquired companies contributed M€ 19.1 to net turnover in the review year. Like-on-like growth in net turnover for road logistics was 2.3 % and for the whole logistics division was -0.3 %.

Rail logistics

The volume of carryings conveyed by rail logistics declined 2.7 % from the previous year to 34.8 million tonnes. Domestic traffic accounted for 23.5 million tonnes of this, growth of 1.1 %, and international traffic for 11.3 million tonnes, a decline of 9.7 %. International traffic refers to traffic that crosses a border by train or on a rail ferry. Most of this is traffic between Finland and Russia or transit traffic via Finland to third countries.

In domestic traffic, forest industry carryings declined 4.7 % from the previous year. Forest industry carryings were particularly affected by the overall caution in the sector in the second half of the year due to the uncertain economic situation throughout Europe. The volume of metal industry carryings increased 19.7 % and in the chemical industry carryings rose 16.6 %. Calcine carryings contributed to the growth in metal industry carryings and increased carryings of fertilizer and acid boosted chemical industry carryings.

The volume of carryings in international traffic declined 9.7 %. The biggest factor in this decline was the 9.5 % reduction in carryings between Finland and Russia. The figures include Finnish exports and imports and transit traffic. The fall in the volume of carryings was due to the reduction in timber raw material carryings and chemical industry carryings. Forest industry carryings declined 9.5 % and chemical industry carryings 27.8 %.

The volume of carryings in transit traffic increased 2.8 % from the previous year. Most of this traffic is exporting Russian industrial raw materials to Western Europe, and it consists of metal industry and chemical industry carryings. Increased carryings of pellets and fertilizer were particular factors in the increase.

VR Group's rail logistics recorded an operating loss of M€ 10.8 (M€ -5.2). The fall in net turnover resulting from the weakening of demand was the biggest factor in the decline in the result. The average transport distance declined from 273 kilometres in 2010 to 270 kilometres in 2011. The shorter journeys were due to changes in customer transport needs.

According to Statistics Finland, rail logistics had a market share in 2010 of 24.1 % of domestic freight traffic (24.8% in 2009), which is just below the long-term average of 25 %. The figures for the market share in 2011 will be obtained in the second quarter of 2012.

Road logistics

Road logistics carryings totalled 8.5 (7.9) million tonnes. Domestic groupage carryings increased 0.2 % and bulk carryings 7.4 %. In bulk carryings, carryings of recycled material and for the construction industry remained at a good level throughout the year. The volume of international logistics carryings increased 16.8 %. Growth is due mainly to the company acquisition in 2010.

Warehousing services for road groupage logistics were strengthened through the purchase in summer of 2011 of PT Logistiikka Oy, which operates in the Helsinki metropolitan area and specializes in warehousing, picking and packing, and related information management.

Developing Logistics operations

VR Transpoint is preparing for competition by carrying out as planned its restructuring programme that aims to raise efficiency and cut costs. Through the programme it has raised its efficiency and lightened its cost structure. It enhanced its marshalling yard activities through new operating models and the use of new technology. A major issue in raising efficiency is matching the expectations of customers with the needs of VR Transpoint

The process continued of upgrading the entire transport system and customer service models in order to improve customer service for freight services and boost their profitability. Customers are offered rail and road transport services from a single point in accordance with customer needs. Customers are offered total service packages with transport provided by rail and road, depending on the destination and amount of goods. Cooperation between railway and bulk goods logistics is being increased through common customers. The work of building more effective business models and better service continues in cooperation with customers.

In railway logistics, changes have been made to marshalling yard activities and the supporting information systems. The biggest change is the introduction of an RFID-based system for identifying moving rolling stock at all the freight marshalling yards. The system provides real time information on the location of wagons and on the composition of trains. This improves the tracking of carryings and enhances wagon turnover. The use of radio-controlled locomotives in marshalling yards has increased, and new machines to replace conventional shunting locomotives have also been tested.

Russia is the most important area for VR Transpoint's international expansion, for both rail and road logistics. One third of the tonnage carried by rail logistics comes from Russia and the CIS countries. The potential for growth in carryings is strong and VR Transpoint has developed new rail logistics services for traffic to and from Russia. One new service is conveying trailers by rail from Finland to Moscow, and trial services were made during 2011. The results have been positive and the technical facilities are in place for success in these carryings. The goal is to begin regular trailer on train services during 2013.

In February it was discovered that VR Transpoint had incorrectly applied the collective bargaining agreement in road logistics between Finland and Russia. VR Transpoint and the Transport Workers' Union AKT agreed that Russian drivers be paid a one time payment in compensation for unpaid wages.

VR Transpoint transferred its vehicle fleet that operates services between Finland and Russia to the Russian vehicle register at the end of 2011. At the same time the Russian drivers already working for the company transferred to the Russian wages scheme. The purpose of these changes is to improve VR Transpoint's competitive standing in the fiercely contested Russian transport market.

During 2011 the quality, environmental, occupational health and work safety management systems at all VR Transpoint's business units were certified. Quality assurance is one key factor in strengthening competitiveness.

Passenger Services

VR Group's passenger services are provided by VR by rail and by Oy Pohjolan Liikenne Ab and Oy Pohjolan Kaupunkiliikenne Ab by road. Passenger services have scheduled services and contract services, as well as charter bus and coach services.

Growth in the total net turnover of Passenger Services was moderate in 2011. Total net turnover was M€ 483.3 (M€ 480.2). Net turnover of rail services, including sales to Group companies, totalled M€ 422.3 (M€ 423.0). Net turnover declined 0.2 %. Contract services purchased by Helsinki Region Transport (HSL) accounted for M€ 51.7 (M€ 52.4) of net turnover and passenger services purchased by the Ministry of Transport and Communications for M€ 41.0 (M€ 40.1).

Looking at the different sales channels, self-service channels for rail tickets (online sales and ticket machines) significantly increased their share of sales in 2011. These channels accounted for 35.1 % of long-distance ticket sales for the whole year, and their growth was reflected in a decline in the proportion of tickets sold at station ticket offices.

Pohjolan Liikenne companies had a net turnover of M€ 62.5 (M€ 57.3), an increase of 9.1 %. Growth in road services was boosted by the new service lines won in the Helsinki metropolitan area.

Rail services

The number of journeys in passenger services totalled 68.4 million, a decline of 0.8 %. The number of long-distance journeys fell 0.9 % to 13.3 million. 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 443,000 passenger journeys were made between Finland and Russia, growth of 28.1 %. The biggest factor in this growth was the excellent success of the Allegro service. Some 307,500 journeys were made between Helsinki and St. Petersburg in 2011, an increase of 48.6 % on the previous year. The shorter journey time, the modern rolling stock and also the increase in the number of trains have contributed to these positive developments. The Allegro service started with two daily trains in both directions. At the end of May 2011 the number of daily trains each way rose to four.

A total of 55.1 million passenger journeys were made in commuter traffic in the Greater Helsinki area, a decline of 0.8 % from the previous year. Of this total, the number of journeys in the HSL zone was 42.9 million, down 0.5 %.

The operating profit of rail passenger services, based on VR-Group's internal accounts, was M€ 10.5 (M€ 30.8). No figures are available at this point for rail's market share of public transport in Finland in 2011 as the official statistics will be ready at a later date. In 2010, rail's market share rose slightly from that in 2009 to 35.0 % (34.9 %).

Road services

Pohjolan Liikenne's passenger services carried a total of 23.8 million passengers, which was 4.9 % more than in the previous year. The increase was due to the new service lines won in the Helsinki metropolitan area and to growth in the number of long-distance passengers.

Pohjolan Liikenne operated contract services during the review year in the HSL area in internal services in Helsinki and Espoo and in regional services. Contract services in the HSL area expanded considerably as the result of the new service lines.

Developing transport services in passenger services

VR's rail services suffered at the beginning of the year from the sharp frosts and the heavy snow fall. In the spring the extensive frost damage and the resulting speed restrictions disrupted rail services for several months. VR launched an intensive action programme to improve punctuality in cooperation with Helsinki Region Transport and the Finnish Transport Agency, which is responsible for the rail network. The goal is to put the punctuality of rail services back on a good level.

