Report of the Board of Directors and Financial Statements 2021

18 March 2022

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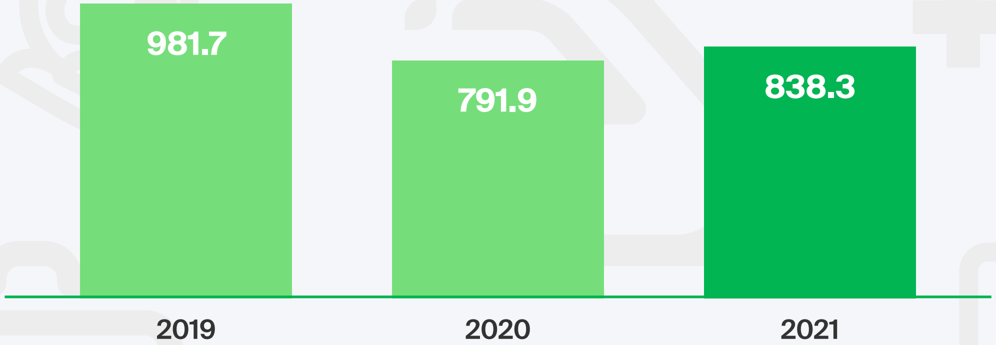

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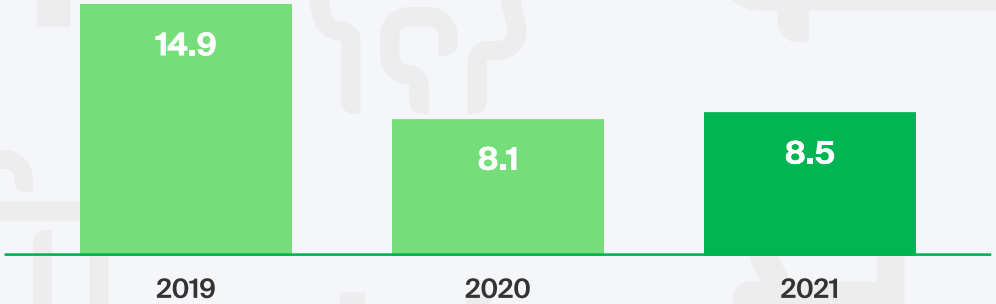

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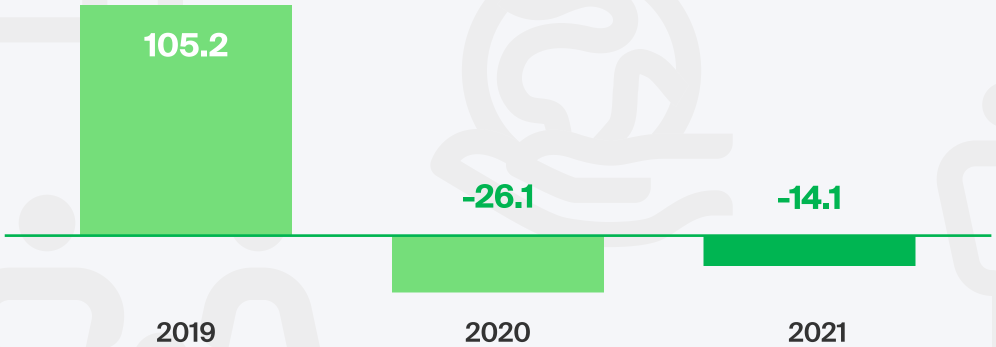

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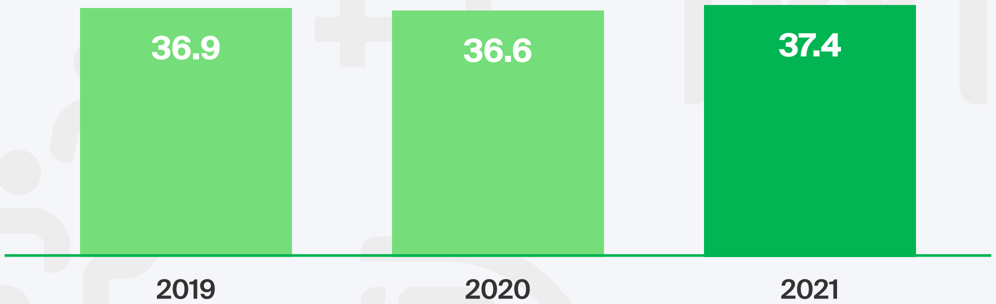
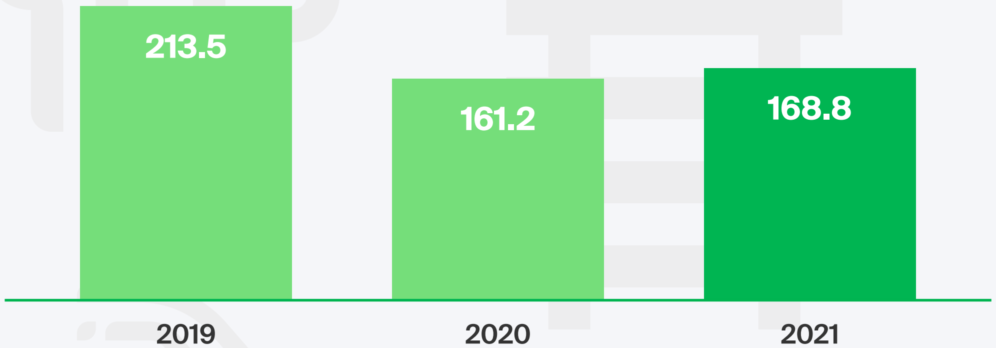
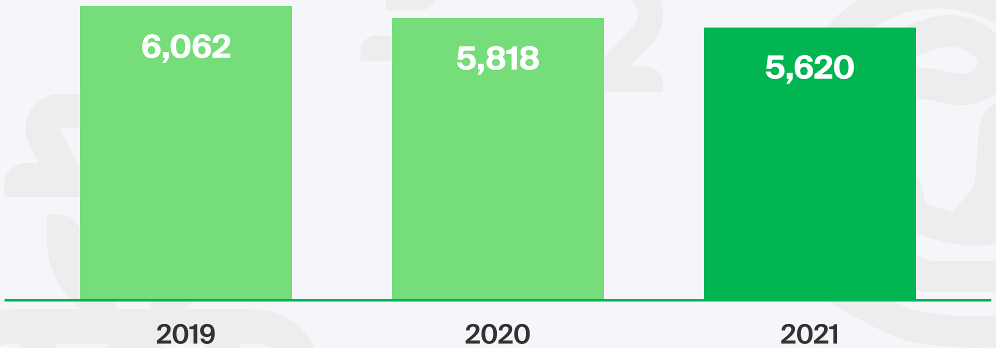


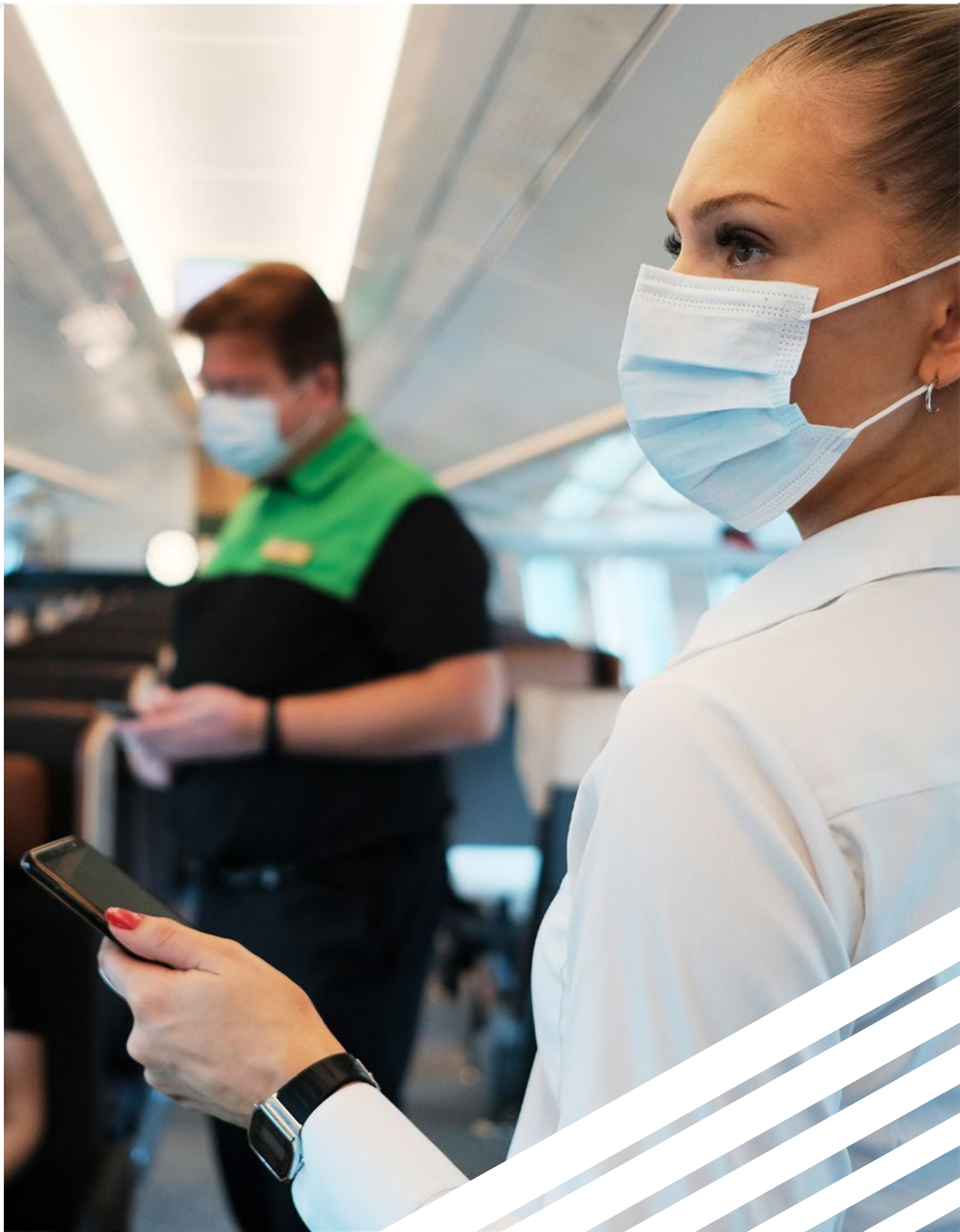
VR Group's investments (EUR million)



VR Group's average personnel



Report of the Board of Directors



Market situation and operating environment

The coronavirus pandemic strongly characterised the year 2021. The pandemic affected everyday train travel in particular and thus the entire Group through VR Passenger Services. There was a recovery of long-distance train travel volumes from the previous year, but they were still clearly behind the levels before the pandemic. Restrictive measures imposed to prevent the spreading of the coronavirus and guidelines that encouraged remote work had an impact on commuter traffic volumes, whereas leisure travel even exceeded pre-pandemic levels in the best months. In freight traffic, the effects of the pandemic remained relatively small in 2021. The positive economic cycle and export development supported the demand for VR Transpoint's services.

Under the new HSL contract, VR Passenger Services began a new era of commuter traffic in the capital region in June 2021, having won a tender in the spring of 2020. VR FleetCare is responsible for the maintenance of HSL trains. Other forms of passenger transport were opened up to competition on 1 January 2021, when VR's exclusive rights to long-distance traffic expired. The arrangement was based on the new agreement on contract traffic in 2021 between VR and the Ministry of Transport and Communications, the aim of which is to maintain the service level of train traffic on quieter routes. In 2021, VR negotiated a new contract traffic agreement with the Ministry of Transport and Communications for the years 2022–2030.

VR Group is committed to increasing the popularity of low-emission rail and urban transport. The group is planning on investing approximately one billion euros to railway rolling stock in Finland during the next six years. Most of the amount would be used for the acquisition of new electric locomotives, electric trains and diesel locomotives and the maintenance of current rolling stock. The group's pioneering role in electric traffic also extends from passenger and freight trains to the e-buses operated by Pohjolan Liikenne.

Although long-term megatrends, from climate awareness to urbanisation, support sustainable modes of transport, the protracted pandemic has created challenges. At the level of society as a whole, the focus has been on strengthening confidence in public transport, the health security of which is looked after in many ways. Factors that affect the situation include the investments on the rail network, because its condition and capacity reduce the punctuality of rail traffic and limit future growth. By taking care of the operating conditions for environmentally friendly rail and urban transport, we can reduce the whole society's climate emissions.

The Group's financial development

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS). The figures in brackets refer to the corresponding time period in the previous year, unless otherwise stated. In 2021, the segments of VR Group were VR Passenger Services, VR Transpoint (logistics business), VR FleetCare (maintenance) and other operations, which includes train operations, property operations, group operations and shared operations.

VR Group's key figures

	2021	2020	2019
Net sales, M€	**838.3**	791.9	981.7
Operating profit (EBIT), M€	**-22.7**	-24.6	137.3
% of net sales	**-2.7**	-3.1	14.0
Comparable operating profit (EBIT), M€	**-14.1**	-26.1	105.2
% of net sales	**-1.7**	-3.3	10.7
Net profit, M€	**-13.7**	-33.1	278.5
Operating cash flow, M€	**138.1**	99.5	213.6
Investments, M€	**168.8**	161.2	213.5
Invested capital at the end of the accounting period, M€	**1,583.1**	1,560.7	1,877.4
Return on investment (ROI) %	**-0.5**	-1.1	7.6
Comparable return on investment (ROI) %	**0.0**	-1.2	5.8
Net interest-bearing debt at the end of the accounting period, M€	**238.1**	87.6	17.1
Gearing ratio %	**18.6**	6.9	1.2
Average personnel	**5,620**	5,818	6,062

Net sales

VR Group's net sales increased by 5.9 per cent compared to 2020, to EUR 838.3 (791.9) million. COVID-19 continued to have a significant impact on the number of journeys, net sales and profitability in 2021, as the recovery in demand in passenger service has progressed slowly. VR Passenger Services' net sales increased by 6.2 per cent, to EUR 431.5 (406.2) million. The impact of COVID-19 on freight traffic was not very significant, which means the share of VR Transpoint in the Group's net sales was larger than usual. VR Transpoint's net sales were EUR 390.1 (386.5) million, an increase of 0.9 per cent compared to the previous year. VR FleetCare's net sales were EUR 203.7 (195.8) million, with a growth of 4.1 per cent compared to 2020. Acquisitions completed in 2021 had little impact on VR Group's net sales in the accounting period.

Net sales (EUR million)	1-12/2021	1-12/2020	Change %
VR Passenger services	**431.5**	406.2	6.2%
VR Transpoint	**390.1**	386.5	0.9%
VR Fleetcare	**203.7**	195.8	4.1%
Other operations and eliminations	**-187.1**	-196.5	-4.8%
VR Group in total	**838.3**	791.9	5.9%

Operating profit (EBIT)

The pandemic continued to have a significant impact on the Group's result in 2021, as the demand for VR Passenger Services has not recovered to pre-pandemic levels. VR Group's operating profit (EBIT) was EUR –22.7 (–24.6) million, or –2.7 per cent of net sales. Comparable operating profit (EBIT), i.e. operating profit excluding other sales profits and losses and impairment loss, improved to EUR –14.1 (–26.1) million.

Higher oil prices on the world market and higher electricity prices pushed up production costs from the previous year. These factors had an impact on the development of VR Passenger Services' and VR Transpoint's profitability. VR Passenger Services' number of journeys developed positively, especially in the last six months, when improved capacity utilisation rates in passenger traffic had a positive impact on profitability. Restaurant operations were subject to many different restrictions in 2021, which had a clear impact on the result. As a result of the two Pendolinos colliding, a loss of EUR 10.1 million was booked for December. At VR FleetCare, profitability was affected by higher material prices and problems with the availability of components.

Operating profits (EUR million)	1-12/2021	1-12/2020	Change %
VR Passenger services	**-50.4**	-69.5	-27.5 %
VR Transpoint	**23.0**	33.7	-31.7 %
VR Fleetcare	**4.7**	11.2	-58.5 %
Other operations and eliminations	**0.0**	0.0	0.0 %
VR Group in total	**-22.7**	-24.6	-7.5 %

Operating profits, % of net sales	1-12/2021	1-12/2020
VR Passenger services	**-11.8**	-17.1
VR Transpoint	**5.9**	8.7
VR FleetCare	**2.3**	5.7
VR Group in total	**-2.7**	-3.1

Comparable operating profits (EUR million)	1-12/2021	1-12/2020	Change %
VR Group	**-14.1**	-26.1	-45.9

Net profit before taxes and profit for the period

Profit before taxes was EUR –19.5 (–38.5) million. Income taxes and minority interest amounted to EUR 5.8 (5.4) million. Profit for the accounting period was EUR -13.7 (-33.1) million.

Balance sheet, cash flow and liquidity

The Group's balance sheet total was EUR 1,937.8 (2,010.0) million at the end of 2021. Equity decreased in 2021 as a result of net loss. Equity also includes a fair value reserve that is affected by changes in the fair value of electricity and fuel derivates and NRC shares, which are included in hedge accounting. Actuarial profits and losses that relate to pension benefits are also recognised in profits, in accordance with IAS 19. Actuarial profits that related to pension benefits decreased the drop of equity.

Despite the fact that in 2021 the COVID-19 pandemic weakened VR Group's financial position and had a significant impact on cash flows, the company was able to carry out the planned investments and support business development. During the COVID-19 pandemic, investments have been prioritised to strengthen the Group's cash flow. The cash flow from operating activities was EUR 138.1 (99.5) million and the cash flow from investing activities EUR –150.2 (–159.9) million. Cash flow before financial items was EUR –12.1 (–60.4) million.

At the end of the accounting period, VR Group's equity ratio was 66.4 (63.7) per cent. The interest-bearing net debt was EUR 283.1 (87.6) million and the gearing 18.7 (6.9) per cent. The increase in gearing was due to the increase in VR Group's interest-bearing liabilities. The increase in net debt was significantly affected by COVID-19 and a total dividend of EUR 100 million paid to the owner on 30 April 2021. The interest-bearing liabilities comprised leasing financing and lease liabilities related to the IFRS 16 and the joint arrangement of the liabilities of Karelian Trains.

The company's liquidity remained good during the review period. Liquid assets at the end of the accounting period amounted to EUR 65.8 (198.8) million. At the end of 2021, VR Group had EUR 200 (100) million of undrawn credit limit, which will fall due in 2024. In addition, VR Group has an account credit limit of EUR 5 million that was unused at the time of preparing the financial statements. The Group also has a EUR 300 million commercial paper programme that was unused on the closing date.

Return on investment (ROI) was –0.5 (–1.1) per cent and return on equity (ROE) was –1.1 (–2.0) per cent.

Investments and rolling stock

The Group's investments in 2021 totalled EUR 168.8 million (EUR 161.2 million). The largest individual investments were the new electric locomotives, the Helsinki station renewal project and the new e-buses. The investment break down was as follows:

Investments (EUR million)	2021	2020	Change %
Rolling stock	**106.1**	116.6	-9.0
Properties	**15.9**	10.2	55.4
IT	**10.7**	12.7	-15.6
Other transport equipment and other items	**36.0**	21.7	66.4
Total	**168.8**	161.2	4.7

Locomotives, wagons and other rolling stock

VR Group is in the process of making significant purchases of locomotives and wagons, and these have proceeded as planned. In 2017, the Group received the first new type of Sr3 locomotives, the deliveries of which will continue until 2026, when all 80 of the new Sr3 locomotives will be in commercial traffic.

Since 2019, VR Group has also been in the process of purchasing 60 new diesel locomotives. During 2021, the investment proceeded as planned. The first new locomotives will be introduced into commercial traffic in 2023. The new diesel locomotives are specifically designed for freight traffic, and they will improve the efficiency of shunting work on railway yards and operations on non-electrified railway sections. The new locomotives are much more environmentally friendly and reliable than the diesel rolling stock currently in use, and their hauling capacity is noticeably higher.

In connection with the cooperation agreement with Metsä Group and the Kemi plant's transports, VR Transpoint is investing in new roundwood wagons to cover the growing volumes of roundwood. In the beginning of the year, VR Transpoint launched modular Finnowagon wagons for commercial traffic, enabling higher payloads and the transport of many types of cargo.

Other investments

One of VR Group's biggest real estate-related investments of the year was the Helsinki station renovation project. The major technical changes related to the renovation project of Helsinki Central Railway Station have been completed. The changes make it possible to change the premises into commercial premises while taking into account their energy efficiency and comfort.

Both VR Transpoint's road logistics and VR FleetCare undertook large-scale projects to renew their ERP systems. In addition, VR launched a EUR 4.5 million investment in the development of network connections on its long-distance trains. The reform will lead to faster and more consistent internet connections on Pendolino, InterCity and double-decker night trains.

Business operations

VR Passenger Services

VR Passenger Services offers public transport services in long-distance and commuter traffic with trains and Pohjolan Liikenne's buses. VR also operates the trams in Tampere, which began operating in summer 2021. The passenger service operations are mainly focused on Finland and on Russian traffic. Catering services of long-distance train traffic are provided by Avecra, a company that is part of the business unit and that also operates restaurants and cafés at railway stations.

VR Passenger Services	1-12/2021	1-12/2020	Change %
Net sales, M€	**431.5**	406.2	6.2
Operating profit, M€	**-50.4**	-69.5	-27.5
% of net sales	**-11.7**	-17.1	
Investments, M€	**59.8**	55.8	7.2
Number of journeys in passenger traffic (mil.)			
Long-distance traffic	**8.5**	8.1	5.1
Commuter traffic	**46.5**	51.4	-9.5
Bus services	**28.9**	29.0	-0.4
Passenger kilometres in train traffic	**2,903.1**	2,819.9	3.0
NPS			
Long-distance traffic	**38.6**	41.3	-6.5
Commuter traffic	**8.5**	10.7	-20.6
Punctuality			
Long-distance traffic	**86.9**	88.6	-1.9
Commuter traffic	**92.6**	96.6	-4.1

Travel volumes

The number of journeys in VR Passenger Services without HSL traffic decreased by one per cent, to a total of 15.3 (15.5) million journeys made. The decrease is explained by the decrease in the number of passengers in bus services and VR commuter traffic. The number of journeys in long-distance traffic increased by 5 per cent, to a total of 8.5 (8.1) million journeys made. The underlying reason for the growth was the increase in leisure travel from 2020. Commercial and business travel remained at a low level. Traffic between Finland and Russia was interrupted for most of the year, and traffic was reopened on 12 December 2021.

For commuter trains operated by VR in southern Finland, the number of journeys decreased by 5 per cent, totalling 4.0 (4.3) million. The main cause for the decrease was the COVID-19 pandemic that affected commuter traffic in particular, as the remote work recommendations continued. In HSL commuter train traffic, operated by VR Commuter traffic, the number of journeys decreased by 10 per cent, to a total of 42.5 (47.2) million journeys made. The operation of the Tampere tramway began in August 2021, before which experimental traffic was operated. A total of 4.1 million journeys were made with the trams in 2021.

In Pohjolan Liikenne's market-based bus services, the number of journeys decreased to 2.8 (3.1) million journeys. There was a decrease of 10 per cent from the previous year. Moreover, the total number of journeys operated by Pohjolan Liikenne in the HSL area bus services was 26.1 (26.0) million.

Net sales and profitability

VR Passenger Services' net sales increased by 5.3 per cent to EUR 427.8 (406.2) million. Net sales increased both in train traffic and for Pohjolan Liikenne. The growth in the net sales of train traffic was driven by the increase in the number of journeys and the additional compensation paid by the Ministry of Transport and Communications in order to maintain train traffic on quiet railway sections during the pandemic. Avecra's net sales were almost at the same level as in 2020, increasing by one per cent to EUR 19.9 (19.8) million. Avecra received a total of EUR 1.6 million in cost support and closure fees due to the pandemic.

The increase in net sales and the cost adjustment measures implemented in 2021 caused VR Passenger Services' operating profit (EBIT) to grow to EUR –50.4 (–69.5) million, or –11.7 (–17.1) per cent of net sales. The COVID-19 pandemic posed significant challenges to profitability, in addition to which the write-down of the Pendolino trains damaged in a collision negatively affected the result for 2021.

Significant events in VR Passenger Services during the period under review

The development of the COVID-19 pandemic dominated the operations of VR Passenger Services throughout 2021. Work and business travel and student travel remained at a low level throughout the year due to epidemic containment measures and the recommendation to work remotely. Due to official restrictions, VR had to limit passenger volumes and close restaurant cars in the spring. Travel was strongly focused on leisure, particularly in the second half of the year and in the best months, leisure travel even exceeded the level of the year before the pandemic, 2019.

Commuter train traffic pursuant to the new contract period between VR and HSL started after Midsummer. Tram traffic in Tampere began on 9 August 2021, and, at the same time, VR started as the tram operator. VR is responsible for the whole operation, which includes the operation and traffic control of the trams and the recruitment and training of personnel.

During the review period, VR said it was moving forward with the procurement of new commuter and night train stock. The procurement of commuter trains will initially involve approximately 25 new electric trains, replacing the old fleet. The procurement of night trains includes nine sleeper cars and eight car-carrier wagons.

In 2021, Pohjolan Liikenne successfully participated in tenders in the HSL area of the capital region, in Tampere and in Kotka. Having won the tenders, the company will introduce a significant number of new e-buses.

The Ministry of Transport and Communications purchased train operations from VR Passenger Services for approximately EUR 49 million (VAT 0%) in 2021, including compensation for both the contract period (1 January – 30 June 2021) and the option period (1 July – 31 December 2021). The remuneration paid by the Ministry of Transport and Communications was EUR 20 million higher than in 2020 and the additional funding was used to secure the operation of quiet routes during the pandemic. The new contract that came into effect at the beginning of 2021 replaces the old arrangement fully, which also means the end of VR's exclusive rights that were granted in 2009.

VR Transpoint

VR Transpoint offers domestic and international logistics services. The services include railway and road transports and customised logistics chains with additional services. VR Transpoint's customers are domestic and international companies that need logistics solutions for raw material and product transports.

VR Transpoint	1–12/2021	1–12/2020	Change %
Net sales, M€	**390.1**	386.5	0.9
Operating profit, M€	**23.0**	33.7	-31.7
% of net sales	**5.9**	8.7	
Investments, M€	**39.6**	39.2	1.0
Total transport volumes (mil. tonnes)			
Railway transports	**37.4**	36.6	2.1
Road transports	**5.3**	4.9	9.3
NPS	**26.8**	33.0	-18.8
Punctuality	**87.1**	90.4	-3.7

Transport volumes

The railway transport volumes grew by 2 per cent and were 37.4 (36.6) million tonnes.

The COVID-19 crisis affected freight traffic less than expected, and the transport volumes remained solid. In terms of logistics, the market situation showed itself to be positive, as the world economy was showing signs of growth and Finland's economic development was also favourable. In Finland, especially in the forest and metal industry, the demand for transport was strong. The reduction in paper production and the closure of production plants affected VR Transpoint's transports. In March, a record amount of roundwood was transported in Finland, after the challenging winter conditions.

In Eastern traffic, on the other hand, volumes decreased. Fluctuations occurred especially in the transit traffic of raw materials for the chemical and metal industry, while fertiliser transports saw growth.

There was also strong growth in transports to Asia. Transit transports of coal to the new processing terminal in Tahkoluoto, Pori, began in early summer.

In road logistics, the transported volume was 5.3 (4.9) million tonnes, showing an increase of 9.3 per cent from last year. Road logistics volumes are not comparable due to road logistics acquisitions made. VR Transpoint strengthened its position as a logistics operator in the circular economy with the acquisition of Transitar, a transport company that specialises in recycling logistics, was completed in summer 2021. VR Transpoint divested its international road logistics business in Russia.

The competition in both railway and road logistics remained tough, but several new transactions and traffic arrangements were completed during the current year.

Net sales and profitability

VR Transpoint's net sales increased by 1.0 per cent to EUR 390.2 (386.5) million . In the area of road logistics, net sales were affected by the acquisitions made in 2020 and 2021. Operating profit (EBIT) for the whole division was EUR 23.0 (33.7) million, which was 31.7 per cent lower than in 2020. The decrease in operating profit was due to higher energy prices, uneven volumes of Eastern traffic and challenging weather conditions at the beginning of the winter. The COVID-19 pandemic affected the business less than expected.

Significant events in VR Transpoint during the period under review

VR Transpoint signed significant contracts during the year. Metsä Group chose VR Transpoint as its logistics partner for roundwood transports to the bioproduct mill to be constructed in Kemi. With the new contract, roundwood transports will become much more common on Finnish railroads, and VR Transpoint is investing in new raw wood wagons. VR Transpoint signed a significant cooperation agreement for the transports to Terrafame's new battery chemicals plant, which covers both railway and road transports. VR Transpoint also agreed to continue its collaboration with the steel company SSAB and the mining company Boliden Kevitsa Mining Oy. With SSAB, a contract on railway transport and halving the cooperation-related emissions by 2024 was signed during the review period. VR Transpoint and Boliden's new operating model significantly improves the efficiency of the Kevitsa mine transports.

With its new vehicle solutions, VR Transpoint aims to increase the size of freight trains while reducing energy consumption and emissions. During the year, VR Transpoint introduced a giant freight train, weighing 7,000 tonnes, to regular traffic to strengthen the competitiveness of Finnish transit traffic. The first modular trains equipped with Finnowagon wagons also started in commercial traffic. The new wagons make railway transport more efficient because the new wagon frame is considerably lighter than earlier wagon solutions, enabling the transportation of heavier working loads.

VR Transpoint's position as an operator in the circular economy was strengthened when the acquisition of Transitar Oy, the largest circular economy logistics company in the Nordic countries, was completed in the summer. The deal significantly increased VR Transpoint's capability to handle large circular economy transport operations in Finland and neighbouring areas. VR Transpoint divested its international road logistics business in Russia.

VR FleetCare

VR FleetCare's services include rolling stock maintenance, modernising projects. component services, lifecycle management and digital services. Trains and other rolling stock are maintained, repaired and serviced at depots and machine shops that are located all over Finland. VR FleetCare uses a total of 155,000 m² of production space for fleet maintenance.

The company's main customers are VR Group's business units and other rail traffic operators, mainly from Finland and other neighbouring areas.

VR FleetCare	1–12/2021	1–12/2020	Change %
Net sales, M€	**203.7**	195.8	4.1
Operating profit, M€	**4.7**	11.2	-58.5
% of net sales	**2.3**	5.7	
Investments, M€	**6.0**	2.8	118.9
NPS	**-4**	14	-128.6

VR FleetCare volumes

VR FleetCare maintains a fleet of over 12,000 units, including more than 100 vehicle types. The maintained vehicles include 370 locomotives, 167 electric trains, 15 railcars, 97 track work machines, 450 passenger cars, and 9,000 freight wagons.

The fleet maintained by VR FleetCare operated a total of 438.7 million kilometres in 2021. The volume increased by 1.8% from 2020. In rolling stock projects, the volumes increased compared to the previous year, and the most significant individual projects were the modernisation project for Norwegian sleeper cars, the renovation project for metro trains in the M100 series and the modernisation project for the Ekstra Class in ICS wagons.

Net sales and profitability

In 2021, VR FleetCare's net sales totalled EUR 203.7 (195.8) million, which is an increase of 4.1 per cent compared to 2020. The increase in net sales is mainly explained by the increase in the volume of various train fleet projects and the increased need for maintenance of rolling stock due to trains having travelled more kilometres. Operating profit (EBIT) amounted to EUR 4.6 million, compared to EUR 11.2 million in the previous year. The COVID-19 pandemic affected VR FleetCare's business less than expected.

Significant events in VR FleetCare during the period under review

During the period under review, VR FleetCare continued to actively seek new business opportunities and customers in line with its strategy.

As the operating environment changes, the company must renew its operations to meet the needs of customer better and ensure the prerequisites of growth. The extensive project to renew the operating model and ERP system continued to be the largest strategic development project.

In April, VR FleetCare found an interesting opening in the Norwegian market and signed a contract with Norwegian company Vy Tog As to modernise eight sleeper cars. The cars were transported from Germany to Finland by rail and underwent major changes in Pieksämäki and Oulu before being handed over to the customer in Norway on schedule in autumn 2021.