To improve punctuality, changes were made to practices in rolling stock maintenance. Marshalling yard work at the Helsinki depot was re-planned to enable trains to leave the depot on time. New traffic models helped ease congestion in the Helsinki railway yard

Standard unit trains were introduced in commuter services in the Helsinki metropolitan area, so fewer coaches are now disconnected from trains outside peak hours. VR added a margin to long-distance train timetables, especially on the Tampere-Jyväskylä-Pieksämäki line which is especially vulnerable to disruption. Disruptions to service there quickly have a knock on effect on rail services in other parts of Finland. Various emergency plans have been drawn up in case of disruptions.

The punctuality rate for long-distance trains, ie trains that arrived at their destination on time, was 79.7 %. The target is 90.0 %. The punctuality figure for commuter services was 92.1 %, with a target of 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. Punctuality improved considerably in the second half of the year after the measures to improve punctuality had been introduced. The punctuality rate in long-distance rail services in the second half of the year was 88.6 % and in commuter services 95.2 %.

Customer service coaching for personnel is a continuous process at VR. Major efforts were made in passenger services in developing customer service in order to renew the service culture. Planning of the 'Best Service' coaching scheme, a new concept for the entire customer service personnel, went on through the year and the scheme began in November 2011. This coaching scheme is the biggest investment in customer service training in the 150 year history of VR.

VR is gradually switching to a new demand-based pricing model for rail tickets. The first phase in this change was carried out in September 2011, when the service offering was expanded and VR renewed the ticket sales system. The range of online services was expanded and new channels became available for purchasing rail tickets, such as telephone sales. VR introduced the advance ticket, which is purchased on-line in advance and is cheaper than other tickets. New features and services became available on ticket machines

The interest shown by travellers in new prices, services and in particular the advance ticket exceeded expectations. This jammed the new online sales system during the first weeks of the new ticket system and slowed customer service in other sales channels as well. Technical faults were also identified in the sales system, and corrections were made to this throughout the autumn. The work on developing the sales system continues in 2012. The demand-based pricing system is being phased in over a period of several years.

In December 2009 the EU's Service Contract decree concerning bus services came into force. The provisions of the Finnish Public Transport Act are gradually being put into practice in the next few years, and in 2011 new procedures were created with these in mind. Scheduled service permits were replaced by operating contracts for the transition period. The system changed for compensation for subsidised city and regional tickets and tickets for travel to work.

Infrastructure Engineering

Infrastructure Engineering has specialised in design, construction and maintenance services for infrastructure engineering and the railway infrastructure. The company provides these services in Finland and also in adjacent markets, mainly in Sweden, Russia and the Baltic countries. The company has its own production units: rail welding and manufacturing and reconditioning of track points in Kaipainen, a wood impregnation unit in Haapamäki, and manufacturing and reconditioning of track points in Pieksämäki.

Infrastructure Engineering had a net turnover in 2011 of M€ 254.0 (314.5). VR Track's operating profit declined clearly and was a loss of M€ -8.9 (M€ +6.8). The reasons for the decline in the operating profit were the sharp decline in infrastructure engineering in Finland and recognition of forecast losses made on project operations.

At the end of the review year, the order book stood at M€ 220 (about M€ 246), and some M€ 100 of this will be carried out in 2012. Some M€ 15 of this order book relates to the framework agreement for basic track maintenance. The framework agreement ends in 2013, after which all basic track maintenance contracts will be put out to competitive tendering. The scope of the agreement may grow smaller as competitive tendering becomes more widespread each year in accordance with the decisions of the Finnish Transport Agency.

The biggest track construction projects in 2011 were on the Seinäjoki–Oulu track section, where mainly track renovation was carried out.

Infrastructure Engineering maintained eight of the Finnish Transport Agency's twelve track maintenance areas and three of the four electrification maintenance areas. In Sweden the five-year track maintenance contract began in June for the Mittbanan. The contract is for maintaining 870 kilometres of track.

Infrastructure Engineering expanded its operations in electrification projects. In 2011 it signed a major three-year contract with Fingrid Oy, for maintenance services for its substations. VR Track also had two major electricity substation projects.

Developing the operations of Infrastructure Engineering

During the restructuring programme that began in 2009 VR Track has enhanced its operations and renewed its operating procedures in order to improve its competitiveness.

The productivity project launched at the beginning of 2011 has improved work procedures at work sites. Some of the sites have introduced standard working procedures and tools. The work continues in 2012.

The organisation was restructured at the beginning of 2011. Seven separate businesses were formed in Infrastructure Engineering that are responsible for services and customer relations in their own business area. Together these businesses can offer customers solutions that meet all a customer's needs, from the planning stage through to maintenance, even for the entire life cycle of a project

During 2011 VR Track has developed a business model based on product modelling for planning and implementing construction projects. Product modelling involves obtaining and producing the specifications for a construction site, transferring the data to the design software, carrying out the design work in a 3D environment, and then transferring the data from the design model to machine control.

Product modelling simplifies the work, saves time and reduces the likelihood of mistakes, since the specifications are transferred directly as the basis for the design and as the source data for construction and for machine control. Machine control helps improve productivity. VR Track has installed machine control based on product modelling in all its earth moving machines, and it has been tested in one ballast removal machine.

Capital expenditure and rolling stock purchases

The Group's capital expenditure amounted to M€ 151.0 (149.8), and M€ 5.9 of this is the Group's share of funding for track renovation agreed with the Finnish Transport Agency. Expenditure on rail rolling stock totalled M€ 91.1 (50.8). The largest items were the new InterCity double decker passenger coaches and the refurbishment expenditure on freight wagons.

Investments by road services totalled M€ 3.0 (0.8), which went mainly on replacing vehicles. Investments by infrastructure engineering, mainly purchases of vehicles and machinery, totalled M€ 9.7 (11.7). Other capital expenditure was mainly on information systems (M€ 17.5) and on property (M€ 17.0).

During the first quarter of the review year an order was placed for 15 restaurant cars and 12 power cars. The total value of the order is some M€ 90. The coaches will be delivered in the period 2012–2014. These investments will speed up the replacement of rail rolling stock to improve the standard of service in passenger services.

During the first quarter the decision was taken to build 200 new round timber wagons. The total value of the investment is M€ 24.5. The wagons will be built at VR Group's Pieksämäki work shop and the expenditure will take place over the period 2011–2015.

Changes in corporate structure and property reorganization

In May VR-Group Ltd acquired the entire share stock of the Finnish company PT Logistiikka Oy, which specialises in logistics added value services. The company operates in the Helsinki metropolitan area and specializes in warehousing, picking and packing, and related information management.

In June several major property transactions were signed. The Pasila station property was sold to Senaattikiinteistöt and a property was sold in the Pasila work shop area in Helsinki to YIT Rakennus Oy. In addition, a letter of intent was signed with YIT Rakennus Oy for the purchase of building rights in Helsinki, Turku and Hämeenlinna. If the transactions stated in the contracts are completed, their value will be some M€ 70 and they are for building rights for more than 100,000 square metres of residential and commercial property.

VR Track Sweden AB, a subsidiary of VR Track Ltd, was established in Sweden. The company was registered in June. Infrastructure engineering operations in Sweden have been managed through a Swedish branch office. The operations of the Swedish branch office are being transferred to the new subsidiary.

Avain-Trans Oy was merged on 30 September 2011 with Transpoint International Finland Oy. Avain-Trans Oy provides road services in Russia.

In December the 60 % holding in Transpoint International UK owned by Transpoint International Finland Oy was sold to the company's personnel shareholders. The transaction was completed on 22 December 2011.

Safety

The Safety Policy, confirmed by the Board of Directors of VR-Group Ltd, defines the main principles, organization and responsibilities in safety-related work. The Rail Safety Programme approved for the strategy period forms the framework for all safety activities, and outlines VR's key safety goals and development projects. The objective of safety activities at VR is to ensure that business operations proceed without interruption or disruption and to prevent injuries to customers or personnel and damage to the environment or VR's property.

VR Group's safety management system for rail services was revised in 2011. The main structure of the system remained almost unchanged, but it took into account the requirements of the new Finnish Railway Act and new official regulations.

Following the changes in the Railway Act, VR Group also became a rail infrastructure manager, and the company had to apply not only for a safety certificate and operating permit but also for a safety permit. VR Group's current operating permit and safety certificate expire in April 2012. The safety certificate and permit are issued by the Finnish Transport Safety Agency and the operating permit by the Ministry of Transport and Communications.

The central objective of the Rail Safety Programme is to keep rail safety in Finland among the best in EU countries. In addition to rail safety and risk management, the programme also puts much emphasis on other areas of corporate safety, such as the importance of data security and the security of business premises.

During 2011 an extensive risk assessment of rail services was carried out at VR Group. According to the risk assessment, the most probable and biggest risks to rail services are connected to coordinating traffic and work on the track, to traffic in exceptional conditions and during disruptions, and to shunting in marshalling yards. These risks had already been identified previously, and the assessment did not discover any completely new risks.

The key factors in being prepared for risks and preventing accidents are observing correct working methods and formal communications, and VR Group emphasizes the importance of these. The Group and the Finnish Transport Agency are developing systems to identify the location of trains on the rail network.

Railway safety is improved by the new Raili radio network that functions in the GSM network and is now in use for traffic communications. The new radio network was introduced for rail services and track work back in 2010, and was extended to shunting operations in 2011. By the end of the year two thirds of shunting communications took place on the Raili network.

During the year VR Group's operations centre started up, with the task of managing disruptions to rail services at VR Group so that they cause minimum inconvenience to the Group's customers. The Finnish Transport Agency's rail service centre remains responsible for the actual management of traffic during disruptions to services.

At the beginning of 2011 VR Group launched Stoppi, a four-year safety at work programme, to motivate personnel to adopt a new approach to occupational safety at their own work place.

During the year a full-time occupational safety manager started work in each division, with the task of developing safety in cooperation with management, supervisors and personnel. The activities of the occupational health and safety organisation have been enhanced by training the members of the organisation and creating standard operating procedures for planning activities.

Despite the encouraging developments in safety at work, two fatal accidents at work occurred in VR Group in 2011. A locomotive driver died in February in a train collision in Nokia. In December a Pohjolan Liikenne bus driver died when a bus and a truck were in collision in Siuntio.

There were 25 (33) level crossing accidents, in which 2 (8) people died and 9 (10) were injured.

Environment

In the Group's strategy, environmental issues and in particular the energy efficiency of railway services are seen as key strengths, since VR Group can provide transport services that are more environmentally friendly than other forms of transport.

VR Group's environmental management system and environmental principles were revised in 2011. Environmental issues now form a clear distinctive entity and the allocation of responsibility for environmental activities was updated. The environmental management system and environmental principles set down the overall guidelines for the Group's environmental activities, VR Group's environmental promises to be achieved by the end of 2012 are part of environmental activities.

The most significant goals for VR Group's environmental activities concern reducing carbon dioxide emissions and energy consumption. Environmental activities and taking the environmental impact into account are ongoing activities at VR Group, and personnel training plays a key role in environmental activities.

Electricity and light fuel oil (diesel services) provide the power for rail services. Electric traction is considerably more energy efficient than diesel traction. It accounts for 85 % (85 %) of all train-kilometres. Consumption of light fuel oil in 2011 remained at the same level as in the previous year at about 37.8 million litres. Carbon dioxide emissions from rail services totalled 100,000 tonnes (101,000 tonnes).

Rail services switched to hydro-electricity in 2009, and to green electricity one year before that. All of VR Group has used electricity generated by hydro-power since the beginning of 2011. Rail services operated with electric traction no longer generate carbon dioxide emissions.

Switching to hydro-electricity means that the proportion of renewable energy in the energy consumption of VR Group has increased. Renewable energy accounts for less than half of the energy used by the entire Group, but nearly two thirds of the energy used by rail services comes from renewable sources.

VR Group's bus services started to use biodiesel in some of its city service buses in autumn 2011. The biodiesel is obtained from waste fat from the food industry, and it reduces greenhouse emissions by some 75 % and also cuts other exhaust emissions.

Soil surveys and decontamination form in financial terms the biggest part of the Group's environmental activities, and costs for these totalled M€ 0.7.

Assessment of business risks and uncertainties

In Finland, industrial restructuring has a major impact on logistics carryings. When industrial output declines and production plants are moved out of Finland, the impact is felt almost immediately in the volume of carryings. Logistics is expanding strongly in road services in Russia, so the Russia country risk is growing in importance. Regulation and controls in Russia and changes to them can take place quickly, and it is not always possible to prepare for them in good time. Business risks related to logistics operations are of very great significance for VR Group.

The risks in infrastructure engineering in Finland relate to the decline in the market for track construction and maintenance and to increasing competition. It is likely that foreign companies will enter the Finnish market, which will increase competition. The risks in international operations relate to managing profitability and the increase in resources arising from rapid growth.

Operational risks, such as risks relating to personnel, sub-contractors etc. are less significant than the strategic risks. Finance risks are limited at the moment, apart from the securities market risks relating to VR's pension fund, which has major investment assets. VR has protected itself against normal accident risks with insurance cover.

VR pays particular and continuous attention to rail safety. Level crossing accidents continue to pose a risk to rail safety. Level crossings and supervision of them are the responsibility of the Finnish Transport Agency, so VR is not able to have a major impact on the risks posed by level crossing accidents with its own action. Since level crossing accidents form a major safety risk, VR cooperates continuously with the Finnish Transport Agency to improve the situation. VR has had no major rail accidents since the end of the 1990s.

Personnel

Personnel key indicators 2009–2011:

	2009	2010	2011
Man work years, average	12,376	11,950	11,391
Change %	-1.1 %	-3.3 %	-4.7 %
Total salaries and wages	483.6	483.6	469.2
Permanent employees (average) % of Group work force	97.7 %	97.4%	98.8 %
Fixed term employees (average) % of Group work force	2.3 %	2.6 %	1.1 %
Full time employees (average) % of Group work force	97.3 %	96.5 %	96.7 %
Part time employees (average) % of Group work force	2.7 %	3.5 %	3.3 %
Average age of work force	46.3	46.3	46.1
Average length of service in years of current employees	21	21	20
% of men in work force	83.9 %	83.5 %	83.1 %
% of women in work force	16.1 %	16.5 %	16.9 %
% of personnel that have development interviews	58 %	60 %	65 %
Sick absence as % of regular working hours	5.6 %	5.7 %	6.3 %
Group's accident frequency rate (total number of accidents at work per million hours worked)	39.4	43.7	35.4
New recruits with permanent employment, no. of people	587	606	578

VR's well-being activities focus on the individual, the work, the work community and the work of supervisors. They include improving work fitness, ensuring health relating to traffic safety, arranging keep fit services, and developing the work of supervisors. Development of these is an active process and during the review year well-being activities laid particular emphasis on the work of supervisory staff and management, which is of vital importance in a period of change. Development of the work of supervisors and management is systematic. During the year VR Group created common business models and tools for supervisors, in order to achieve common goals, and arranged a wide range of supervisor training.

The well-being of personnel is monitored for example by an annual personnel survey. The latest survey results have been challenging and have led to the drawing up of action plans aiming to clearly improve the situation. The health examinations required for traffic safety and monitoring of these are carried out in accordance with the guidelines from the Finnish Transport Safety Agency Trafi.

To support the restructuring, an outplacement centre was set up in VR Group, to manage the impact on personnel from the restructuring programme. The centre supports those whose jobs are at risk and helps them find employment within the Group or elsewhere. Personnel are transferred to the pool when it is established that their jobs in their own units are being terminated.

Maximum stay in the centre is three months, and the services of the centre are also available throughout the period of notice. The centre is a temporary measure and will function until 31 December 2012. Employer and personnel organizations developing the work of the centre together through a joint monitoring work group.

Vocational training for the railway sector in Finland is provided by the VR Training Centre. In 2011, 277 new railway professionals graduated from the training centre and joined VR Group, most of them locomotive drivers. In addition the Centre provided supplementary professional training for current VR Group employees in rail safety, customer service and occupational health and safety. During the review year the Group continued its management training arranged in cooperation with the School of Economics at the Aalto University for young people employed by VR Group in supervisory or expert duties, and the extensive management development project.

During the review year a total management bonus accrued from 2010 of M€ 3.4 was paid to 510 people (M€ 2.8 to 446 people). A total personnel bonus of M€ 3.4 was paid to the personnel fund.

During the financial year in accordance with the decision of the AGM held on 19 April 2011, the chairman of the Board of Directors of VR-Group Ltd was paid fees of € 54,750, the vice chairman € 25,800 and ordinary members € 22,800 for the year. In addition, the Board chairman and members are paid a fee of € 600 for each meeting. During the financial year, in accordance with the decision of the AGM, the chairman of the Supervisory Board was paid a monthly fee of € 470, the vice chairman € 340 and ordinary members € 260. In addition all the above are paid a fee of EUR 500 per meeting.