In August, VR FleetCare signed a framework agreement with the bus operator Pohjolan Liikenne for the maintenance of e-buses in Tampere. This contract is VR FleetCare's first maintenance agreement regarding e-buses, and it will be in effect until further notice, starting in June 2022. The agreement covers the maintenance of a total of 25–30 Yutong fully electric buses in accordance with the maintenance programme. The work will be carried out at VR FleetCare's Tampere freight wagon shop.

In November, Russian Railways (RZD), Karelian Trains and the rail traffic maintenance company VR FleetCare signed a 20-year agreement on the maintenance and lifecycle services concerning the high-speed trains operating between Helsinki and St. Petersburg starting from 2022. The rolling stock consists of a total of four electric trains with seven wagons manufactured by Alstom.

Other operations – property unit

The property unit maintains and rents premises and, if required, sells properties, taking into account their property development potential. The most significant ongoing project related to the renovation of the premises and services of Helsinki Central Railway Station. Sales profits on the sale of real estate in 2021 totalled EUR 3.3 (1.1) million.

In 2021, VR Group received CEF support to a maximum of EUR 711,000 for planning the transfer of the Turku railway yard, as part of the larger Kupittaa-Turku double track project led by the Finnish Transport Infrastructure Agency. The City of Turku is also a party to this EU-funded planning project.

Statement of non-financial information

This statement has been prepared according to Chapter 3a of the Finnish Accounting Act 1336/1997, applied from the Directive 2014/95/EU of the European Parliament and of the Council. The statement is voluntary for VR Group.

Description of the business model

VR Group is a passenger, logistics and maintenance service company, owned in its entirety by the Finnish state. In terms of net sales, the Group's largest business units are VR Passenger Services, and VR Transpoint, which provides logistics solutions. VR Group has both consumer and corporate customers. The company primarily operates in Finland, but it also has operations abroad, especially in Russia. In its business operations, VR Group invests in electric rail and urban traffic, as increasing the share of these reduces the emissions of society as a whole.

The most important business area for VR Passenger Services is long-distance train traffic, which is mainly carried out on market terms. The state buys part of the traffic on quieter track sections. International passenger trains run between Russia and Finland. Helsinki Region Transport (HSL) procures commuter train transport services from VR in the capital region and is also responsible for ticket sales in its area. VR's own commuter train traffic is contract traffic commissioned by the Ministry of Transport and Communications. VR is responsible for ticket sales and pricing for long-distance trains and its own commuter traffic.

VR Passenger Services includes the bus company Pohjolan Liikenne. This forerunner in electric bus services operates mainly in contract traffic in urban areas. Similarly, Avecra is part of VR Passenger Services, and this subsidiary provides restaurant and café services on trains and at stations. VR also operates the trams in Tampere as publicly-funded contractual transport.

VR Transpoint provides logistics services to domestic and foreign industrial companies, both by rail and by road. Most of the net sales and profit is generated by railway traffic. The business unit operates mainly in Finland and in rail transport between Finland and Russia. VR FleetCare, on the other hand, is a subsidiary of VR Group and provides maintenance services mainly to the Group's internal customers. However, the company is also actively seeking growth in rolling stock maintenance in Finland's neighbouring markets.

The domestic locomotives, wagons and electric trains are owned by VR Group, with the exception of the HSL area's commuter train fleet and the Tampere tramway fleet. The Finnish Transport Infrastructure Agency is responsible for the state railway network. The ownership and operation of VR Group's locomotives is concentrated in the train operations unit, which operates as an integral part of passenger traffic and rail logistics. Additionally, the train operations unit is responsible for the operations centre and the management of disruptions. The property unit, on the other hand, is responsible for the development of the Group's properties and the leasing of premises. VR Group's business operations and various units are supported by centralised corporate services.

Responsibility management

The key areas of VR Group's responsibility are safety and security, customer orientation, employee experience, environmental responsibility and corporate social responsibility. These are based on a materiality analysis that was updated on the basis of a stakeholder survey conducted in 2018. The 2021 annual report contains a separate responsibility report that describes responsibility management and the progress made in each area of responsibility, and reports on the content of the GRI index.

Governance

At the Annual General Meeting held on 9 April 2021, it was decided that the number of members of the Board of Directors of VR-Group Ltd would be seven (7) members. Kjell Forsén was reelected to continue as Chair of the Board. At the meeting of the Board of Directors following the Annual General Meeting, Heikki Allonen was elected to continue as the Vice Chairman. Nermin Hairedin, Pekka Hurtola, Virve Laitinen, Roberto Lencioni and Sari Pohjonen were elected to continue as ordinary members of the Board of Directors. During 2021, the Board of Directors convened a total of 15 times, with an attendance rate of 100 per cent.

On 26 April 2021, the Board of Directors elected the following persons to the Human Resources Committee: Kjell Forsén (Chair), Heikki Allonen, Pekka Hurtola and Roberto Lencioni. The Human Resources Committee convened a total of nineteen times during 2021, with an attendance rate of 100 per cent.

On 26 April 2021, the Board of Directors elected the following persons to the Audit Committee: Sari Pohjonen (Chair), Heikki Allonen, Nermin Hairedin and Virve Laitinen. Pekka Hurtola served as a member of the Audit Committee until 26 April 2021. The Audit Committee convened a total of seven times during 2021, with an attendance rate of 100 per cent.

At the Annual General Meeting on 9 April 2021, it was agreed the number of members of the Supervisory Board would be twelve (12). Sheikki Laakso was elected as the Chair of VR-Group Ltd's Supervisory Board, with the following persons elected as ordinary Supervisory Board members: Anders Adlercreutz, Sanna Antikainen, Seppo Eskelinen, Hanna Holopainen, Anna-Kaisa Ikonen, Mai Kivelä, Jouni Kotiaho, Matias Marttinen, Raimo Piirainen, Arto Pirttilahti and Katja Taimela. Anna-Kaisa Ikonen resigned from the Supervisory Board on 1 September 2021. Ruut Sjöblom was appointed as a member by resolution of the Extraordinary General Meeting on 23 September 2021.

During the period under review, the Supervisory Board convened a total of four times, with an attendance rate of 98 per cent.

Representatives of personnel organisations also attend the meetings of VR-Group Ltd's Supervisory Board. The following have been representatives of the personnel organisations: Teppo Järnstedt, Chairman of the Association of Railway Professionals (JHL); Tero Palomäki, President of the Union of Railway Unions (RAU); Johanna Wäre, Chairman of the Association of Railway Technical and Employees (RTTL); Olli-Pekka Nyman, Chairman of VR Akava; Juri Aaltonen, President of ERTO; Pekka Lehtonen, Acting Chair of AKT; and Annika Rönni-Sällinen, President of the PAM.

Ernst & Young Oy, Authorised Public Accountants, was elected as auditor for 2021, with Mikko Rytilahti, APA, CPFA, as the principal auditor. The auditing fees paid to the auditor for auditing services totalled 474 thousand euros and for other services 64 thousand euros during the financial year 2021.

As an unlisted company, VR-Group Ltd complies, to the applicable extent, with the Finnish Corporate Governance Code published by the Securities Market Association. Corporate Governance Statement and the Remuneration Policy and Report are published separately but at the same time as the Report of the Board of Directors. After publication, both reports will be available on the company's website at **2021.vrgroupraportti.fi/en**.

Changes in corporate structure

VR Group sold its international road logistics business to the Finnish company Avind International Oy. The transaction was implemented on 18 June 2021, and it comprises Transpoint International (FI) Oy owned by VR Group and two Russian subsidiaries owned by Transpoint International (FI) Oy. Transpoint International (FI) has been responsible for VR Transpoint's international road traffic in Russia.

VR Group acquired Transitar Oy, a transport company that specialises in recycling logistics. The deal was agreed upon on 23 June 2021, and the acquisition was completed on 1 July 2021. Transitar operates as a wholly owned subsidiary of VR Group, as part of VR Transpoint's road logistics business.

22 September 2021 VR Group established a subsidiary in Norway by acquiring the shares of VR Norge AS. The company did not have any business during the financial year.

Credit rating

The international credit rating agency Standard & Poor's (S&P) awarded VR-Group Ltd a credit rating of A+, with a stable outlook.

Risks and uncertainties

In addition to the general economic situation, VR Group's operations are affected by a variety of strategic, political, operational and damage risks, as well as associated reputational risks. By identifying risks, preparing for them and monitoring them, potential adverse effects on business can be limited. VR Group's risk management aims to ensure effective and successful implementation of its strategy. VR Group's Board of Directors and senior management are responsible for regulating risk appetite.

VR Group has a systematic method for identifying, evaluating and monitoring business risks. Risk management and its responsibilities are guided by the Group's risk management policy and other policies and guidelines specific to each area of risk. The starting point for risk assessment is an annual risk survey that systematically identifies risks that threaten the achievement of objectives. The Group's business operations monitor the development of the most significant risks identified in risk assessment and the adequacy of management measures on a quarterly basis.

In 2021, risk management resources were still allocated to the management of the risk related to the COVID-19 pandemic and to the implementation of various measures related to it. In the spring, a group-level risk survey was carried out, which was updated for the most significant risks in November.

A more detailed description of VR Group's risk management is presented in the Corporate Governance Statement that is available on the company's website at **2021.vrgroupraportti.fi/en**.

VR Group's most significant risks and uncertainties

Prolongation of the COVID-19 pandemic or the emergence of another pandemic

The unpredictable nature and duration of the COVID-19 pandemic has affected VR Group's business considerably. The pandemic has had a wide-ranging impact on travel demand and, thus, on the Group's operations. Restrictions and measures imposed to ensure the health security of customers have had a detrimental effect on people's willingness and capability to travel.

To manage the situation, ensure the safety of personnel and customers and in order to minimise business risks, VR Group has, among other things, initiated numerous health security measures and also adapted its service and product range. A group-wide Coronavirus Coordination Group has been established to manage the risks associated with the COVID-19 situation that includes all businesses. A summary of the monitoring and impact of risks is regularly compiled for VR Group's Management Team and the Board of Directors, and the instructions related to COVID-19 are regularly communicated to all employees.

Deterioration of the general economic situation

The general economic situation has significant knock-on effects on VR Group's operations. The deterioration of the economic situation may reduce the demand for Finnish industrial products which, in turn, would reduce the Finnish industry's need for railway and road logistics services. Demand for products from the forest, metal and chemical industries has the greatest impact. The rise in energy prices and other rises in inflation may have an impact on VR Group's profitability. Through continuous monitoring of its own cost competitiveness and close customer cooperation, the Group aims to minimise the impact of risk realisation.

Russian business environment

Operating in Russia involves risks to the business environment, such as political uncertainties, changes in customers' business focus and changes in the competitive situation. If realised, these may, in addition to negative price developments, lead to customer losses and sudden volume fluctuations. VR Group will actively monitor the development of the situation, continuously increase the efficiency of its operations while additionally aiming to ensure the operational functioning of Eastern traffic.

Changes in Finland's rail traffic policies

Changes in Finland's rail traffic policies and the associated uncertainties may have significant impacts on the functioning and predictability of the business environment and, thus, on VR Group's business. In addition to ensuring its own competitiveness, monitoring and anticipating the political situation, VR Group actively seeks to highlight the effects of regulation.

Compliance risks

In its operations, VR Group also takes into account compliance risks related to, for example, data protection, competition law, corruption, bribery and sanctions policy, which, if implemented, may have detrimental impacts on the Group's business operations and financial situation. In addition to compliance with regulatory guidelines and practices, VR Group also requires compliance with ethical guidelines from its employees as well as from its supply chain. Possible non-compliance is being recognised during, for example, regular inspections and auditing processes. In addition, VR Group encourages its personnel to report all suspected irregularities and violations of the Code of Conduct, through an anonymous whistleblowing service, if needed.

Railway infrastructure condition and maintenance

The condition and maintenance of railway infrastructure has a significant impact on VR Group's business. Infrastructure degradation and inadequate maintenance work can cause, for example, functional constraints and disruptions on the lines. Insufficient investments in railway infrastructure can become an obstacle to the growth and greening of railway traffic and can, as a result, have a negative impact on the implementation of VR Group's investment and growth plans. VR Group aims to actively influence stakeholders in the development of the traffic system and infrastructure investments together with, for example, the Finnish Transport Infrastructure Agency, which manages the state's infrastructure assets and is responsible for the care, development and maintenance of the railway network as a client organisation.

A major railway accident

The most significant safety risk for VR Group's business is a major railway accident, resulting in serious personal injuries or material and environmental damage. The risk of railway accidents and incidents is managed by a railway safety management system that covers all rail traffic business operations and serves as the foundation for VR Group's safety management and operational safety. Management measures also include preventive safety cooperation with different parties, such as training in case of major accidents.

Share capital and shares

VR-Group Ltd's shares are owned by the Finnish state. The company's share capital consists of 2,200,000 shares and amounts to EUR 370,013,438.22.

Outlook for this year

The development of the COVID-19 pandemic and the war in Ukraine will have a visible impact on VR Group's short-term outlook and operations. There is a great deal of uncertainty about when train traffic will begin to recover from the pandemic and how much the global political situation will reflect on freight transport.

The Omicron variant and the increase in the number of infections tightened official restrictions again at the turn of the year, which affected traffic and reduced the number of journeys in VR Passenger Services. The deteriorating COVID-19 situation reflected on commuter traffic in particular. The effects also extended to restaurant services. At the beginning of the year, market-based workday traffic had to be reduced and negotiations on possible staff layoffs had to be held. The restrictions are currently being lifted, which is expected to have a positive impact on travel demand. However, the evolution of the pandemic and related restrictions remain very uncertain.

The effects of the corona crisis on logistics have remained moderate. Demand for VR Transpoint's transports has remained at a good level, but the labor market situation in Finland has had a negative impact on transport volumes at the beginning of the year. Changes in the industrial production facility network and world market prices, the intensifying competition in rail transport and global political uncertainty may also be reflected in transports. Overall, freight volumes are expected to be lower than last year. To VR FleetCare's operations, the pandemic situation is reflected on the development of passenger traffic volumes in particular and, consequently, the need to maintain the fleet. Global component shortages and rising material costs also have an impact.

Russian attack on Ukraine has led to economic sanctions against Russia by the West, and it is expected that Russia will take counter-sanctions. In addition to financial market turmoil and the collapse of the ruble, the conflict has pushed up already high energy prices. In the beginning of the year, the record high prices of electricity and fuel have had a negative impact on VR Group's profitability. The threat is that a prolongation of the war will accelerate inflation, hamper access to funding and weaken overall economic growth. Crisis-related sanctions can also affect logistics volumes.

VR Group expects profitability to decline in the beginning of the year 2022 compared to the second half of 2021. Comparable operating profit is expected to be negative during the beginning of 2022. Due to these uncertainties, it is hard to predict what the result of the whole 2022 will be.

In the longer term, VR Group's business is supported by megatrends in environmental awareness and urbanisation. At the societal level, the attitude towards rail and public transport is positive and customers are increasingly seeking to use environmentally friendly modes of traffic and transport. Nevertheless, in the midst of a protracted pandemic, it is important to ensure the conditions for sustainable mobility in the future.

Major events after the end of the financial year

VR-Group Ltd and the Ministry of Transport and Communications signed a nine-year contract on the procurement of contract passenger train services for the period 1 February 2022 to 31 December 2030. The state acquires traffic from VR Group on routes where ticket revenue is insufficient to cover commercially viable services. The total value of the contract (including VAT) is EUR 313.8 million, i.e. the annual compensation for operation is EUR 34.9 million.

Russian attack on Ukraine has led to economic sanctions against Russia by the West. VR co-operates with the Russian Railways RZD in passenger and freight transport in the border traffic between Finland and Russia. Oy Karelian Trains Ltd, a 50/50 joint venture between VR and RZD, owns the Allegro rolling stock that operates between Helsinki and St. Petersburg. The RZD is listed on the EU-US sanctions list, and the sanctions imposed are on finance and infrastructure. RZD's rail transport business is not subject to sanctions.

Board's proposal on the disposal of profit

The distributable funds of the parent company were EUR 391,010,123.80, of which the loss for the accounting period is EUR -28,724,358.14. No fundamental changes have taken place in the Group's financial position since the end of the financial year.

The Board of Directors proposes to the Annual General Meeting that VR Group Ltd distribute a capital return of EUR 18.18 per share, a total of EUR 40,000,000.00 from the invested unrestricted equity fund, but that no dividend be paid on the result for 2021. The capital return will be paid by 30 June 2022.

Helsinki, 8 March 2022

VR-Group Ltd

Board of Directors

Kjell Forsén
Chairperson of the Board

Heikki Allonen
Vice Chairperson of the Board

Nermin Hairedin

Pekka Hurtola

Virve Laitinen

Roberto Lencioni

Sari Pohjonen

Lauri Sipponen
President and CEO

Auditor's Note

A report on the audit performed has been issued today.

Helsinki, 8 March 2022

Ernst & Young Oy

Authorised Public Accountants

Mikko Rytilahti
APA, CPFA

Statement by the Supervisory Board of VR-Group Ltd

In its meeting today, the Supervisory Board of VR-Group Ltd has reviewed the financial statements and consolidated financial statements for the period 1 January – 31 December 2021 and the auditor's report.

The Supervisory Board proposes to the Annual General Meeting that the income statement and the balance sheet, and the consolidated income statement and balance sheet, be approved and that the results 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 CEO.

Helsinki, 9 March 2022

Sheikki Laakso
Chairperson

Raimo Piirainen
Vice Chairperson

Anders Adlercreutz

Sanna Antikainen

Seppo Eskelinen

Hanna Holopainen

Mai Kivelä

Jouni Kotiaho

Matias Marttinen

Arto Pirttilahti

Ruut Sjöblom

Katja Taimela

Calculation of key figures

Capital invested

Balance sheet total - non-interest-bearing liabilities

Return on capital employed (ROCE) before taxes, %

$$\frac{\text{Profit before taxes + interest and other financial expenses}}{\text{Balance sheet total - non-interest-bearing liabilities (average during the period)}} \times 100$$

Comparable return on capital employed (ROCE) before taxes, %

$$\frac{\text{Profit before taxes + interest and other financial expenses +/- items affecting comparability}}{\text{Balance sheet total - non-interest-bearing liabilities (average during the period)}} \times 100$$

Gearing, %

$$\frac{\text{Interest-bearing liabilities}}{\text{Equity, total}} \times 100$$

Interest-bearing liabilities

Long-term interest-bearing liabilities + long-term lease liabilities
+ short-term interest-bearing liabilities + short-term lease liabilities
- cash and cash equivalents - other interest-bearing funds

Consolidated financial statements (IFRS)

Consolidated statement of comprehensive income (EUR 1,000)

	Note data	1 Jan-31 Dec 2021	1 Jan-31 Dec 2021
Net sales	2.2.	**838,270**	791,934
Other operating income	2.4.	**45,325**	30,351
Materials and services		**-272,610**	-240,958
Change in stocks of finished and unfinished products		**652**	
Production for own use		**47,757**	44,546
Personnel expenses	3.1.	**-359,954**	-346,307
Depreciation, amortisation and impairment losses	4.1. - 4.2.	**-151,946**	-150,090
Other operating expenses	2.4.	**-170,214**	-154,033
Operating profit (EBIT)		**-22,718**	-24,557
Financial income		**13,989**	5,415
Financial expenses		**-11,194**	-19,575
Net financial expenses	5.3.	**2,795**	-14,160
Income from associated companies	8.1.	**466**	260
Profit before taxes		**-19,458**	-38,458
Income taxes	7.	**5,782**	5,384
Profit for the period		**-13,676**	-33,074
Profit for the period attributable to			
Equity holders of the parent		**-13,676**	-33,084
Non-controlling interests		**0**	10

Other comprehensive income (EUR 1,000)

Items that may be reclassified subsequently to profit or loss	Note data	1.1.-31.12.2021	1.1.-31.12.2020
Translation differences		**-216**	424
Cash flow hedges		**13,313**	-5,813
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		**11,954**	-11,324
Financial assets at fair value through other comprehensive income		**-6,524**	-23,405
Total other comprehensive income for the period net of taxes		**18,526**	-40,118
Total comprehensive income for the period		**4,851**	-73,192
Total comprehensive income for the period attributable to			
Equity holders of the parent		**4,851**	-73,202
Non-controlling interests		**0**	10
Total		**4,851**	-73,192

Consolidated statement of financial position

Assets (EUR 1,000)

Non-current assets	Note data	31 Dec 2021	31 Dec 2020
Intangible assets	4.4.	**40,223**	37,029
Goodwill	4.4.	**7,550**	4,941
Tangible assets	4.1.	**1,203,366**	1,196,224
Right-of-use assets	4.2.	**281,173**	261,476
Investment properties	4.3.	**13,053**	12,096
Holdings in associated companies	8.1.	**1,968**	1,703
Investments	5.2.	**32,371**	40,516
Other receivables	5.2.	**95,072**	86,697
Non-current assets, total		**1,674,775**	1,640,681
Current assets			
Inventories	4.6.1.	**77,800**	74,519
Accounts receivable and other receivables	4.6.2.	**71,823**	53,816
Prepaid expenses and accrued income	4.6.2.	**47,517**	42,175
Financial securities	5.2.	**0**	108,701
Cash and cash equivalents	5.2.	**65,845**	90,130
Current assets, total		**262,986**	369,341
Assets, total		**1,937,761**	2,010,022

Equity and liabilities (EUR 1,000)

Equity	Note data	31 Dec 2021	31 Dec 2020
Equity attributable to holders of the parent			
Share capital		**370,013**	370,013
Fair value reserve		**-38,037**	-44,826
Invested non-restricted equity reserve		**376,228**	376,228
Retained earnings		**584,650**	606,004
Net profit for the financial year		**-13,676**	-33,084
Equity attributable to holders of the parent, total		**1,279,178**	1,274,335
Non-controlling interests		**0**	0
Equity, total		**1,279,178**	1,274,335
Non-current liabilities			
Provisions	4.5.	**47,756**	49,634
Financial liabilities	5.2.	**28,975**	31,518
Lease liabilities	4.2.	**246,655**	227,010
Derivative liabilities	6.2.	**28,968**	41,992
Accounts payable and other liabilities	4.6.3.	**3,294**	3,797
Deferred tax liabilities	7.	**82,779**	83,920
Non-current liabilities, total		**438,427**	437,872
Current liabilities			
Financial liabilities	5.2.	**4,345**	2,934
Lease liabilities	4.2.	**23,984**	24,938
Derivative liabilities	6.2.	**39**	1,027
Advances received	4.6.3.	**11,755**	8,228
Accounts payable and other liabilities	4.6.3.	**61,523**	158,479
Accrued expenses and prepaid income	4.6.3.	**118,509**	102,209
Current liabilities, total		**220,156**	297,815
Liabilities, total		**658,583**	735,686
Equity and liabilities, total		**1,937,761**	2,010,022

Consolidated cash flow statement (EUR 1,000)

Cash flow from operating activities	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Profit before taxes	**-19,458**	-38,458
Depreciation and amortisation	**128,782**	125,118
Amortisation of right-of-use assets	**23,164**	24,972
Profit and loss from sale of tangible and intangible assets and other adjustments	**12,121**	14,646
Cash flow from operating activities before change in working capital	**144,609**	126,279
Change in working capital	**5,996**	-12,078
Net financial expenses	**-8,806**	-13,891
Income taxes paid	**-3,673**	-785
Cash flow from financial items and taxes	**-12,479**	-14,676
Cash flow from operating activities (A), total	**138,126**	99,525

Cash flow from investing activities		
Tangible and intangible assets purchases	**-152,241**	-151,552
Tangible and intangible assets sales	**5,270**	2,318
Shares and holdings acquired	**-3,873**	-12,368
Shares and holdings sold	**600**	1,713
Cash flow from investing activities (B), total	**-150,245**	-159,888

Cash flow before financing (A)+(B)	**-12,119**	-60,362

Cash flow from financing activities	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Dividends paid	**-100,000**	0
Change in non-current receivables	**7,919**	0
Change in current interest-bearing receivables	**-367**	0
Change in non-current liabilities	**-3,046**	-2,867
Repayment of right-of-use liabilities	**-27,414**	-28,551
Change in current interest-bearing liabilities	**2,042**	0
Cash flow from financing activities (C), total	**-120,866**	-31,419

Change in cash flows (A)+(B)+(C)	**-132,985**	-91,781

Cash and cash equivalents 1 Jan.	**198,831**	290,612
Cash and cash equivalents 31 Dec.	**65,845**	198,831

Consolidated statement of changes in equity (EUR 1,000)

	Note data	Share capital	Fair value reserve	Invested non-restricted equity reserve	Translation differences	Retained earnings	Attributable to holders of parent company, total	Attributable to non-controlling interests	Equity, total
Equity 1 Jan 2021	5.4.	**370,014**	**-44,826**	**376,228**	**390**	**572,530**	**1,274,335**	0	**1,274,335**
Comprehensive income									
Net profit (loss) for the financial year						-13,676	-13,676	0	**-13,676**
Translation differences					-224		-224		**-224**
Cash flow hedges			13,313				13,313		**13,313**
Remeasurements of defined benefit plans						11,954	11,954		**11,954**
Changes in fair value with effects on comprehensive income			-6,524				-6,524		**-6,524**
Total comprehensive income for the financial year			**6,789**	**376,228**	**-224**	**-1,722**	**4,843**	**0**	**4,843**
Equity 31 Dec 2021	5.4.	**370,014**	**-38,037**		**166**	**570,808**	**1,279,178**	**0**	**1,279,178**
Equity 1 Jan 2020	5.4.	**370,013**	**-15,607**	**376,228**	**-34**	**716,938**	**1,447,538**	**1,125**	**1,448,663**
Comprehensive income									
Net profit (loss) for the financial year						-33,084	-33,084	10	**-33,074**
Translation differences					424		424		**424**
Cash flow hedges			-5,813				-5,813		**-5,813**
Remeasurements of defined benefit plans						-11,324	-11,324		**-11,324**
Changes in fair value with effects on comprehensive income			-23,405				-23,405		**-23,405**
Total comprehensive income for the financial year			**-29,218**		**424**	**-44,408**	**-73,203**	**10**	**-73,192**
Dividends						-100,000	-100,000		**-100,000**
Transactions with owners, total						-100,000	-100,000	0	**-100,000**
Other changes							0	-1,135	**-1,135**
Equity 31 Dec 2020	5.4.	**370,013**	**-44,826**	**376,228**	**390**	**572,530**	**1,274,335**	**0**	**1,274,335**

Notes to the consolidated financial statements

How to read the consolidated financial statements

In VR Group's consolidated financial statements, notes are compiled into themes to form an overview and make it easier to read the financial statements. The areas presented in the financial statements are indicated by these symbols:

Accounting principles

Accounting principles followed in IFRS financial statements can be identified by this symbol.

Management estimates

A description of management discretion relating to an area and uncertainties associated with the estimates.

Key consolidated accounting principles

Accounting principle	Area	Note	IFRS standard
Segment information	Profitability of operations	2.1.	IFRS 8
Revenue recognition	Profitability of operations	2.2.	IFRS 15
Defined-benefit pension plans	Remuneration of the personnel and related parties	3.2.	IAS 19
Leases	Capital invested and provisions	4.2.	IFRS 16
Investment properties	Capital invested and provisions	4.3.	IAS 40
Provisions	Capital invested and provisions	4.5.	IAS 37
Derivatives and hedge accounting	Financial risk management	6.2.	IFRS 7

1. Description of the Group and general accounting principles

1.1. Description of the Group

VR Group is a travel, logistics and maintenance service company. The parent company of the Group is VR-Group Ltd and its domicile is Helsinki, Finland. Copies of the consolidated financial statements are available from the company's headquarters at Radiokatu 3, P.O. Box 488, 00240 Helsinki, Finland.

The Group's Board of Directors approved these financial statements in its meeting on 8. March 2022. In accordance with the Finnish Limited Liability Companies Act, shareholders can accept or reject the financial statements at a general meeting held after their publication. The general meeting can also resolve on amending the financial statements.

1.2. General accounting principles

Basis of accounting

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the EU, in force on 31 December 2021. International Financial Reporting Standards refers to the standards and associated interpretations in the Finnish Accounting Act and in regulations issued under it that are approved by the EU for application in accordance with the procedures laid down in Regulation (EC) No 1606/2002. The Group has applied these accounting principles both to the financial years 2021 and 2020, unless otherwise specified below. The Group has not applied any new or revised standards or interpretations prior to their entry into force.

The financial year of VR Group is the calendar year, with the exception of Transitar Oy, acquired during the financial year, whose financial year is exceptionally 18 months 1. July 2021–31. December 2022. VR Group's financial statements are reported in thousands of euros, unless otherwise specified. All of the reported figures have been rounded up or down, so the total sum of individual figures can differ from the reported sum figure.

Areas relating to the COVID-19 pandemic

COVID-19 affected the development of VR Group's business and profitability, and therefore the Group's liquidity was strengthened with a revolving credit facility totalling EUR 200 million, which will mature in June 2024.

During the COVID-19 pandemic, VR Group has carefully monitored and assessed the credit risks associated with its accounts receivables. The amount of credit loss provision is based on the maturity of the receivables and risk categorization of client companies. Therefore, a growth in the credit loss risk associated with accounts receivables leads to a higher credit loss provision. Credit loss provisions did not significantly increase during 2021 and 2020. Moreover, the credit loss risk was assessed at the end of 2021, based on which the provisions were found to be at an adequate level.

The goodwill associated with the business of Avecra was tested for impairment due to changes in the market outlook caused by the COVID-19 pandemic. Based on the impairment testing, there was no need for recognising impairment losses.

Key estimates and discretionary decisions

Preparing IFRS financial statements requires the management to exercise discretion and use assumptions and estimates. These estimates and assumptions are based on prior experience and other justified factors, such as expectations concerning future events. The management's estimates are based on the best view and knowledge of the management of VR Group on the closing date.

The table presents the key estimates and discretionary decisions essential to assessing the financial statements on the whole, and indicates the notes in which the information is disclosed.

Key estimates and discretionary decisions	Note
Measurement of investment properties	4.3.
Pension obligations	3.2.
Leases	4.2.
Testing for impairment loss	4.1. and 4.4.
Provisions for environmental obligations	4.5.
Income tax	7.
Legal liabilities	9.1.3.
Group structure	8.1.

New and revised standards that entered into force during the financial year and which are applicable to future financial years

On 1 January 2021, the Group adopted the amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 resulting from Phase 2 of the IBOR reference rate of interest reform. The change did not have a significant impact on the Group's figures.

In March 2021, the IASB issued an update to the application of IFRS 16 for lessees of its May 2020 exemption, extending that exemption by one year until the end of June 2022. The exemption means that temporary adjustments to a lessee's rent related to COVID-19 do not need to be accounted for as changes to the lease agreement. VR Group has not applied the exemption.

The Group has not proactively adopted any of the revised standards and interpretations already issued by the IASB. The Group will adopt them as of the entry into force of each standard and interpretation, or if the effective date is not the first day of the financial year, as of the beginning of the next financial year after the effective date. According to the Group's current estimate, these standards and interpretations will not have a significant impact on future consolidated financial statements.

2. Profitability of operations

2.1. Segment information

The segments of VR Group are VR Passenger Services, VR Transpoint (logistics business), VR FleetCare (maintenance) and other operations, which includes train operations, property management and group operations.

VR Passenger Services

VR Passenger Services provides railway passenger services. Restaurant and catering service provider Avecra complements the service onboard the trains and at the stations. The Passenger Services also includes the Pohjolan Liikenne bus service and Karelian Trains as a joint operation.

VR Transpoint

VR Transpoint offers rail logistics services as well as domestic and international road logistics services. The services include combined railway and road transports and customised logistics chains with additional services. VR Transpoint's customers are domestic and international companies that need logistics solutions for raw material and product transportation.

VR FleetCare

VR FleetCare provides high-quality train fleet repair, maintenance and lifecycle services as well as rolling stock technology adviser services in the Nordic and Baltic countries. Our key customers are VR Group's business operations and units. Customers also include Helsinki Regional Transport HSL; Metropolitan Area Rolling Stock Ltd, which owns the Flirt commuter traffic vehicles; and the associated company Karelian Trains Ltd, which owns the Allegro trains that are used in traffic to St. Petersburg, Russia.