The total salary paid to the President of VR-Group Ltd was € 504,600.00 and the total performance-based bonuses paid from 2010 were € 146,342.40. The President has a personal supplementary pension insurance paid by the employer (annual payment € 9,604.50) that includes life insurance in case of death.

VR Group complies with current contract of employment legislation and other regulations when paying salaries and wages to employees.

Management and audit

The Annual General Meeting held on 19 April 2010 confirmed that the Board of Directors of VR-Group Ltd would have eight members. Hannu Syrjänen was elected chairman of the Board. Lauri Ratia served as Board chairman until 19 April 2011. At its constitutive meeting after the AGM the Board of Directors elected Christer Granskog to continue as vice chairman. Maaret Heiskari, Antti Mäkelä, Soili Suonoja, Arja Talma and Markku Tapio continue as ordinary members of the Board. Riku Aalto was elected as a new member of the Board. Lauri Ihalainen was a member of the Board of Directors until 19 April 2011. The Board met 12 times, with an attendance rate of 93.8 %.

The Board elected Hannu Syrjänen as chairman and Christer Granskog, Soili Suonoja and Markku Tapio as members of its human resources committee. The Board re-elected Arja Talma as chairman and elected Maaret Heiskari, Antti Mäkelä and Riku Aalto as members of the audit committee. Lauri Ihalainen was a member of the audit committee until 19 April 2011. The human resources committee met 4 times, with an attendance rate of 88 %. The audit committee met 6 times, with an attendance rate of 71 %.

The Annual General Meeting confirmed that the Supervisory Board would have 11 members and elected Matti Ahde to continue as chairman of the Supervisory Board. Raija Vahasalo was elected vice-chairman at the Supervisory Board's meeting after the AGM. The members of the Supervisory Board were Outi Alanko-Kahiluoto, Thomas Blomqvist, Timo Korhonen, Kari Kärkkäinen, Raili Myllylä, Lauri Oinonen, Aino-Kaisa Pekonen, Satu Taiveaho, and Raimo Vistbacka. The Supervisory Board met six times during the review year, with an attendance rate of 86.6 %.

Representatives of employee organizations also attend VR's Supervisory Board meetings. The personnel organization representatives have the right to be present and to speak at meetings, but are not full members of the Supervisory Board. The representatives of employee organizations have been: Vesa Mauriala, chairman of the Finnish Railwaymen's Union; Risto Elonen, chairman of the Finnish Locomotivemen's Union; Esko Salomaa, chairman of the Rautatiealan Teknisten Liitto (Union of Railway Technical Personnel); Tarja Turtiainen, chairman of the Rautatievirkamiesliitto (Union of Railway Officials); and Teppo Sotavalta, chairman of VR Akava.

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

Rolf Jansson, Senior Vice President, Corporate Development in the Group, was appointed Senior Vice President, Logistics on 1 December 2011. Mr Jansson had been acting senior vice president at Logistics from the middle of October after the resignation of Erik Söderholm.

Antti Tiitola was appointed Senior Vice President, Passenger Services on 1 February 2012. Antti Jaatinen, Senior Vice President, Passenger Services, will retire on 1 September 2012.

Timo Cavén has been managing director of Corenet Oy as from 1 April 2011. Taneli Vuorinen was acting managing director at Corenet until 31 March 2011.

Major events after the end of the fiscal year

PACCOR Finland Oy is selling the warehousing operations of the Hämeenlinna factories in their present premises to VR Transpoint. The business being sold comprises the dispatching and shelving operations of PACCOR Finland Oy. From these functions 14 people will transfer to the employment of VR Transpoint as from 1 February 2012, retaining their existing employee status. VR Transpoint will also become the main partner of PACCOR Finland Oy in road transport in Finland.

In February three subsidiaries 100 % owned by Transpoint International FI Oy were sold in a management buyout to the local management of the company in Poland: Transpoint International (PL) Sp. z o.o. in Poland, Transpoint International (CZ) s.r.o. in Czech Republic and Transpoint Internatonal (SK) s.r.o. in Slovakia.

Prospects in 2012

The unstable state of the economy in Europe creates a general uncertainty in the market. The future is very unclear, especially for logistics operations. There are no signs of a rapid recovery and the uncertainty continues. In Passenger Services, passenger volumes in services to and from Russia are expected to continue to rise, and in Finland the new pricing model is expected to bring growth.

Much of the infrastructure engineering work consists of work ordered by the Finnish Transport Agency. VR Track's priority areas for development and growth, apart from the rail network, are other infrastructure engineering and international operations. The company expects to maintain its market position in Finland. Liquidity is forecast to remain strong.

Consolidated Profit and Loss Account

CONSOLIDATED PROFIT AND LOSS ACCOUNT (1,000 €)	Note	1 Jan.-31 Dec. 2011	1 Jan.- 31 Dec. 2010
Net turnover	1	1,437,170	1,422,577
Change in stocks of finished goods and work in progress		-294	1,740
Production for own use		43,671	77,952
Profits from associated companies		1,074	-539
Other operating income	2	44,990	31,551
Materials and services	3	514,955	500,227
Personnel expenses	4	595,544	617,892
Depreciation	5	113,411	113,846
Liiketoiminnan muut kulut	6	281,772	258,249
Expenses, total		1,505,682	1,490,213
Operating profit	7	20,929	43,068
Financial income and expenses	8	-151	425
Profit before extraordinary items and taxes		20,778	43,493
Income taxes	11	-3,729	-11,651
Minority interest		-1,737	-1,822
Profit for the year		15,311	30,020

Consolidated Balance Sheet

CONSOLIDATED BALANCE SHEET (1,000 €)	Note	31 Dec. 2011	31 Dec. 2010
ASSETS			
Fixed assets			
Intangible assets	12	92,889	75,248
Goodwill on consolidation		5,068	6,804
Tangible assets	12	1,189,350	1,179,983
Investments	13		
Holdings in associated companies		2,778	1,779
Other investments		5,951	6,230
Fixed assets, total		1,296,036	1,270,044
Current assets			
Stocks	14	89,924	93,085
Deferred tax credit	15	8,379	13,781
Long-term receivables	15	10,706	1,961
Current receivables	15	168,526	172,194
Securities	16	163,907	162,490
Cash at bank and in hand		10,651	8,358
Current assets, total		452,093	451,870
ASSETS, TOTAL		1,748,129	1,721,914
CAPITAL AND LIABILITIES			
Shareholders' equity	17		
Share capital		370,013	370,013
Revaluation reserve		5	0
Share premium account		525,812	525,808
Retained earnings		474,339	444,157
Profit for the year		15,311	30,020
Shareholders' equity, total		1,385,480	1,369,998
Minority interest		15,016	14,576
Negative goodwill		8	18
Provisions	18	7,907	11,211
Liabilities	19		
Deferred tax liability		61,558	65,944
Long-term liabilities		2,395	2,871
Current liabilities		275,764	257,296
Liabilities, total		339,717	326,111
CAPITAL AND LIABILITIES, TOTAL		1,748,129	1,721,914

Consolidated Cash Flow Statement

CONSOLIDATED CASH FLOW STATEMENT (1,000 €)	1 Jan.-31 Dec. 2011	1 Jan.-31 Dec. 2010
Cash flow from operating activities		
Operating profit	20,880	43,068
Adjustments to operating profit 1)	99,856	90,451
Change in net working capital	20,855	20,140
Interest received	2,333	1,958
Interest paid and payments for other financial expenses	-2,559	-1,480
Dividends received	12	94
Taxes paid/received	-2,707	12,943
Net cash from operating activities	138,670	167,174
Cash flow from investing activities		
Capital expenditure on fixed assets and shares	-152,344	-152,387
Other fixed assets disposals	16,626	6,077
Change in other long-term investments	720	1,049
Net cash from investing activities, total	-134,998	-145,261
Cash flow before financing activities	3,672	21,913
Cash flow from financing activities		
Long-term loans, raised/repaid	-89	-194
Dividends paid		
Net cash used in financing activities, total	-89	-194
Change in cash reserves	3,583	21,719
Cash reserves on 1 Jan.	170,976	149,257
Cash reserves on 31 Dec.	174,559	170,976