Other operations

Train Operations is responsible for owning VR Group's locomotives, managing their lifecycle, organising maintenance and investing in new vehicles. The unit is also responsible for procuring electrical energy and fuel for the rail traffic and for the energy-efficiency of the rail traffic. The rail traffic planning unit plans the use of locomotives in long-distance passenger traffic and freight traffic trains as well as train drivers schedules. The planning unit is also responsible for long-term train driver resource planning and updating short-term plans of train drivers and locomotives related to changes in traffic. Train Operations' most important customers are VR Group's train traffic passengers and logistics customers who are served together with VR Passenger Services and VR Transpoint. VR Group's property management unit takes care of property development and rental operations. Group operations provide support to the business units.

The President and CEO and the Management team as the supreme operational decision-making body review the management's internal reports on a monthly basis. The evaluation of the profitability of the segments is based on their operating profit. The Group has not consolidated the segments to form reporting segments.

The figures for the business operations are based on IFRS reporting figures, and they are reported consistently in the note with how they are reported on to the President and CEO and the Management team. Sales between business operations are made on market terms. Internal transactions are eliminated in the consolidated financial statements.

The Group's assets and liabilities have not been allocated to the segments, because the supreme operational decision-making body does not allocate resources based on the assets or liabilities of the segments and does not review the segments' assets or liabilities.

Information pertaining to the entire Group

The Group's net sales are generated almost exclusively in Finland, and the Group's non-current assets are located in Finland. The Group does not have an external customer generating revenue amounting to a minimum of 10 per cent of the Group's net sales.

Segments 2021 (EUR 1,000)

	VR Passenger Services	VR Transpoint	VR FleetCare	Segments, total	Other operations and eliminations	Group, total
Sales to outside the Group	431,430	389 886	16,954	838 270	0	838,270
Group's internal sales	105	204	186,754	187,064	-187,064	0
Sales, total	**431,535**	**390 090**	**203 709**	**1,025,334**	**-187,064**	838,270
Operating profit (EBIT)	**-50 364**	**23 026**	**4 654**	**-22 685**	**-33**	**-22,718**
Financial income and expenses (net)						2,795
Income tax						5,782
Net profit (loss) for the period						**-13,676**

Segments 2020 (EUR 1,000)

	VR Passenger Services	VR Transpoint	VR FleetCare	Segments, total	Other operations and eliminations	Group, total
Sales to outside the Group	398,000	386,522	7,281	791,803	131	791,934
Group's internal sales	8,181	27	188,472	196,681	-196,681	0
Sales, total	**406,181**	**386,550**	**195,753**	**988,484**	**-196,550**	**791,934**
Operating profit (EBIT)	**-69,452**	**33,695**	**11,223**	**-24,533**	**-24**	**-24,557**
Financial income and expenses (net)						-14,160
Income tax						5,384
Net profit (loss) for the period						**-33,074**

Items affecting comparability (EUR 1,000)

	2021	2020
Operating profit (EBIT)	**-22,718**	-24,557
Profits from the sale of assets	**-3,570**	-1,837
Losses from the sale of assets and exceptional amortisations	**12,185**	322
Items affecting comparability, total	**8,615**	-1,516
Comparable operating profit (EBIT)	**-14,103**	-26,073

Profits and losses from the sale of assets originate from sales of real estates. Exceptional amortisation was related to crash and write off of two Pendolino-trains.

2.2. Net sales

Customer contracts are assessed using the five-step model pursuant to IFRS 15: the contract and the performance obligations in the contract are identified, the transaction price is determined and allocated to the performance obligation, and revenue is recognised when (or as) the performance obligation is fulfilled. Sales revenue is recognised in an amount that reflects the consideration to which the Group expects to be entitled in exchange for the goods or services transferred to the customer. The timing of revenue recognition is based as control is passed. VR Group's cash flows are generated by different types of business:

- VR Passenger Services provides public transport services in long-distance and commuter traffic with trains and Pohjolan Liikenne's buses. Catering services of long-distance train traffic are provided by Avecra, which also operates restaurants and cafés at railway stations.
- VR Transpoint transports mainly raw materials and products for the forest, metal, chemical and construction industries by rail and road.
- VR FleetCare services include rail vehicle maintenance, modernising projects and lifecycle management.

The Group's sales revenue is mainly generated by services, which are recognised as revenue when the service has been provided, such as tickets or transport of goods or individual maintenance measures. The business operations of VR FleetCare also include projects in which comprehensive service is provided to the customer, with control passed to the customer over time, and therefore the project is recognised as revenue over time. Advances received and accruals from sales are associated with advance payments received by VR FleetCare from the modernisation contract before the fulfilment of the performance obligation. The advances received and accruals from sales are recognised as revenue once VR FleetCare has fulfilled its contractual obligations, and they are classified as liabilities based on a customer contract.

VR FleetCare's sales revenue, including estimated profit, is recognised as costs are incurred. The management regularly reviews the progress of performance obligations. As part of the assessment, the management takes into account the key contractual obligations, percentage of completion of the project, identified risks and opportunities and changes in the estimate of income and costs. The losses caused by the commitments are recognised in full through profit or loss for the period during which they are observed.

Sales based on services 2021 (EUR 1,000)

	VR Passenger Services	VR Transpoint	VR FleetCare	Other operations	Group, total
Rail traffic	302,239	310,610			**612,849**
Road traffic (truck or bus)	109,360	79,481			**188,840**
Catering and restaurant services	19,937				**19,937**
Other			203,709		**203,709**
Eliminations				-187,064	**-187,064**
Total	**431,535**	**390,090**	**203,709**	**-187,064**	**838,270**

Sales based on services 2020 (EUR 1,000)

	VR Passenger Services	VR Transpoint	VR FleetCare	Other operations	Group, total
Rail traffic	281,809	306,626			**588,436**
Road traffic (truck or bus)	104,538	79,923			**184,461**
Catering and restaurant services	19,834				**19,834**
Other			195,753	131	**195,884**
Eliminations				-196,681	**-196,681**
Total	**406,181**	**386,550**	**195,753**	**-196,550**	**791,934**

Net sales by geographical area (EUR 1,000)

	2021	**2020**
Finland	**831,744**	775,952
Rest of Europe	**6,526**	15,982
Total	**838,270**	791,934

Net sales by timing of revenue recognition 2021 (EUR 1,000)

	VR Passenger Services	VR Transpoint	VR FleetCare	Other operations and eliminations	Group, total
At a point in time	431,535	390,090	193,067	-187,064	**827,628**
Over time			10,641		**10,641**
Total	**431,535**	**390,090**	**203,709**	**-187,064**	**838,270**

Net sales by timing of revenue recognition 2020 (EUR 1,000)

	VR Passenger Services	VR Transpoint	VR FleetCare	Other operations and eliminations	Group, total
At a point in time	406,181	386,550	193,474	-196,550	**789,655**
Over time			2,279		**2,279**
Total	**406,181**	**386,550**	**195,753**	**-196,550**	**791,934**

Contractual assets are connected to the the Group's maintenance business contract on the basic repair of metro trains to the extent that the work has been performed but not yet billed. The asset is reclassified to accounts receivable once an absolute right to the receivable emerges.

Contractual liabilities are advance payments received based on the Group's maintenance contract, which the Group is not yet entitled to recognise as sales revenue.

Items recognised on the balance sheet for sales contracts (EUR 1,000)

	2021	2020
Receivables (incl. in Accounts receivable on the balance sheet)	**105**	100
Contractual liabilities	**2,018**	2,808

Maturity of sales in future financial years (EUR 1,000)

	2022	2023
Maturity of VR FleetCare's sales in future financial years	**9,758**	9,920

The transaction price received by VR FleetCare for basic repairs will mature in future financial years according to the table above.

2.3. Materials and services (EUR 1,000)

	2021	2020
Purchases during the year	**146,905**	129,636
Change in inventories	**-2,418**	-3,034
External services purchased	**128,122**	114,355
Total	**272,610**	240,958

2.4. Other operating income and expenses

Income not generated by ordinary business operations is reported in other income. This category includes recurring items, such as rental income, and non-recurring items, such as insurance indemnities and profit from the sale of assets.

Public grants

Public grants received as compensation for costs already incurred are recognised through profit or loss for the period during which the right to receiving the grant emerges. Such grants are reported in other operating income.

Avecra Oy has received subsidies of EUR 1,624.8 thousand (EUR 778.0 thousand) from the Finnish State for its restaurant operations, which is included in other operating income in the income statement of the financial year. The amount of the compensation received from the state 1,624.8 thousand (EUR 788.0 thousand) does not exceed the statutory maximum (EUR 1,676.4 thousand).

VR Group also received EUR 67.9 thousand (EUR 48.7 thousand) in product development grants and grants of EUR 76.0 thousand for the machine shop energy project from Business Finland in 2020. The Ministry of Employment and the Economy has granted EUR 167.2 thousand in energy subsidies in 2021.

Rental income is comprised of income from assets leased out (Note 4.2) and income from investment properties (Note 4.3).

Other operating income (EUR 1,000)

	2021	2020
Rental income	**18,762**	18,696
Profit from sale of tangible assets	**4,013**	1,837
Other income	**22,549**	9,818
Total	**45,325**	30,351

Other operating expenses (EUR 1,000)

	2021	2020
Track access fees and track networks	**-43,691**	-41,645
Rents and other real estate expenses	**-36,690**	-37,429
Travel and other personnel expenses	**-18,216**	-15,108
Telecommunication and information management expenses	**-34,427**	-37,190
Other operation-related expenses	**-19,896**	-16,081
Administration and other expenses (1)	**-17,294**	-6,581
Total	**-170,214**	-154,033

(1) The increase in administrative and other expenses is based on the termination of the oblige traffic contract in 2020. See note 4.5.

Auditors' fees (EUR 1,000)

	2021	2020
Auditing fees	**-474**	-235
Tax services	**-9**	0
Other services	**-55**	-43
Total	**-538**	-278

3. Remuneration of the personnel and related parties

3.1. Personnel expenses

Employment relationship benefits include the following short-term employment relationship benefits, post-employment benefits, other long-term employment relationship benefits and benefits associated with the termination of employment.

Short-term employment relationship benefits include salaries, fees and fringe benefits, annual holidays and bonuses. The Group recognises the items for the period during which the work concerned was performed. Moreover, VR Group recognises the expected expense due to short-term employment relationship benefits granted as paid leaves as follows:

- when employees perform work that increases their right to future paid leaves, in case of accumulating paid leaves.
- when the leaves take place, in case of non-accumulating paid leaves.

Post-employment benefits are paid to the beneficiaries after the termination of employment. At VR Group, these benefits are comprised of defined-contribution and defined-benefit pension plans. VR Group has both defined-contribution and defined-benefit pension plans. Contributions to defined-contribution pension plans are recognised in the income statement for the period concerned by the charge. In defined-contribution plans, the Group does not have a legal or factual obligation to make additional payments in case the recipient of the contributions fails to pay the pension benefits.

In defined-benefit pension plans, the plan may result in obligations or assets for VR Group after the contribution is made. The defined-benefit pension obligation illustrates the present value of the future cash flows due to benefits paid. The present value of pension obligations is calculated using the Projected Unit Credit Method. Pension expenses are expensed during the service of the employees based on actuarial calculations. In calculating the present value of the pension obligation, the discount rate used is the market yield of high-quality euro-denominated corporate bonds. The assets of the pension plan corresponding to the pension obligation are measured at fair values on the closing date. Actuarial gains and losses are recognised in other comprehensive income.

The present value of pension obligations depends on several factors, which are based on actuarial assumptions. Any change in these assumptions will have an impact on the balance sheet value of the pension obligations. The note on pensions presents a description of the essential risks and a sensitivity analysis of the impacts of changes in the actuarial assumptions. The employees' statutory pension coverage is provided by an employment pension insurance institution and voluntary supplementary pension coverage in VR Pension Fund.

Other long-term employment relationship benefits include all other employment relationship benefits besides short-term benefits, post-employment and termination-related benefits. At VR Group, employees have an unlimited sick leave benefit, which is treated as an “other long-term employment relationship benefit”, and will be recognised based on actuarial calculations.

Termination-related benefits are not based on work performance, but on termination of employment. These benefits are comprised of severance pay.

Personnel expenses (EUR 1,000)

	2021	2020
Wages and salaries	**297,181**	291,795
Pension expenses (defined-contribution plans)	**50,393**	42,057
Pension expenses (defined-benefit plans)	**739**	947
Other personnel related expenses	**11,641**	11,508
Total	**359,954**	346,307

The wages and salaries paid to key management personnel are presented in Note 3.3.

During the accounting period, the average number of the Group's employees by segment was as follows:

	2021	2020
VR Passenger Services	**2,454**	2,467
VR Transpoint	**1,038**	1,196
VR FleetCare	**926**	902
Other	**1,202**	1,252
Total	**5 620**	5,818

3.2. Pension receivables and obligations

VR Group has a defined-benefit pension plan in Finland. Some of the personnel employed by the former state-owned company Valtionrautatiet whose employment relationship continues with VR Group have defined-benefit supplementary pension plans in VR Pension Fund. The benefits are retirement age lower than the statutory age or higher pension accumulation. The plan is fully funded.

The operations of VR Pension Fund are regulated, besides the rules of the fund, by the Pension Funds Acts and decrees and guidelines issued under it. The operations of the Pension Fund are supervised by the Finnish Financial Supervisory Authority. The Pension Fund is managed by its management and the Board of Directors. VR Pension Fund invests its assets in a secure and profitable manner. VR Pension Fund actively monitors the development of market risks and the distribution of its investment risks.

Determination of the balance sheet values of the defined-benefit pension plan (EUR 1,000)

	31 Dec 2021	31 Dec 2020
Present value of the obligations of funded defined-benefit obligations	**339,905**	349,516
Fair value of the assets included in the plan	**-421,699**	-430,642
Surplus (-) / Deficit (+)	**-81,794**	-81,126
Net receivable (-) / liability (+) on the balance sheet	**-81,794**	-81,126

Change in the net receivable on the balance sheet (EUR 1,000)

	2021	2020
Receivable at the beginning of the financial year	**-81,108**	-92,693
Income/expenses recognised on the income statement	**308**	201
Remeasurement	**-11,425**	10,638
Return of excess balance	**10,000**	0
Plan expenses	**431**	746
Receivable at the end of the financial year	**-81,794**	-81,108

Defined-benefit pension expenses on the statement of comprehensive income (EUR 1,000)

	2021	2020
Expenses based on work performance during the financial year	**460**	755
Interest expense and income, total	**-152**	-554
Maintenance expenses	**431**	746
Pension expenses (+) / income (-) on the income statement	**739**	947
Remeasurement	**-11,425**	10,638
Pension expenses (+) / income (-) on the statement of comprehensive income	**-10,686**	11,585

Changes in the present value of the obligation (EUR 1,000)

	2021	2020
Obligation at the beginning of the financial year	**349,516**	374,834
Expenses based on work performance during the financial year	**460**	755
Interest expense	**665**	2,132
Actuarial gains (-) and losses (+) resulting from changes in economic expectations	**8,796**	15,588
Experience adjustment gains (-) or losses (+)	**13,544**	-5,335
Total	**372,981**	387,974
Pensions paid	**-33,076**	-38,458
Obligation at the end of the financial year	**339,905**	349,516

Changes in the fair value of plan assets (EUR 1,000)

	2021	2020
Fair values of plan assets at the beginning of the financial year	**430,624**	467,527
Interest income	**817**	2,686
Return on plan assets, excluding items included in interest income	**33,765**	-385
Total	**465,206**	469,828
Pensions paid	**-33,076**	-38,458
Return of excess balance	**-10,000**	
Administrative expenses	**-431**	-746
Fair values of plan assets at the end of the financial year	**421,699**	430,624

Breakdown of the fair value of plan assets by asset category, as percentage of the fair values of plan assets (%)

	2021	2020
Shares in developed markets	**18.2**	16.0
Shares in developing markets	**9.1**	10.2
Bonds	**38.5**	35.4
Cash and cash equivalents and money market investments	**6.2**	7.5
Real estate investments	**20.4**	21.6
Other items	**7.6**	9.3
Total	**100.0**	100.0

VR Pension Fund aims for an investment breakdown that diversifies the risks of different asset categories in the long term.