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

Parent Company Profit and Loss Account

PARENT COMPANY PROFIT AND LOSS ACCOUNT (1,000 €)	Note	1 Jan.–31 Dec. 2011	1 Jan.–31 Dec. 2010
Net turnover	1	974,550	802,683
Other operating income	2	61,403	58,881
Production for own use		30,630	31,228
Materials and services	3	305,014	177,453
Personnel expenses	4	422,325	404,945
Depreciation	5	93,908	90,647
Other operating expenses	6	225,844	185,477
Expenses, total		1,047,091	858,522
Operating profit		19,492	34,271
Financial income and expenses	8	1,335	1,335
Profit before extraordinary items		20,827	35,606
Extraordinary items	9	4,785	13,662
Profit before taxes		25,612	49,268
Change in depreciation difference	10	0	-40,670
Income taxes	11	-3	0
Profit for the year		25,609	8,598

Parent Company Balance Sheet

PARENT COMPANY BALANCE SHEET (1,000 €)	Note	31 Dec. 2011	31 Dec. 2010
ASSETS			
Fixed assets			
Intangible assets	12	93,285	75,115
Tangible assets	12	1,119,694	1,105,444
Investments	13		
Holdings in, and receivables from, Group companies		75,598	72,974
Other investments		7,370	7,649
Fixed assets, total		1,295,947	1,261,182
Current assets			
Stocks	14	54,324	54,319
Long-term receivables	15	9,642	670
Current receivables	15	89,070	104,666
Securities	16	163,907	162,490
Cash at bank and in hand		2,265	2,816
Current assets, total		319,208	324,961
ASSETS, TOTAL		1,615,155	1,586,143
CAPITAL AND LIABILITIES			
Shareholders' equity			
Share capital	17	370,013	370,013
Share premium account		525,754	525,754
Retained earnings			
Profit for the year		224,797	216,199
		25,609	8,598
Shareholders' equity, total		1,146,173	1,120,564
Accumulated appropriations	18	241,676	241,676
Other provisions	18	968	5,093
Liabilities			
Long-term liabilities	19	389	394
Current liabilities		225,949	218,416
Liabilities, total		226,338	218,810
CAPITAL AND LIABILITIES, TOTAL		1,615,155	1,586,143

Parent Company Cash Flow Statement

PARENT COMPANY CASH FLOW STATEMENT (1,000 €)	1 Jan.-31 Dec. 2011	1 Jan.-31 Dec. 2010
Cash flow from operating activities		
Operating profit	19,492	34,271
Depreciation according to plan	93,908	90,647
Other non-payment-related income and expenses	-12,693	-16,029
Cash flow before change in net working capital	100,707	108,888
Change in stocks	-5	2,079
Change in current receivables	-4,206	-13,914
Change in current liabilities	26,408	41,831
Change in net working capital	22,197	29,996
Interest paid	-3,600	-2,903
Dividends received	2,109	2,017
Interest received from operating activities	2,490	2,215
Taxes paid / received	2,330	14,457
Cash flow from financial items and taxes	3,329	15,786
Net cash from operating activities	126,233	154,670
Cash flow from investing activities		
Capital expenditure on fixed assets	-138,239	-138,318
Sale of other fixed assets	24,604	4,554
Change in other long-term investments	-2,313	-6,006
Net cash from investing activities, total	-115,948	-139,770
Cash flow before financing activities	10,285	14,900
Cash flow from financing activities		
Long-term receivables, increase	-8,972	-386
Long-term receivables, decrease	5	-80
Group contributions received	11,049	20,000
Change in funds transferred to Group accounts	-11,501	-13,548
Net cash used in financing activities, total	-9,419	5,986
Change in cash reserves	866	20,886
Cash reserves on 1 Jan.	165,306	144,421
Cash reserves on 31 Dec	166,172	165,306

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

During the company's fiscal year, the method of entry for infrastructure engineering was changed from net amounts to gross amounts. Percentage of completion receivables and liabilities are entered as gross amounts in receivables and liabilities, which increases the totals in the balance sheet. This change in the method of making entries does not affect the profit and loss account. Prepaid expenses and accrued income increased by M€ 5.6 in consequence of this change.

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 by monitoring the actual project costs to date and comparing them with the estimated total costs of the project. Net turnover is calculated as the aggregate recognized percentage as a proportion of the estimated total revenue accruing from the projects.

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

Valuation principles applied when preparing the financial statements

Fixed assets are capitalized at their direct acquisition cost. Fixed assets totalling M€ 32.7 (33.9) were produced by the company itself and include M€ 2.5 (2.9) in fixed costs related to production.

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

Production for own use included in stocks also includes a proportion of fixed costs. 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 statutory work pension insurance is arranged with an external company and the Group's supplementary pension benefits are insured by VR-Pension Fund s.r. Pension costs are allocated as booked. VR's pension commitments are fully covered.

Comparability of parent company accounts

Due to the new type of ticket, the Advance ticket, in passenger services, Advance tickets for the coming financial year have been allocated in the parent company to prepaid expenses, which increases liabilities in the balance sheet.

Notes 1-4

1 Net turnover by business sector and market area (1,000 €)

Breakdown by business sector	Group		Parent Company	
	2011	2010	2011	2010
Rail services				
Freight services	320,891	328,826	322,298	330,629
Passenger services	421,242	421,842	421,374	421,994
Road services				
Freight services	273,820	247,204	159,189	
Passenger services	62,009	57,144		
Track construction and maintenance	254,017	267,035		
Catering and restaurant services	32,980	32,026		
Other services	72,211	68,501	49,232	50,060
Total	1,437,170	1,422,577	952,092	802,683
Breakdown by geographical area				
Finland	1,357,481	1,348,540	952,092	802,683
Rest of Europe	79,689	74,037		
Total	1,437,170	1,422,577	952,092	802,683

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€ 65.1 (77.4).

2 Other operating income (1,000 €)

	Group		Parent Company	
	2011	2010	2011	2010
Rental income	18,395	17,268	24,479	25,470
Profits on sale of fixed assets	13,452	4,001	13,163	3,458
Other	13,144	10,282	23,761	29,953
Total	44,990	31,551	61,403	58,881

Other operating income for the parent company in the year for comparison includes merger gains of M€ 5.9. Pasila station was sold during the year to Senaatti-Kiinteistöt Oy. The sale of the property is connected with the reorganisation of properties by the state owner, with the objective of safeguarding the general interest of the state.

3 Materials and services (1,000 €)

	Group		Parent Company	
	2011	2010	2011	2010
Materials and supplies (goods)				
Purchases during the year	226,886	226,843	147,832	126,127
Change in stocks	3,006	3,705	-20	4,230
External services purchased	285,063	269,679	157,201	47,096
Total	514,955	500,227	305,014	177,453

4 Personnel and personnel expenses (1,000 €)

The number of personnel employed by the Group during the year, on average by business sector, was as follows:

	2011	2010
Passenger Services	2,168	2,168
Logistics	2,542	2,650
Infrastructure		
Engineering	2,007	2,273
Catering and Restaurant Services	290	273
Telecom services	197	228
Other services	4,187	4,358
Total	11,391	11,950

Personnel expenses (1,000 €)

	Group		Parent Company	
	2011	2010	2011	2010
Wages and salaries	469,179	486,915	330,703	315,337
Pension expenses	94,475	98,108	70,491	69,293
Other social expenses	31,890	32,869	21,131	20,316
Personnel expenses in the P&L account	595,544	617,892	422,325	404,945

	Group		Parent Company	
	2011	2010	2011	2010
Management remuneration (1,000 €)				
Presidents	1,561	1,848	712	531
Members of Boards of Directors	85	399	85	399
Supervisory Board	161	116	161	116
Total	1,807	2,364	958	1,046

The retirement age for the President and CEO of VR-Group Ltd is 63 years. The President and CEO has an additional personal pension insurance of € 9,604.50 paid by the employer that includes life insurance in case of death.