Actuarial assumptions

	2021	2020
Discount rate	**0.8%**	0.2%
Inflation rate	**2.1%**	1.2%
Expected pension increases	**2.4%**	1.5%
Expected salary increases	**2.2%**	2.2%

Assumptions regarding mortality are made based on independent actuarial assumptions, and they are based on the statistics published in each area and experience.

In 2022, it is projected that VR Group will not need to pay contributions to the benefit plan.

VR Pension Fund's pension obligation amounted to EUR 339.9 million (2020: 349.5) discounted at a discount rate of 0.8% (0.2%).

- If the discount rate was changed by +/- 0.5 percentage points with the other assumptions remaining unchanged, the change the impact on the pension obligation is EUR -19.9/+22.1 (2020: -19.2/+21.4) million.
- If the expected pension increases were changed by +/- 0.5 percentage points with the other assumptions remaining unchanged, the change
- The impact on the pension obligation is EUR +19.9/ -18.1 (2020: +19.1/-17.4) million.

The weighted average duration of the defined-benefit obligation is 12 (2020: 12) years.

Most significant risks of the defined-benefit pension plan

Volatility of assets and the obligation

The discount rate used in calculating the obligation due to the plan corresponds with the interest rate on bonds close to maturity issued by solvent companies in the Eurozone in terms of maturity. In the long term, VR Group aims to gain returns above the discount rate on the plan assets. When the return on the assets is above or below the discount rate, the value of the plan assets changes. This can lead to a surplus or deficit. VR Pension Fund's solvency position is good, and therefore VR Pension Fund endures even a very steep decline in the equity market.

Changes in bond returns

When the return on bonds changes, VR Group may have to adjust the discount rate. This has an impact on the value of the obligation included in the defined-benefit pension plan and the defined-benefit plan recognised on the statement of comprehensive income.

Risk management of investment activities

In funded plans, VR Pension Fund manages its investments so that the aim is to match assets and liabilities. The purpose of this is to match the investments with the obligations resulting from pension plans. The processes used in risk management are continuously improved. The investments are diversified so that losing any individual investment would not have a material impact on the total amount of assets.

3.3. Related parties

Employment benefits of key management personnel

(EUR 1,000)

President and CEO	2021	2020
Salaries and other short-term employment benefits	**-449**	-480
Pension benefits (defined-contribution plans)	**0**	-114
Pension benefits (defined-benefit plans)	**0**	0
Total	**-449**	-594

Board of Directors		
Salaries and other short-term employment benefits	**-304**	-285
Pension benefits (defined-contribution plans)	**0**	0
Pension benefits (defined-benefit plans)	**0**	0
Total	**-304**	-285

Supervisory Board		
Salaries and other short-term employment benefits	**-29**	-43
Pension benefits (defined-contribution plans)	**0**	0
Pension benefits (defined-benefit plans)	**0**	0
Total	**-29**	-43

Key management personnel		
Salaries and other short-term employment benefits	**-1 795**	-2 044
Pension benefits (defined-contribution plans)	**0**	-484
Pension benefits (defined-benefit plans)	**0**	0
Total	**-1 795**	-2 528

Transactions with other related parties and outstanding balances

VR Group paid a total of EUR 43.7 million (2020: EUR 41.6 million) in track access fees to the state. Contract traffic sold to the Ministry of Transport and Communications totalled EUR 49.2 million (2020: EUR 29.2 million).

The related parties of the Group's parent company VR-Group Ltd include its subsidiaries, associated companies and joint operations. In addition, related parties include the President and CEO, Board of Directors and Supervisory Board and the Management Team of the Group as members of Group management, as well as entities over which these persons have control or joint control, and the close family members of the above-mentioned persons.

Furthermore, the Finnish state, which holds all of the shares in the company, is considered to be a related party of VR-Group Ltd.

4. Capital invested and provisions

4.1. Property, plant and equipment

VR Group classifies as property, plant and equipment assets which:

- The Group uses for manufacturing goods and providing services, rental operations outside the Group and administrative purposes; and
- Are expected to be used in more than one financial year

Property, plant and equipment items include the station and properties owned by the Group and their plots, trains and other wagon fleet and related machinery and other spare parts.

The Group measures property, plant and equipment at original acquisition cost less accumulated depreciation and any impairment losses.

The acquisition cost includes purchase price, all expenses directly resulting from bringing the asset to the location and condition in which it can operate in the way intended by the management, and expenses pursuant to the original estimate for dismantling and transporting the asset and restoring its location to the original state. The land areas owned by the Group involve restoring soils contaminated during use. The provisions recognised due to these obligations are specified in more detail in Note 4.5. Provisions.

If a fixed asset is comprised of several separable components with differing economic useful lives, each component is treated as a separate asset. The Group treats maintenance programmes in which major components, such as bogies and wheelsets, are replaced in conjunction with maintenance as such separate assets. Maintenance programmes are expensed over the depreciation period determined on the basis of maintenance intervals. The Group recognises other repair and maintenance expenses through profit or loss.

Depreciation of property, plant and equipment

The depreciation is calculated using the straight-line depreciation method, and it is based on the economic useful lives of the assets. Depreciation begins when the fixed asset is ready for use and when it is in a location or condition that allows the use of the asset as intended by the management. The residual values and economic useful lives of assets are assessed at the end of each accounting period and, if necessary, adjusted to correspond to changes in the expected economic benefit.

The depreciation periods of property, plant and equipment are:

Land and water areas	No depreciation
Buildings and structures	10–50 years
Tractive stock	30 years
Electric trains	25 years
Cars	15–30 years
Other machinery and equipment	3–15 years
Other tangible assets	5–30 years

The Group derecognises the book value of tangible assets if the asset is removed from use, sold or is not expected to generate returns over its economic useful life.

The Group assesses on each closing date if it there is a need for adjusting the economic useful lives or any residual values of property, plant and equipment assets. When there are indications of the book value of an individual fixed asset exceeding its recoverable value, the book value of the said asset is tested for impairment. Usually, fixed assets do not generate separate cash flow, but they are tested as part of a cash-generating unit. For additional information about testing for impairment, see Note 4.4.

Property, plant and equipment 31 December 2021 (EUR 1,000)

The table below presents the changes in the acquisition cost of property, plant and equipment:

Acquisition cost	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and incomplete acquisitions	Total
Opening balance 1 January	61,247	379,908	2,030,544	14,961	132,437	**2,619,097**
Increases	12	2,893	91,848	110	54,488	**149,352**
Decreases	-1,084	0	-51,250		-3,299	**-55,633**
Reclassifications	-164	-12,101	54,330	360	-63,929	**-21,504**
Closing balance 31 December	**60,012**	**370,700**	**2,125,472**	**15,431**	**119,698**	**2,691,312**
Accumulated depreciation, amortisation and impairment						
Opening balance 1 January	0	-179,947	-1,233,243	-9,682	0	**-1,422,872**
Accumulated depreciation for decreases and transfers		0	32,225			**32,225**
Depreciations for the financial year		-13,712	-88,452	-851		**-103,015**
Impairment losses		-127	-332			**-459**
Reclassifications		8,379	-2,202			**6,177**
Closing balance 31 December	**0**	**-185,407**	**-1,292,006**	**-10,533**	**0**	**-1,487,945**
Book value 1 January	**61,247**	**199 962**	**797,301**	**5,279**	**132,437**	**1 196 224**
Book value 31 December	**60,012**	**185,292**	**833,467**	**4,898**	**119,697**	**1,203,366**

Property, plant and equipment 31 December 2020 (EUR 1,000)

Acquisition cost	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and incomplete acquisitions	Total
Opening balance 1 January	61,747	377,060	1,934,892	13,433	133,072	**2,520,204**
Increases			118,969	913		**119,882**
Decreases	-500	-2,021	-29,512		-635	**-32,667**
Reclassifications		4,868	6,195	614		**11,678**
Closing balance 31 December	**61,247**	**379,908**	**2,030,544**	**14,961**	**132,437**	**2,619,097**
Accumulated depreciation, amortisation and impairment						
Opening balance 1 January	0	-166,449	-1,176,517	-8,987	0	**-1,351,952**
Accumulated depreciation for decreases and transfers		342	27,292			**27,635**
Depreciations for the financial year		-13,841	-84,019	-695		**-98,555**
Closing balance 31 December	**0**	**-179,947**	**-1,233,243**	**-9,682**	**0**	**-1,422,872**
Book value 1 January	**61,747**	**210,612**	**758,375**	**4,446**	**133,072**	**1,168,251**
Book value 31 December	**61,247**	**199,962**	**797,301**	**5,279**	**132,437**	**1,196,224**

4.2. Leases

Group as lessee

VR Group recognises a lease liability and a corresponding right-of-use asset on the balance sheet for all of its leases at the start of the agreement. The Group's leases are typically associated with diverse land and water areas, office and warehouse buildings and machines and equipment. Their duration varies by contractual terms and the leased asset.

Right-of-use assets are measured at acquisition cost, from which the Group recognises straight-line depreciation based on the term of the lease and any impairment losses. The acquisition cost includes the original amount of the lease liability plus direct initial costs and rents paid in advance. In addition, any incentives offered by the lessor are deducted from lease liabilities.

Right-of-use assets are amortised using the straight-line method over the lease term. The Group uses the following amortisation periods:

Land and water areas	5–40 years
Buildings and structures	5–50 years
Machinery and equipment	5–20 years

The lease liability is measured by discounting future fixed minimum rent payments to their present value using the effective interest method. The lease liability does not include other variable rents than those associated with contractual index-pegged increase. VR Group repays the lease liability against rent payments. The repayment is broken down into interest expense and liability repayment. If the lease liability is changed, such as due to changes in future rent payments, the right-of-use asset is adjusted to match the change in the lease liability.

VR Group uses the implicit interest rate of the contract as the discount rate, or if the interest rate is difficult to determine, the interest rate on the lessee's incremental borrowing rate of interest. The Group separates non-lease components from leases if they can be directly separated from the lease.

The Group applies the following practical reliefs:

- Short-term leases with a term of less than 12 months; and
- Leases with an underlying asset of a minor value

Leases included in the scope of the are not recognised as part of the lease liability, but the Group expenses them to profit or loss. Leases with a minor value include rental payments for machinery and equipment leased by the Group.

Group as lessor

The Group acts as a lessor in logistics subcontracting agreements, in addition to which the Group sublets part of its premises in the headquarters building named Iso Paja. In the subcontracting agreements, rents are generally paid monthly. As the lessor, VR Group classifies logistics subcontracting agreements as operating leases or financial leases. All of the Group's assets leased out are operating leases, and the resulting rental income is recognised to the income statement in equal batches over the term of the lease.

VR Group has a significant number of leases relating to wagons, cars, buses, properties and land areas which are valid until further notice and either have a short period of notice or a fixed term with possible termination and extension options. Estimating the probable term of these leases and the future use or non-use of any options requires major discretion. The term of lease includes the periods covered by the leases if it is reasonably certain that the option will be exercised. The probable lease term is typically assessed according to the five-year strategy period. In case of exceptional conditions, significant basic refurbishing costs or other significant or indirect costs for exiting the lease, the lease term can be more than five years. For leases not concerning properties, the need for the assets concerned is often short-term, which is why leases valid until further notice with a termination period of 12 months or less are treated as short-term leases.

Property, plant and equipment and right-of-use assets

Right-of-use assets 31 December 2021 (EUR 1,000)

Acquisition cost	Land and water areas	Buildings and structures	Machinery and equipment	Total
Opening balance 1 January	5,993	31,305	366,055	**403,353**
Increases	18,273	10,549	18,486	**47,308**
Decreases	-3,303	-1,007	-200	**-4,510**
Reclassifications	243	0	-2,327	**-2,084**
Closing balance 31 Dec	**21,206**	**40,847**	**382,014**	**444,066**
Accumulated depreciation, amortisation and impairment				
Opening balance 1 Jan	-1,470	-7,669	-132,736	**-141,875**
Accumulated depreciation for decreases and transfers	770	650	25	**1,445**
Depreciations for the financial year	-1,370	-2,814	-18,738	**-22,922**
Impairment losses			-1,500	**-1,500**
Reclassifications	-243	0	2,202	**1,959**
Closing balance 31 Dec	**-2,313**	**-9,833**	**-150,747**	**-162,893**
Book value 1 January	**4,523**	**23,636**	**233,318**	**261 476**
Book value 31 December	**18,893**	**31,014**	**231,267**	**281,173**

Right-of-use assets 31 December 2020 (EUR 1,000)

Acquisition cost	Land and water areas	Buildings and structures	Machinery and equipment	Total
Opening balance 1 January	6,035	33,189	357,291	**396,515**
Increases		23	9,666	**9,689**
Decreases	-42	-1,907	-902	**-2,851**
Reclassifications				
Closing balance 31 Dec	**5,993**	**31,305**	**366,055**	**403,353**
Accumulated depreciation, amortisation and impairment				
Opening balance 1 Jan	-771	-3,991	-113,106	**-117,869**
Accumulated depreciation for decreases and transfers	0	358	607	**965**
Depreciations for the financial year	-699	-4,036	-20,237	**-24,972**
Impairment losses				
Reclassifications				
Closing balance 31 Dec	**-1,470**	**-7,669**	**-132,736**	**-141,875**
Book value 1 January	**5,264**	**29,198**	**244,184**	**278,646**
Book value 31 December	**4,523**	**23,636**	**233,318**	**261,476**

The table below presents the lease items recognised through profit or loss:

Items recognised through profit or loss (EUR 1,000)

	2021	2020
Lease expenses for items of minor value	**-661**	-2,125
Lease expenses for short-term items	**-103**	-406
Amortisation of right-of-use assets on underlying assets	**-4,185**	-4,735
Land and water areas	**-1,370**	-699
Buildings and structures	**-2,814**	-4,036
Total	**-4 949**	-7,266

The table below presents the rent payments not included in lease liabilities:

	2021	2020
Variable rent expenses	**-693**	-700
Interest expenses on lease liabilities	**-2,032**	-1,958

Items presented on the cash flow statement

	2021	2020
Outgoing cash flows from leases, total	**-29,446**	-30,509

Commitments concerning leases

The tables below present the breakdown of short and long-term lease liabilities and the maturities of lease liabilities. Additional information about other breakdowns of the Group's liabilities and maturities of financial liabilities are presented in Note 5.2. Financial assets and financial liabilities and fair values.

Balance sheet values of lease liabilities (EUR 1,000)

	2021	2020
Short-term	**23,984**	24,938
Long-term	**246,655**	227,010
Total	**270,639**	251,948

The table below presents the breakdown of the minimum payments of the lessor's non-cancellable leases:

Group as lessor

Minimum rents of non-cancellable leases (EUR 1,000)

	2021	2020
Within one year	**9,512**	8,089
Between one year and five years	**7,411**	6,567
After five years	**31,092**	38,172
Total	**48,015**	52,829

The primary purpose of leasing is to provide in-house operations with optimum premises from owned real estate stock. Premises not needed for own use are leased to external users, where possible. The floor area of properties owned by VR Group totals approximately 479,100 (511,000) m².

4.3. Investment properties

The Group's investment properties are comprised of old station and machine shop properties and other buildings and structures built in conjunction with them, among others. The investment properties are mainly located along the rail traffic network and other traffic nodes in Finland.

VR Group classifies as investment properties those properties owned by the Group that the Group holds to primarily obtain rental income and/or increase in value. Investment properties include both owned properties and properties leased out.

The Group has properties that are partly in the Group's own use and partly investment properties. In these cases, the property is classified as an investment property only if an insignificant part is used for providing services or for administrative purposes. For example, the Helsinki Central Railway Station property is not classified as an investment property.

An investment property is derecognised when the property is divested or permanently decommissioned and no future economic benefit is expected from its transfer.

Measurement of investment properties and fair values

Investment properties are measured at acquisition cost less accumulated depreciation and any impairment losses. Investment properties are depreciated using the straight-line depreciation method based on estimated economic useful lives. Land areas are not depreciated.