Notes 5-6

5 Depreciation (1,000 €)

	Group		Parent company	
	2011	2010	2011	2010
Planned depreciation				
Intangible assets	7,358	4,281	6,722	3,497
Buildings and structures	12,047	12,334	11,886	12,157
Tractive and rolling stock	63,933	66,250	63,933	66,250
Other machinery and equipment	27,642	28,099	10,528	7,953
Other tangible assets	1,064	1,589	840	791
Amortization of goodwill on consolidation	1,367	1,292		
Total	113,411	113,846	93,908	90,647

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, or the other machinery and equipment belonging to VR-Group 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 and 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	
	2011	2010	2011	2010
Track usage fee and track tax	61,197	62,053	61,197	62,053
Rents and other property expenses	77,354	62,365	61,151	37,061
Travel expenses and other personnel expenses	37,169	35,429	21,520	17,049

Telecommunications and information management expenses	38,080	34,405	35,117	31,434
Other service expenses	22,334	19,656	22,729	18,169
Administration and other expenses	45,638	44,340	23,659	19,711
Total	281,772	258,249	225,374	185,477
Auditors' fees				
	Group		Parent Company	
	2011	2010	2011	2010
Auditing fees	65	69	25	21
Taxation services	8	35	2	9
Other services	249	96	96	102

Notes 7-11

7 Operating profits of the Group's principal business sectors (1,000 €)

	2011	2010
Passenger Services	10,501	34,077
Logistics	-15,134	-5,464
Infrastructure Engineering	-10,492	5,213
Others	36,054	9,242

8 Financial income and expenses (1,000 €)

	Group		Parent company	
	2011	2010	2011	2010
Dividend income				
From Group companies	0	0	2,023	1,928
From others	12	90	86	90
Dividend income, total	12	90	2,109	2,017
Interest income from long-term investments				
From Group companies			269	273
From associated companies				
From others	104	473	104	473
Other short-term interest and financial income				
From Group companies	0	0	42	67
From associated companies	0	0	0	54
From others	2,656	2,143	2,193	1,423
Interest expenses and other financial expenses				
To Group companies			1,121	1,515
To others	2,923	2,281	2,261	1,458
Financial income and expenses, total	-151	425	1,335	1,335

9 Extraordinary items (1,000 €)

Group contributions received.	6,165	13,662
Group contributions given	-1,380	
Total	4,785	13,662

10 Appropriations (1,000 €)

Difference between planned depreciation and depreciation booked for tax purposes	Parent company	
	2011	2010
Change in depreciation difference (increase +, decrease -)	0	40,670

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

11 Income tax (1,000 €)

	Group		Parent Company	
	2011	2010	2011	2010
Income tax on extraordinary items	0	0		
Income tax on operating activities	2,708	3,158		
Income tax on previous years			3	
Deferred tax liability	1,021	8,492		
Total	3,729	11,651	3	0

Note 12

12 Fixed assets (1,000 €)

Group 2011	Intangible assets				Tangible assets			
	Intangible rights	Goodwill	Consolidation difference	Total	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets
Acquisition cost 1 Jan.	90,531	890	19,686	111,107	61,642	343,816	1,980,515	14,776
Translation difference	-22		27	5		-31	-306	-122
Company acquisitions								
Increases	9,769	32	852	10,653	2,000	167	20,642	1,019
Decreases	-1,669	-107	-1,322	-3,099	-1,885	-42,423	-51,166	-213
Revaluation				0				
Transfers between items	16,349		-56	16,293	1,003	16,777	85,297	1,209
Transfer to non-current assets held for sale	0	0	0	0	0	0	0	0
Acquisition cost 31 Dec.	114,958	815	19,188	134,960	62,760	318,306	2,034,982	16,670
Accumulated depreciation 1 Jan.	-15,558	-615	-12,882	-29,055	0	-158,553	-1,129,539	-7,183
Translation differences	16		-11	6		5	290	24
Accumulated depreciation in decreases and transfers	573	58	235	866		33,105	41,120	-94
Depreciation during year	-7,325	-33	-1,463	-8,820		-12,047	-91,575	-1,064
Writedowns				0				
Accumulated depreciation 31 Dec.	-22,294	-589	-14,120	-37,003	0	-137,491	-1,179,704	-8,317
Book value 31 Dec.	92,664	226	5,068	97,957	62,760	180,815	855,278	8,353
	Intangible assets				Tangible assets			
Group 2010	Intangible rights	Goodwill	Consolidation difference	Total	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets
Acquisition cost 1 Jan.	61,744	690	17,611	80,045	59,839	335,370	1,940,233	25,022
Translation differences						-2	-34	
Increases	44,972	200	7,130	52,301	2,205	246	10,268	

Decreases	-16,821		-5,054	-21,875	-463	-4,477	-18,087	-10,651
Transfers between items	636			636	61	12,679	48,134	406
Acquisition cost 31 Dec.	90,531	890	19,686	111,107	61,642	343,816	1,980,515	14,776
Accumulated depreciation 1 Jan.	-28,066	-541	-15,551	-44,158	0	-159,778	-1,050,505	-6,705
Translation differences			-411	-411		-1	-9	
Accumulated depreciation in decreases and transfers	16,739	-24	4417	21,131		13,560	15,321	1111
				0				
Depreciation during year	-4,231	-50	-1,337	-5,618		-12,334	-94,347	-1,589
Writedowns				0				
Accumulated depreciation 31 Dec.	-15,558	-615	-12,882	-29,055	0	-158,554	-1,129,539	-7,183
Book value 31 Dec.	74,973	275	6,804	82,052	61,642	185,263	850,975	7,594

Parent company 2011	Intangible assets			Total	Tangible assets			
	Intangible rights	Goodwill			Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets
Acquisition cost 1 Jan.	84,258	230		84,488	61,058	336,421	1,726,666	11,081
Increases	9,611	23		9,633	2,000	131	12,383	119
Decreases	-1,085			-1,085	-1,885	-42,268	-22,922	-50
Transfers between items	16,344			16,344	1,003	16,777	81,678	1,209
Acquisition cost 31 Dec.	109,127	253		109,380	62,176	311,061	1,797,806	12,359
Accumulated depreciation 1 Jan.	-9,178	-194		-9,372		-157,360	-939,270	-4,884
Accumulated depreciation in decreases and transfers	22	-23		0		33,088	13,880	-110
Depreciation during year	-6,697	-26		-6,722		-11,886	-74,461	-840
Accumulated depreciation 31 Dec.	-15,852	-242		-16,094	0	-136,157	-999,850	-5,834
Book value 31 Dec.	93,275	10		93,285	62,176	174,904	797,955	6,525

Parent company 2010	Intangible rights	Goodwill	Intangible rights	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets
Acquisition cost 1 Jan.	54,171		54,171	59,254	318,012	1,669,947	28,121
Increases	46,948	230	47,178	2,022	10,208	33,050	24
Decreases	-16,937		-16,937	-280	-4,477	-13,527	-17,470
Transfers between items	76		76	61	12,678	37,196	406
Acquisition cost 31 Dec.	84,258	230	84,488	61,058	336,421	1,726,666	11,081
Accumulated depreciation 1 Jan.	-21,298		-21,298	0	-149,069	-861,602	-11,876
Accumulated depreciation in decreases and transfers	15,617	-194	15,423		3,866	-3,465	7,783
Depreciation during year	-3,497		-3,497		-12,157	-74,203	-791
Accumulated depreciation 31 Dec.	-9,178	-194	-9,372	0	-157,360	-939,270	-4,884
Book value 31 Dec.	75,080	36	75,115	61,058	179,061	787,397	6,197

Note 13

13 Investments (1,000 €)

Group 2011	Shares Group companies	Receivables Group companies	Shares associated companies	Receivables associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost 1 Jan.	0	0	2,319	2,208	1,988	2,034	8,549
Increases	0	0		496	2	1,995	2,492
Decreases	0	0		-500	-278	-1,993	-2,770
Acquisition cost 31 Dec.	0	0	2,319	2,204	1,711	2,036	8,270
Accumulated share of results 1 Jan.	0	0	-540				-540
Share of results	0	0	999				999
Accumulated share of results 31 Dec.	0	0	459	0	0	0	459
Book value 31 Dec.	0	0	2,778	2,204	1,711	2,036	8,729
Group 2010	Shares Group companies	Receivables Group companies	Shares associated companies	Receivables associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost 1 Jan.	0	0	2,319	2,068	2,399	46	6,833
Increases	0	0		140	23	1,988	2,150
Decreases	0	0			-434		-434
Acquisition cost 31 Dec.	0	0	2,319	2,208	1,988	2,034	8,549
Accumulated share of results 1 Jan.	0	0	-210	0	0	0	-210
Share of results	0	0	-330	0	0	0	-330
Accumulated share of results 31 Dec.	0	0	-540	0	0	0	-540
Book value 31 Dec.	0	0	1,779	2,208	1,988	2,034	8,009
Parent company 2011	Shares Group companies	Receivables Group companies	Shares associated companies	Receivables associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost 1 Jan.	69,363	3,611	1,549	2,208	1,904	1,988	80,623
Increases	1,739	2,300		496	2	1,995	6,531
Decreases		-1,415		-500	-278	-1,993	-4,186
Acquisition cost 31 Dec.	71,102	4,496	1,549	2,204	1,627	1,990	82,968
Book value 31 Dec.	71,102	4,496	1,549	2,204	1,627	1,990	82,968