The depreciation periods of investment properties are 10–50 years.

Impairment is recognised for an investment property if its book value exceeds its fair value.

The Group uses, when necessary, both an external assessor and its own estimates based on economic return to measure the fair values of investment properties. In 2021, the Group carried out the assessment independently.

The book values of investment properties are subject to provisions for environmental obligations. The measurement of the provisions requires management discretion regarding, for example, the amount of the provision and the timing of its realisation.
For additional information about these, see Note 4.5. Provisions.

Investment property items (EUR 1,000)

	2021	2020
Acquisition cost 1 January	**13,379**	13,596
Decreases	**-596**	-216
Reclassifications	**37,717**	
Total 31 December	**50,500**	13,379

Accumulated depreciation, amortisation and impairment 1 January	**-1,284**	-782
Depreciation and amortisation for the financial year	**-544**	-579
Accumulated depreciation for decreases and transfers	**-33,739**	77
Impairments	**-1,880**	0
Closing balance 31 December	**-37,447**	-1,284

Book value 1 January	**12,096**	12,813
Book value 31 December	**13,053**	12,096

Fair value	**19,823**	12,612

Investment properties are classified as fair value hierarchy level 3, because inputs not based on observable market data have been used in determining their fair values.

Investment property items measured through profit or loss (EUR 1,000)

	2021	2020
Rental income	**3,750**	3,675
Maintenance expenses of leased assets	**-2,122**	-1,589
Maintenance expenses of non-leased assets	**-100**	-99
Investment property items through profit or loss, total	**1,528**	1,987

Commitments

No commitments or restrictions are known. Furthermore, no protected sites are known with regard to the investment properties.

4.4. Goodwill and intangible assets

The Group's intangible assets include goodwill from acquired companies, licences owned by the Group, software and capitalised development expenses. VR Group classifies these items to goodwill, customer relationships, intangible rights and development expenses on the balance sheet.

Goodwill

VR Group recognises goodwill at the amount by which:

- the consideration transferred and
- the fair value of the previous holding in the acquisition combined exceed the fair value of the identifiable net assets acquired at the time of acquisition.

Goodwill is measured at original acquisition cost less accumulated impairment losses, the amount of which the Group assesses annually at the minimum. Goodwill is not regularly amortised. With regard to associated companies, goodwill is included in the balance sheet value of the holding in the associated company. Impairment losses on goodwill are recognised through profit or loss, and they cannot be subsequently cancelled. Further information about testing goodwill for impairment is presented below in this Note.

VR Group allocates goodwill to cash-generating units. Additional information about the Group's cash-generating units can be found below.

Other intangible assets

The Group recognises an intangible asset when it is probable that expected economic benefits will accrue to the Group and the acquisition cost can be reliably determined. The Group initially measures intangible assets at acquisition cost, after which the acquisition is adjusted for accumulated depreciation and amortisation and any impairment loss.

The Group's intangible assets include the acquisition cost of company acquisitions allocated to customer relationships and the exclusive contract on operation concluded with the Ministry of Transport and Communications (for further details on the exclusive contract, see Note 4.5. Provisions).

Intangible rights include IT systems and software acquired by the Group and associated rights. Expenses relating to the maintenance of the systems and software are expensed when they occur.

Intangible assets are amortised using the straight-line method based on an estimate of the economic useful lives of the assets. The amortisation periods of intangible assets are as follows:

Exclusive rights to train operation	6 years
Customer relationships	5 years
Intangible rights	5 years

Research and development expenses

The Group expenses research and development expenses, such as the personnel expenses of diverse system projects, for the financial year during which they are incurred. Only product development expenses that meet the following criteria for capitalisation are recognised on the balance sheet:

- completing the asset is technically feasible,
- the Group aims to complete the asset,
- the Group can use or sell the asset
- the asset will generate probable future economic benefit
- adequate resources for completing the development work are available, and
- the expenses can be reliably determined during the development phase.

The development expenditure capitalised by the Group includes all expenses incurred directly from completing the asset ready for its intended purpose of use. Development expenses associated with intangible assets still in progress are recognised on the balance sheet at original acquisition cost. After initial entry, the acquisition cost is adjusted for amortisation based on the economic useful life of the development expenses or any impairment losses.

The estimated economic useful life of the Group's capitalised development expenses is 5 years, during which the expenses are expensed as straight-line depreciation.

Intangible assets 2021 (EUR 1,000)

Acquisition cost	Goodwill	Exclusive rights to train operation	Customer relationships	Other intangible assets	Intangible rights	Development projects	Total
Opening balance 1 January	4,941	27,880	1,877	130,118	2,048	175	**167,039**
Increases	2,608			1,592		1,117	**5,318**
Decreases		-27,880	-270		0		**-28,150**
Reclassifications				16,251			**16,251**
Closing balance 31 December	**7,550**	**0**	**1,607**	**147,961**	**2,048**	**1,292**	**160,457**
Accumulated depreciation, amortisation and impairment							
Opening balance 1 January	0	-27,880	-349	-94,794	-2,045	0	**-125,069**
Accumulated depreciation for decreases		27,880		168			**28,048**
Depreciation and amortisation for the financial year			-538	-10,640	-2	-80	**-11,262**
Reclassifications				-4,403			**-4,403**
Closing balance 31 December	**0**	**0**	**-888**	**-109,669**	**-2,048**	**-80**	**-112,685**
Book value 1 January	**4,941**	**0**	**1,528**	**35,323**	**3**	**175**	**41,970**
Book value 31 December	**7,550**	**0**	**719**	**38,292**	**0**	**1,211**	**47,773**

Intangible assets 2020 (EUR 1,000)

Acquisition cost	Goodwill	Exclusive rights to train operation	Customer relationships	Other intangible assets	Intangible rights	Development projects	Total
Opening balance 1 January	4,941	85,000	1,877	125,840	2,315		**219,973**
Increases				3,850		175	**4,024**
Decreases		-57,120		-6,675	-267		**-64,062**
Reclassifications				7,103			**7,103**
Closing balance 31 December	**4,941**	**27,880**	**1,877**	**130,118**	**2,048**	**175**	**167,039**
Accumulated depreciation, amortisation and impairment							
Opening balance 1 January		-13,600	-108	-88,499	-2,310		**-104,517**
Accumulated depreciation for decreases				5,102	267		**5,369**
Depreciation and amortisation for the financial year		-14,280	-241	-11,398	-2		**-25,921**
Closing balance 31 December	**0**	**-27,880**	**-349**	**-94,794**	**-2,045**	**0**	**-125,069**
Book value 1 January	**4,941**	**71,400**	**1,769**	**37,341**	**5**	**0**	**115,456**
Book value 31 December	**4,941**	**0**	**1,528**	**35,323**	**3**	**175**	**41,970**

Goodwill impairment testing

VR Group allocated goodwill for impairment testing to those cash-generating units which are expected to benefit from the business combination that resulted in the goodwill. “Cash-generating unit” refers to the smallest identifiable asset group at VR Group whose generated cash flows are largely independent of the cash flows generated by other assets or groups of assets. The Group recognises an impairment loss when the book value of a cash-generating unit exceeds its recoverable amount.

The goodwill on the Group’s balance sheet is from the acquisitions of Avecra and Transitar. Avecra is part of VR Passenger Services and tested as a separate cash-generating unit because its cash flows can be separated from other cash flows of VR Passenger Services. Transitar is part of VR Transpoint and it is tested as part of VR’s road logistics, as its operations are integrated into the road logistics after the acquisition.

The recoverable amount has in impairment loss testing been determined based on value in use. The values used in determining the value in use are consistent with figures obtained from external information sources. The cash flows forecast in the calculations are based on financial plans approved by top management, covering the five-year strategy period and the subsequent terminal period. The Covid-19 pandemic is estimated to have a significant impact on the 2022 performance level, after which the result is projected to gradually return to pre-pandemic level. The discount rate is the weighted average cost of capital (WACC) determined by business area.

On the basis of the impairment testing carried out, the balance sheet values of goodwill were not impaired at 31 December 2021.

Goodwill by business area (EUR 1,000)

	12/31/21	12/31/20
VR Passenger Services (Avecra)	**4,941**	4,941
VR Transpoint (Transitar)	**2,608**	0
Total	**7,550**	4,941

Key information of tests for impairment

	12/31/21	12/31/20
The growth factor (%) used for extrapolating cash flows after the strategy period (the assumption is a steady growth factor)	**1.0-1.5**	0.4
Discount rate (pre-tax WACC), %	**6.0-6.3**	13.2
WACC after taxes, %	**4.8-5.0**	10.4

VR Group’s management assesses on each closing date whether there are indications of impairment of goodwill (or any other intangible or tangible asset or right-of-use asset). The Group regularly estimates these indications based on the Group’s internal reporting or changes in the economic environment and market. For instance, indications may include:

- unexpected changes in the variables of the testing calculations (net sales and profitability), and
- changes in market conditions, such as changes in foreign exchange rates (Russian rouble).

Measurement is generally discretionary, and the values can change from one financial year to another, because the management has to project the supply and demand concerning individual businesses, future selling prices and achievable levels of costs. The estimated benefits and savings achieved as the result of efficiency programmes are subjective. The value in use of a cash-generating unit is determined by discounting estimated cash flows using an interest rate based on the weighted average cost of capital (WACC). The WACC calculation is based on the beta factors and capital structures of of benchmark companies.

Goodwill is tested annually, regardless of whether there are any indications.

4.5. Provisions

VR Group's provisions are comprised of provisions for oblige traffic and environmental obligations, employer's obligation to pay the unemployment insurance liability component and expenses of warranty repairs of maintenance work.

The provision for oblige traffic is based on the exclusive contract by which the Ministry of Transport and Communications imposed a public service obligation regarding passenger transport on railways on VR Group. VR Group gets an exclusive right to engage in passenger transport on railways, in consideration of which VR Group undertakes to carry out loss-making oblige traffic. An intangible asset has been recognised for the exclusive rights and a provision for a loss-making contract has been recognised for the oblige traffic. The loss generated during the contract period is assessed at the beginning of the contract period. In December 2020, VR Group and the Ministry of Transport and Communications made a new contract traffic agreement that covers purchases in the period 1 January–30 June 2021 and the option period 1 July–31 December 2021. The new contract replaces the old arrangement in full, which also means the end of VR Group's exclusive rights that were granted in 2009. In the new contract, the so-called oblige traffic that is specified under the right-of-use contract of the Ministry of Transport and Communications, is transferred into the contract traffic that is purchased by the state.

Provisions are recognised for environmental obligations as a result of VR Group's operations at depots, machine shops, refuelling and loading sites and for restoring or rehabilitating leased land areas or buildings or the environment. The most typical sites are old machine shops, depots and refuelling or loading sites where environmentally hazardous substances have potentially been handled. Some of the sites have been used by the Group for a long time, and some of them are built in previously contaminated areas.

The provisions are comprised of liabilities whose time of realisation or actual amount is uncertain. A provision is recognised when the Group has a (legal or factual) obligation as a result of a previous event, the realisation of the payment obligation is probable and the amount of the obligation can be reliably determined.

The amount recognised as a provision equals the best estimate of the expenses required to fulfil the existing obligation on the closing date of the reporting period. The outgoing cash flows caused by the obligation are discounted to the time of review if the impact of the time value of money is substantial. The discount rate should reflect the market view of the time value of money at the time of review and the special risks concerning the liability in question. The risks and uncertainties associated with the obligation are taken into consideration in the amount of the provision.

Provisions concerning fixed assets are included in the acquisition cost of the property, plant and equipment or right-of-use asset, as the acquisition cost has to include the costs of dismantling and transferring the asset and restoring the location to the original state pursuant to the initial estimate. Any subsequent changes in liabilities are added to the acquisition cost of the asset concerned by the liabilities or deducted from it, and the adjusted depreciable amount of the asset is recognised non-retroactively as an expense over its remaining economic useful life.

Provision for environmental obligations
Provisions for environmental obligations are associated with the restoration or rehabilitation of owned and leased land areas or buildings. The Group has determined an estimated restoration schedule, amount and time of realisation for the sites. With regard to owned assets, the expenses associated with the provision for environmental obligations are included in the acquisition cost of the property, plant and equipment asset and the acquisition cost of assets classified as investment properties. Similarly, the corresponding expenses associated with leased sites are included in the right-of-use asset.

Other provisions
An employer is obligated to pay the unemployment insurance contribution (Unemployment Insurance Fund provision), if a senior employee who has been given notice or laid off remains unemployed or laid off for a long time. The Group recognises a provision in conjunction with the termination of employment. These provisions materialise within two years.

Estimates of the existence and amount of the obligation need to be used in deciding on the prerequisites for recognising provisions and determining their amounts. The recognised amount is the best estimate of the expenses caused by the obligation on the closing date or if it was transferred to a third party. The estimates can deviate from the actual future obligation in terms of amount and existence. In addition to the identified provisions, the Group has some off-balance sheet liabilities with possible future obligations (timing, costs) that cannot be reliably projected. With regard to provisions for environmental obligations, determining the time of materialisation is difficult, the estimate requires management discretion and the time of materialisation used is 20 years until the timing can be more accurately estimated.

The management of VR Group has exercised discretion in determining the accounting for oblige traffic. Oblige traffic with the Ministry of Transport and Communications is not included in the scope of application of IFRS 15, because the Ministry of Transport and Communications is not a customer with regard to oblige traffic. The amount of the provision has been determined based on the actual losses for previous years.

Provisions 2021 (EUR 1,000)

	Loss-making contract on oblige traffic	Provisions for environmental obligations	Other provisions	Total
Book value 1 January	0	46,022	3,612	**49,634**
Increases			1,031	**1,031**
Provisions used		630		**630**
Cancellation of unused provisions		110	2,149	**2,259**
Book value 31 December	**0**	**45,283**	**2,493**	**47,776**

Provisions 2020 (EUR 1,000)

	Loss-making contract on oblige traffic	Provisions for environmental obligations	Other provisions	Total
Book value 1 January	71,400	49,383	1,187	**121,970**
Increases		132	2,592	**2,724**
Provisions used	14,280	3,418	167	**17,865**
Cancellation of unused provisions	57,120	74		**57,194**
Book value 31 December	**0**	**46,022**	**3,612**	**49,634**

Loss-making contract on oblige traffic

The amount recognised as a provision is the present value of the expenses expected to be required for fulfilling the obligation. The oblige traffic contract concerns the year 2020.

Provision for environmental obligations

The amount recognised as a provision is the present value of the expenses expected to be required for fulfilling the obligation. The present value of the expenses is determined either as an in-house estimate or by an external consultant, depending on the site. The Group annually revises the estimates of future expenses relating to land areas and their timing.

A major increase in a provision resulting from the lapse of time is recognised as an interest expense. The discount rate used in the entries for 2020 and 2021 has been 0%.

The estimated time of materialisation of the Group's provisions for environmental obligations varies from 1 to 20 years. They are typically long-term obligations. With regard to provisions for environmental obligations in which determining the time of materialisation is difficult, the time of materialisation used is 20 years until the timing can be more accurately estimated.

Other provisions

An employer may be obligated to pay the unemployment insurance contribution if a senior employee who has been given notice or laid off remains unemployed or laid off for a long time.

4.6. Working capital

VR Group manages the items described in the table as working capital (EUR 1,000):

	2021	2020
Inventories	**77,800**	74,519
Accounts receivable and other receivables	**119,340**	95,991
Working capital - receivables, total	**197,141**	170,511
Accounts payable and other liabilities	**195,081**	272,713
Working capital - liabilities, total	**195,081**	272,713
Net working capital	**2,060**	102,203

4.6.1. Inventories

VR Group's inventories are mainly comprised of spare and replacement parts needed for maintaining and repairing rolling stock, only replaced upon breaking down, such as train windshields. The inventories include purchased products, products manufactured by the Group and unfinished products and supplies intended for use in the production process.

VR Group classifies replacement and spare parts with a significant value that will be regularly replaced based on the maintenance programmes as fixed assets. They are described in more detail in Note 4.1. Property, plant and equipment.
VR Group measures inventories at the lower of acquisition cost or net realisable value. The acquisition cost of inventories is determined using the weighted average price method. The net realisable value is the estimated price obtained from selling the inventory item in the course of ordinary business less the estimated expenses due to finishing the product and realising the sale.