Parent company 2010	Shares Group companies	Receivables Group companies	Shares associated companies	Receivables associated companies	Other shares and holdings	Other receivables	Total
Acquisition cost 1 Jan.	78,357	2,339	1,549	2,068	2,315	0	86,629
Increases	4,674	3,775		140	1	1,988	10,577
Decreases	-13,668	-2,503			-412		-16,583
Acquisition cost 31 Dec.	69,363	3,611	1,549	2,208	1,904	1,988	80,623
Book value 31 Dec.	69,363	3,611	1,549	2,208	1,904	1,988	80,623

Investments include corporate and state bonds

	Group		Parent company	
	2011	2010	2011	2010
Repurchase cost	1,974	1,972	1,974	1,972
Book value	1,989	1,988	1,989	1,988
Difference	-15	-16	-15	-16

Group and parent company shares

GROUP COMPANIES	Group holding %	Parent company holding %
Avecra Oy, Helsinki	60	60
Napapiirin Turistiauto Oy, Helsinki	100	100
Oy Pohjolan Liikenne Ab, Helsinki	100	100
Oy Pohjolan Kaupunkiliikenne Ab, Helsinki	100	0
PL Fleet Oy, Kirkkonummi	100	0
Oy Logis Ab, Helsinki	100	100
Speedyex Oy, Tampere	100	0
PT-Logistiikka Oy	100	100
Hämeen Kuljeetuskontit Oy	100	0
ZAO ATV, Venäjä	100	0
ZAO AT-Transport, Venäjä	100	0
Transpoint International (FI) Oy, Helsinki	100	100
Transpoint International (EST) AS, Viro	100	0
Transpoint International (PL) Sp. z o.o., Puola	100	0
Transpoint International (HU) Kft, Unkari	100	0
Transpoint International (CZ) s.r.o., Tsekki	100	0
Transpoint International (SK) s.r.o., Slovakia	100	0
OOO Transpoint International (RU), Venäjä	100	0
VR Track Oy, Helsinki	100	100
Insinööritoimisto Arcus Oy, Turku	70	0
AS VR-Track, Viro	100	0
SIA VR-Track, Latvia	100	0
OOO VR-Track, Venäjä	99	1
Corenet Oy, Helsinki	60	60
Rautatieasunnot Oy, Helsinki	100	100
Oulun Keskusliikenneasemakiinteistö Oy, Oulu	57.3	57.3
Kokkolan Tavaraterminaali Oy, Kokkola	53.4	53.4

ASSOCIATED COMPANIES

SeaRail Oy, Helsinki	50	50
Pääkaupunkiseudun Junakalusto Oy, Helsinki	35	35
Oy Karelian Trains Ltd, Helsinki	50	50
Oy ContainerTrans Scandinavia Ltd, Helsinki	50	50
Freight One Scandinavia Oy, Helsinki	50	50
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

Notes 14-16

14 Stocks (1,000 €)

	Group		Parent company	
	2011	2010	2011	2010
Materials and supplies	86,574	89,483	54,324	54,319
Work in progress	3,350	3,602	0	0
Advance payments	0	1	0	0
Total	89,924	93,085	54,324	54,319

15 Receivables (1,000 €)

	Group		Parent company	
	2011	2010	2011	2010
Long-term receivables				
Long-term receivables from associated companies	0	0	0	0
Long-term receivables	10,706	1,961	9,575	603
Deferred tax credit	8,379	13,781	67	67
Long-term receivables total	19,085	15,742	9,642	670
Current receivables				
Receivables from Group companies				
Accounts receivable		0	2,531	5,343
Loans receivable		0	1,956	1,994
Other receivables		0	8,162	12,957
Prepaid expenses and accrued income		0	916	87
Receivables from associated companies				
Accounts receivable	577	611	577	452
Receivables from other companies				
Accounts receivable	123,383	125,036	53,390	59,063
Loans receivable	512	101		
Other receivables	1,388	1,435	120	138
Prepaid expenses and accrued income	42,665	45,011	21,418	24,631
Current receivables, total	168,526	172,194	89,070	104,666

Main items in prepaid expenses and accrued income

The main items under Group prepaid expenses and accrued income are sales and expenses allocated to the period totalling M€ 11.7, percentage of completion receivables totalling M€ 12.9 and tax receivables totalling M€ 2.8.

16 Securities (1,000 €)

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.

	Group		Parent company	
	2011	2010	2011	2010
Repurchase cost	164,035	162,553	164,035	162,553
Book value	163,897	162,490	163,897	162,490
Difference	138	63	138	63

Notes 17-18

17 Shareholders' equity (1,000 €)

	Group		Parent company	
	2011	2010	2011	2010
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.				
Change during the year	5		0	0
Revaluation reserve 31 Dec.	5	0	0	0
Share premium account 1 Jan.	525,808	525,808	525,754	525,754
Change during the year	3	0	0	0
Share premium account 31 Dec.	525,812	525,808	525,754	525,754
Restricted equity, total	895,830	895,822	895,767	895,767
Non-restricted shareholders' equity				
Retained earnings 1 Jan.	474,177	440,664	224,797	212,574
Dividend distribution				
Change in accounting principles for stocks and net result of depreciation difference	0	3,624	0	3,624
Translation differences	162	-131		
Retained earnings 31 Dec.	474,339	444,157	224,797	216,199
Profit for the year	15,311	30,020	25,609	8,598
Non-restricted shareholders' equity, total	489,650	474,177	250,406	224,797
Shareholders' equity, total	1,385,480	1,369,998	1,146,173	1,120,564

Calculation of distributable funds (1,000 €)

	Parent company	
	2011	2010
Retained earnings	224,797	216,198
Profit for the year	25,609	8,598
Distributable funds, total	250,406	224,797

18 Provisions (1,000 €)

	Group	
	2011	2010
Voluntary provisions		
Housing provision	933	1,257

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

Obligatory provisions

Obligatory provisions of M€ 7.9 (11.2) comprise expected warranty costs of M€ 1.9 (1.8) on long-term construction projects, provisions for loss-making orders/contracts of M€ 4.4 (3.4), future costs of M€ 0.6 (0.9) from dismantling a radio network, environmental provisions of M€ 0.3 (0.3) and costs of M€ 0.7 (4.8) arising from the changes in the Group and the reorganization.

The parent company's obligatory provisions consist of environmental provisions of M€ 0.3 (0.3) and costs of M€ 0.7 (4.8) arising from the structural changes in the Group and the reorganization.

Impact of voluntary provisions and depreciation difference on the balance sheet

	Group	
	2011	2010
Voluntary provisions	933	1,257
Depreciation difference	249,534	250,814
	250,467	252,071
Transfer to shareholders' equity	184,679	185,657
Deferred tax liability	65,154	65,538
Minority interest	635	876
Change in tax rate entered in result	-3,769	0
	246,698	252,071

Deferred tax liability and receivables

	Group	
	2011	2010
Deferred tax receivables		
From difference in accrual periods	8,379	13,781
Deferred tax liability		
From transfers in financial statements	61,558	65,944

Impact of voluntary provisions and depreciation difference on the profit and loss account

	Group	
	2011	2010
Change in voluntary provisions	-324	0
Change in depreciation difference	-1,830	40,867
	-2,155	40,867
Change affecting profit for the year	-1,369	30,291
Change in deferred tax liability	-528	10,625
Change affecting minority interest	-258	-49
Change in tax rate entered in result	3,769	0
	1,614	40,867

Notes 19-21

19 Liabilities (1,000 €)

Long-term liabilities	Group		Parent company	
	2011	2010	2011	2010
Loans from financial institutions	1,355	1,541		
Other long-term loans	1,039	1,330	389	394
Advances received				
Long-term liabilities, total	2,395	2,871	389	394
Liabilities due after five years				
Loans from financial institutions	Group		Parent company	
	2011	2010	2011	2010
	0	0	0	0
Current liabilities				
Debt to other companies	Group		Parent company	
	2011	2010	2011	2010
Loans from financial institutions	292	857		
Accounts payable	112,436	88,168	79,550	58,675
Accrued expenses and prepaid income	116,648	129,393	78,641	81,262
Other liabilities	27,935	33,942	12,479	14,163
Advances received	18,387	4,782	9,166	401
Debt payable to Group companies				
Accounts payable	0	0	7,627	13,596
Accrued expenses and prepaid income	0	0	305	1,936
Other liabilities	0	0	38,114	48,235
Advances received	0	0		
Debt payable to associated companies				
Accounts payable	67	153	67	148
Current liabilities, total	275,764	257,296	225,949	218,416
The largest item in accrued expenses and prepaid income is salaries and wages of M€ 96 (94).				

20 Contingent liabilities (1,000 €)

Debt covered by mortgages	Group		Parent company	
	2011	2010	2011	2010
Loans from financial institutions	1,197	1,658	0	0
Mortgages	1,650	4,234	0	0

Other contingent liabilities		87,104	108,731	91,560	108,472
Contingent liabilities, total		88,754	112,965	91,560	108,472
Commitments given on behalf of					
	VR Group	55,999	45,322		
	VR Group subsidiaries	0	0	58,955	40,829
	Others	32,605	67,643	32,605	67,643
		88,604	112,965	91,560	108,472
Leasing commitments					
Due for payment in next financial year		18,213	11,520	11,758	7,403
Due for payment in later years		144,858	73,646	115,589	53,479
	Total	163,071	85,166	127,347	60,882
Rental commitments					
Due for payment in next financial year		3,759	24,534	684	8,459
Due for payment in later years		13,244		1,368	
	Total	17,003	24,534	2,052	8,459

The Group has made commitments related to fixed assets acquisitions totalling M€ 114.1 in the years 2010-2013.

The parent company signed an agreement with Pohjola Bank Plc for the lease of 20 sleeping cars for 25 years.

The rental is included in leasing rentals.

21 Derivative instruments (1,000 €)

	Group		Parent company	
	2011	2010	2011	2010
Interest rate swaps				
Value of underlying asset	107,176	42,531	107,176	42,531

The principal of the payment instalments for the leasing agreements made for the rail coaches is hedged with

interest rate swaps, the last of which mature in 2033.

The value of the underlying asset is the total amount of the principal of the past and future lease payments.

The interest rate swaps have a fair value on the closing date of EUR -15,076,000. The fair value is the difference between the interest flows on the interest rate swaps relating to the leasing agreements on the balance sheet date and on the transaction date, discounted to the closing date.

The fair value of the interest rate swaps is not recorded in the financial statements

	Group		Parent company	
	2011	2010	2011	2010
Oil derivatives (8600 Metric Tons)				
Put options				
Fair value	-40	-305	-18	-118
Value of underlying asset (MT)	19,204	19,204	9504	9504

Call options				
Fair value	1122	1229	548	544
Value of underlying asset (MT)	19204	19204	9504	9504
Total				
Fair value	1,082	924	530	425
Value of underlying asset in both options (MT)	19,204	19,204	9504	9504

Oil derivatives are used to hedge the price risk for diesel fuel. The hedging period ends in 2012.

The oil options had a fair value on the closing date of

1,082,000 €. The fair values of oil options are determined using commonly used valuation methods. The fair values are based on market information on the closing date.

The fair value of the oil options is not recorded in the financial statements.

Electricity derivatives (2,619 million Mwh)	2011	2010	2011	2010
Fair value	-7,635	14,350	-7,635	14,350
Value of underlying asset	57,790	62,344	57,790	62,344

Electricity derivatives are used to hedge the price risk for electricity. The fair value of the electricity options is not recorded in the financial statements.

Notes 22-23

22 Disputes

The Group has no major disputes.

23 Group key indicators

		2011	2010	2009	2008	2007
Scope of operations						
Net turnover	M€	1,437	1,423	1,399	1,530	1,334
Balance sheet total	M€	1,748	1,722	1,630	1,623	1,594
Gross capital expenditure	M€	163	159.2	134	112	119
- as % of net turnover		11.3	11.2	9.5	7.3	8.9
Average number of employees		11,391	11,909	12,376	12,516	12,540
Profitability						
Operating profit	M€	20.9	43.1	28.9	74.4	87.1
- as % of net turnover	%	1,5	3	2,1	4,9	6,5
Net profit	M€	15,3	30,019	18,4	56,2	66,4
Return on investment (ROI) %		1,7	3,3	2,4	6,3	7,2
Return on equity (ROE) %		1,6	2,3	1,5	4,4	5,3
Solvency						
Solvency ratio %		81,0	80,9	83	82,4	84,1
Liquidity						
Quick Ratio		1,28	1,3	1,5	1,3	1,4

Calculation of key indicators

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

Board proposal on the disposal of profit

The parent company's distributable profit totalled M€ 250.4, which included a net profit for the year of M€ 25.6.

The Board of Directors proposes to the Annual General Meeting that no dividend be paid and that the distributable funds of M€ 250.4 be retained under shareholders' equity.

No fundamental changes have taken place in the Group's financial position since the end of the fiscal year.

Helsinki, 29 February 2012

Hannu Syrjänen
Chairman of the Board of Directors

Christer Granskog
Deputy Chairman

Riku Aalto

Maaret Heiskari

Antti Mäkelä

Soili Suonoja

Arja Talma

Markku Tapio

Mikael Aro
President and CEO

Auditors' report

To the shareholders of VR-Group Ltd

We have audited the accounting records, financial statements, report of the Board of Directors and administration of VR-Group Ltd for the fiscal period 1 January–31 December 2011. The financial statements comprise the consolidated and parent company balance sheets, profit and loss accounts, cash flow statements and notes to the financial statements.

Responsibility of the Board of Directors and President

The Board of Directors and President are responsible for the preparation of the financial statements and the report of the Board of Directors and for ensuring that they give a true and fair view in accordance with the laws and regulations in Finland governing the preparation of financial statements and the report of the Board of Directors. The Board of Directors is responsible for the appropriate arrangement of the control of the company's accounts and finances and the President shall see to it that the accounts of the company are in compliance with the law and that its financial affairs have been arranged in a reliable manner.

Auditor's responsibility

Our responsibility is to express an opinion on the parent company's financial statements, on the consolidated financial statements and on the report of the Board of Directors based on our audit. The Finnish Auditing Act requires that we comply with the requirements of professional ethics. We have conducted the audit in accordance with good auditing practice in Finland. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance that the financial statements and the report of the Board of Directors are free from material misstatement and whether the members of the Supervisory Board and the Board of Directors or the President of the parent company are guilty of any act or negligence that may result in liability for damages to the company or have violated the Limited Liability Companies Act or the articles of association of the company.

The auditing procedures should obtain audit evidence about the accuracy of the amounts and other disclosures in the financial statements and the report of the Board of Directors. The procedures selected depend on the auditor's judgment and assessment of the risks of material misstatement in the financial statements, whether due to fraud or error. In assessing these risks, the auditor takes into account the internal control relevant to the preparation of financial statements and the report of the Board of Directors that give a true and fair view, so as to be able to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of the accounting principles applied, the reasonableness of the accounting estimates made by management, and the overall presentation of the financial statements and the report of the Board of Directors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements and the report of the Board of Directors give a true and fair view of the financial performance and financial position of the operations of the Group and the parent company, in accordance with current laws and regulations in Finland governing the preparation of financial statements and the report of the Board of Directors. The information in the report of the Board of Directors is consistent with the information in the financial statements.

In our opinion, the financial statements can be adopted and the members of the Supervisory Board and the Board of Directors and the President of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors for the disposal of the profit for the period as stated in the balance sheet is in compliance with the Limited Liability Companies Act.

Helsinki, 29 February 2012

KPMG Oy Ab

Petri Kettunen
Authorized Public Accountant

Statement by the Supervisory Board of VR-Group Ltd

The Supervisory Board of VR-Group Ltd has today reviewed the parent company and consolidated financial statements for the period 1 January to 31 December 2011 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, 29 February 2012

Matti Ahde
Chairman

Raija Vahasalo
Deputy Chairman

Outi Alanko-Kahiluoto

Thomas Blomqvist

Timo Korhonen

Kari Kärkkäinen

Raili Myllylä

Lauri Oinonen

Aino-Kaisa Pekonen

Satu Taiveaho

Raimo Vistbacka

Peter Östman