The Group includes direct purchase expenses, including import duties and acquisition and transport costs in the acquisition cost of products sourced as finished products. Any discounts received are deducted from the acquisition cost. The acquisition cost of finished and unfinished products manufactured by the Group includes raw materials, wage and salary expenses caused by the direct work performance and a share of other required expenses. In addition, a share of the variable and fixed overhead of manufacturing is allocated to the items in accordance with the normal utilisation rate.

The provision recognised for inventories with a slow turnover time and obsolete inventories is based on the best estimate at the closing date. The estimates are based on a systematic and continuous review and assessment of inventory quantities. This assessment also takes into consideration the composition of inventories and their age in relation to the estimated future need.

EUR 1,000	2021	2020
Single-use items	**7,701**	6,714
Replacement parts	**69,134**	67,073
Fuels	**966**	732
Total	**77,800**	74,519

A total of EUR 3,034 thousand (EUR 5,696 thousand) was expensed to the income statement for materials and supplies, work in progress and finished products. These items are included in the income statement item materials and services and production for own use.

A total of EUR -1,683 thousand (EUR -1,363 thousand) was recognised as impairment in the inventories of VR Fleetcare during the financial year. The book value of these inventory items was decreased to correspond with their net realisable value. In the financial period, EUR 2,266 thousand (0) of the items impaired in previous financial years were also recognised as a return of impairments, which resulted in a net positive effect of EUR 583 thousand of impairments and their returns.

4.6.2. Accounts receivable and other receivables

The Group's accounts receivable and other receivables are comprised of the following items:

EUR 1,000	2021	2020
Accounts receivable	**57,722**	48,826
Other receivables	**576**	365
Advances paid	**1,660**	3,771
Derivatives	**11,865**	854
Prepaid expenses and accrued income	**47,517**	42,175
Total	**119,340**	95,991

The table describes the items susceptible to credit risk and the provision for credit losses:

	2021		2020	
EUR 1,000	Gross book value	Credit loss provision	Gross book value	Credit loss provision
Current accounts receivable (not due)	55,571	326	46,964	232
Overdue				
1–7 days	1,788	120	1,230	8
8–30 days	467	2	306	3
31–60 days	105	7	70	5
61–90 days	5	2	58	4
91–180 days	48	6	178	44
over 180 days	265	64	616	300
Total	**58,249**	**528**	**49,422**	**596**

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EUR 1,000	2021	2020
Book value 1 January	**596**	644
Impairment losses	**-276**	-134
Net re-evaluation of provisions for credit losses	**208**	87
Book value 31 December	**528**	596

The Group recognises all accounts receivable at amortised cost. Accounts receivable are current assets that the Group intends to hold for a maximum of 12 months after the close of the reporting period.

Expected credit losses

The Group measures accounts receivables at amortised cost, and the expected credit losses for them are recognised. The Group applies a simplified procedure (provision matrix) to calculating expected credit losses, with the allowance concerning the loss measured at an amount corresponding with the expected credit losses for the entire validity period. Changes in expected credit losses are recognised through profit or loss in other operating expenses.

Accounts receivable are broken down by business area in calculating expected credit losses. The provision matrix takes into account historical data about actual credit losses, economic conditions at the time of review and forward-looking expectations of the development of credit losses.

An actual credit loss is recognised on the income statement for accounts receivable when the Group considers that no payment will be received.

During the COVID-19 pandemic, VR Group has carefully monitored and assessed the credit risks associated with its accounts receivable. The amount of credit loss provisions is based on the maturity distribution of accounts receivable and risk categories of companies. Therefore, a growth in the credit loss risk associated with accounts receivable leads to a higher credit loss provision. Moreover, the credit loss risk was separately assessed at the end of 2021, based on which the provisions were found to be at an adequate level. The provisions for credit losses decreased slightly during 2021. The amount of credit losses decreased due to the divestment of the Baltic operations of Trint.

4.6.3. Accounts payable and other liabilities

The Group's accounts payable and other liabilities are comprised of the following items:

	2021	2020
Accounts payable	**53,776**	43,115
Other liabilities	**747**	15,364
Accrued expenses and prepaid income	**118,509**	102,209
Advances received	**15,049**	12,025
Dividend payment liability		100,000
Total	**195,081**	272,713

The most significant items in the Group's 2021 accrued expenses and prepaid income include salary liabilities, EUR 67,304 thousand (61,000) and accruals from sales and expenses totalling EUR 50,410 thousand (37,897).

Advances received are mainly comprised of accruals from VR's multi and single tickets totalling EUR 0 thousand (1,545) and advance sales totalling EUR 11,644 thousand (6,467).

Accounts payable are initially recognised at fair value on the balance sheet and subsequently measured at amortised cost. Accounts payable are current liabilities that will fall due within a maximum of 12 months after the close of the reporting period.

5. Capital structure

5.1. Capital management

The purpose of VR Group's capital management is to ensure the prerequisites for the Group's operations under all conditions. In addition, the objective is to achieve the optimum capital structure. The Group monitors the development of its capital structure, i.e. equity and interest-bearing liabilities. The monitored indicator of the capital structure is the net gearing, or the ratio of interest-bearing liabilities to equity.

(EUR 1,000)	2021	2020
Cash and cash equivalents	**65,845**	198,831
Equity	**1,279,178**	1,274,335
Long-term interest-bearing liabilities (1)	**275,630**	258,529
Short-term interest-bearing liabilities (1)	**28,329**	27,872
Interest-bearing liabilities, total	**303,959**	286,400
Equity and interest-bearing liabilities, total	**1,583,138**	1,564,452
Net debt	**238,114**	87,570

(1) Includes lease liabilities

The Group's liquidity risk and maturity of interest-bearing liabilities are presented in the risk management note 6.1.

5.2. Financial assets and liabilities and fair values

Financial assets and liabilities

The Group's financial assets consist of investments in commercial papers and corporate and state bonds, investments in funds and shares, loans and accounts receivable as well as derivative assets. Financial liabilities include loans from financial institutions, accounts payable and derivative liabilities.

Financial assets

The Group measures an item included in financial assets at fair value upon initial recognition, and in case of items other than those included in financial assets at fair value through profit or loss, the immediate item-related transaction costs are added to or deducted from it. Financial assets at fair value through profit or loss are initially recognised on the balance sheet at fair value and transaction costs are recognised through profit or loss.

The classification of financial assets is based on business models defined by VR Group and contractual cash flows of financial assets. The Group's financial assets are classified into the following categories: at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. Financial assets are included in non-current assets on the balance sheet, unless they mature within 12 months of the closing date.

Amortised cost

Loan receivables, accounts receivable and cash and cash equivalents which are held to maturity to collect contractual cash flows and the cash flows are solely payments of principal and interest, are measured at amortised cost in the Group. Loan receivables are measured at amortised cost using the effective interest method.

Furthermore, the Group's investments in commercial papers and bonds are measured at amortised cost. The objective of the business model applied to these investments is to secure the Group's liquidity position and manage investments to collect contractual cash flows.

An allowance for expected credit losses is recognised for financial assets measured at amortised cost. The calculation of the loss allowance is described in Note 6.1

At fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets that are obtained for held for trading purposes or that are classified in this category upon initial recognition. The transaction costs associated with financial assets at fair value through profit or loss and realised and unrealised gains and losses resulting from changes in fair value are recognised through profit or loss. The Group recognises non-hedge accounted derivatives at fair value through profit or loss.

Shares and funds

The Group classifies its investments in shares and funds at fair value through profit or loss, with the related fair value changes being recognised through profit or loss. Dividends received on investments are recognised through profit or loss. Investments in unlisted shares are recognised at the lower of original acquisition cost or probable value, because their fair values are not reliably available.

Equity instruments at fair value through other comprehensive income

With regard to equity instruments, the Group can upon initial recognition make an irrevocable election and measure the items at fair value through other comprehensive income. In this case, subsequent changes in fair value are reported in other comprehensive income with only dividends on investments being recognised through profit or loss, unless the dividend clearly represents refund of capital. In the Group, this item consists of investment in shares of NRC Group.

Cash and cash equivalents

Cash and cash equivalents include cash, bank account balances, short-term commercial papers and deposits. Cash and cash equivalents have a maturity of a maximum of three months from the time of acquisition and the risk of changes in their value is low. Used overdraft facilities are presented in other short-term liabilities on the balance sheet.

Financial liabilities

Financial liabilities are measured at fair value upon initial entry. In case of items other than those included in financial liabilities at fair value through profit or loss, the immediate item-related transaction costs are added to or deducted from it. Financial liabilities at fair value through profit or loss are initially recognised on the balance sheet at fair value and transaction costs are immediately recognised as expenses.

The Group's financial liabilities are classified into the following categories: at amortised cost and at fair value through profit or loss. Both long- and short-term liabilities include financial liabilities. A financial liability is classified as short-term unless the Group has an absolute right to postpone the payment of the liability a minimum of 12 months after the closing date of the reporting period.

Amortised cost

The Group measures interest-bearing liabilities and accounts payable at amortised cost. Loans from financial institutions are measured at amortised cost using the effective interest method.

At fair value through profit or loss

Financial liabilities measured at fair value through profit or loss are comprised of derivative liabilities not included in hedge accounting. The transaction costs associated with financial liabilities at fair value through profit or loss, together with realised and unrealised gains and losses resulting from changes in fair value are recognised through profit or loss.

Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the balance sheet and are subsequently measured at fair value. Non-hedge accounted derivatives are recognised through profit or loss, whereas derivatives subject to hedge accounting are carried at fair value through other comprehensive income in accordance with IFRS 9. Derivative contracts and hedge accounting principles are described in more detail in the Risk Management Note 6.2.

Derecognition

Financial assets are derecognised once the Group's rights have expired or they have been transferred to other parties. At this time, the Group has transferred the risks and benefits related to the ownership to a substantial extent to another party. Financial liabilities are derecognised once the obligation associated with the liability in question has been fulfilled or it has expired.

Guarantees

VR Group issues business-related guarantees associated closely with its operations. The purpose of the guarantees is to make sure that VR Group can fulfil its contractual obligations. Guarantees have not been given to companies outside the Group, so the guarantees do not result in credit risk.

Measurement of fair values

The fair value of an asset or liability is the price that would be received from the sale of the asset or paid for transferring the liability between market parties in the course of ordinary business on the measurement date.

Fair values are classified to fair value hierarchy levels as follows, describing the significance of the inputs used in the measurement methods:

Level 1

Quoted fair values (unadjusted) in active markets for identical assets or liabilities

Level 2

Inputs other than quoted market prices included within Level 1 are used in measuring fair values. The inputs are observable for the asset or liability, either directly or indirectly.

Level 3

Fair values are measured using inputs that are unobservable inputs for the asset or liability.

The book value of short-term accounts receivable and accounts payable are considered to equal the best estimate of their fair value. In addition, the acquisition price of unlisted shares is considered to equal the best estimate of their fair value.

The Group has exercised discretion in the IFRS treatment of the shares in NRC Group as an investment. VR Group holds 18.3% of the shares in NRC. It has been decided to account for the shares in NRC Group using IFRS 9 – OCI (other comprehensive income), with changes in fair value to be recognised through other comprehensive income.

Financial assets and liabilities

The table below shows the categories of financial assets and liabilities and the classification of items recognised at fair value in the fair value hierarchy. There were no transfers between level 1 and level 2 or to level 3 of the fair value hierarchy in the financial years 2021 or 2020.

2021 (EUR 1,000)

Financial assets	At amortised cost	At fair value through profit or loss	At fair value through other comprehensive income	Derivatives in hedge accounting	Book value, total	Fair value	Level 1	Level 2	Level 3
Long-term financial assets									
Loan receivables	8,242				8,242	8,242			
Investments			32,110		32,110	32,110	32,110		
Derivatives				2,494	2,494	2,494		2,494	
Short-term Financial assets									
Loan receivables	367				367	367			
Accounts receivable and other receivables	58,298				58,298	58,298			
Derivatives				11,865	11,865	11,865		11,865	
Cash and cash equivalents	65,845				65,845	65,845			
Financial assets, total	**132,752**	**0**	**32,110**	**14,359**	**179,220**	**179,220**	**32,110**	**14,359**	**0**
Financial liabilities									
Long-term financial liabilities									
Loans from financial institutions	28,087				28,087	28,087			
Lease liabilities	246,655				246,655	246,655			
Derivatives		26,070		2,898	28,968	28,968		28,968	
Accounts payable and other liabilities	4,182				4,182	4,182			
Short-term financial liabilities									
Loans from financial institutions	4,345				4,345	4,345			
Lease liabilities	23,984				23,984	23,984			
Derivatives		39			39	39		39	
Accounts payable and other liabilities	60,523				60,523	60,523			
Financial liabilities, total	**367,776**	**26,109**	**0**	**2,898**	**396,783**	**396,783**	**0**	**29,007**	**0**

2020 (EUR 1,000)

Financial assets	At amortised cost	At fair value through profit or loss	At fair value through other comprehensive income	Derivatives in hedge accounting	Book value, total	Fair value	Level 1	Level 2	Level 3
Long-term financial assets									
Loan receivables	8,079				8,079	8,079			
Investments	251		40,265		40,516	40,516	40,265		
Derivatives				439	439	439		439	
Short-term Financial assets									
Loan receivables						0			
Accounts receivable and other receivables	95,991				95,991	95,991			
Derivatives				665	665	665		665	
Cash and cash equivalents	90,130				90,130	90,130			
Financial assets, total	**194,451**	**0**	**40,265**	**1,105**	**235,820**	**235,820**	**40,265**	**1,105**	**0**

Financial liabilities	At amortised cost	At fair value through profit or loss	At fair value through other comprehensive income	Derivatives in hedge accounting	Book value, total	Fair value	Level 1	Level 2	Level 3
Long-term financial liabilities									
Loans from financial institutions	31,010				31,010	31,010			
Lease liabilities	227,010				227,010	227,010			
Derivatives		36,714		5,278	41,992	41,992		41,992	
Accounts payable and other liabilities	3,797				3,797	3,797			
Short-term financial liabilities									
Loans from financial institutions	2,934				2,934	2,934			
Lease liabilities	24,938				24,938	24,938			
Derivatives				1,027	1,027	1,027		1,027	
Accounts payable and other liabilities	158,459				158,459	158,459			
Financial liabilities, total	**448,148**	**36,714**	**0**	**6,304**	**491,167**	**491,167**	**0**	**43,019**	**0**

Accounts receivable and expected credit losses are described in Note 4.6.
The hedge accounting principles and accounting for derivatives applied by the Group are described in Note 6.2.
The Group's leases and lease liabilities are described in Note 4.2.

Loan receivables

VR Group has acquired parking rights from a parking garage named P-Hämppi owned by Finnpark Oy (formerly Tampereen Pysäköintitalo Oy), for which leaseback and redemption possibility and obligation of the parking rights has been agreed upon. A financial asset is any asset that is a contractual right to obtain cash funds from another entity. In this arrangement, based on the redemption obligation, VR Group is entitled to receive cash funds from Finnpark, and therefore the investment in parking rights is reported in financial assets. The Group classifies the arrangement as a loan receivables at amortised cost totalling EUR 8,242 thousand (EUR 8,079 thousand on 31 December 2020). An expected credit loss is recognised for the loan receivable, presented in Note 6.1.

Investments

The Group did not have any investments at the end of 2021. In 2020, the total investment item on the balance sheet was EUR 108.7 million, consisting of investments in commercial papers, funds and shares.

(EUR 1,000)	2021	2020
Short-term investments		
Commercial papers		51,910
Funds and shares		56,791
Total	**0**	**108,701**

Equity investments at fair value through other comprehensive income

The investment in shares in NRC Group is recognised at fair value through other comprehensive income, because it is a strategic investment in shares in a significant partner and the shares are not held for trading purposes. The shares in NRC Group are listed on the Oslo Stock Exchange and classified at level 1 of the fair value hierarchy.

(EUR 1,000)	Fair value 2021	Fair value 2020	Dividends recognised on the income statement 2021	Dividends recognised on the income statement 2020
NRC Group	32,110	40,265	0	0
Total				

During the 2021 reporting period, there were no changes in the holdings in NRC Group, and no reclassifications of retained earnings or losses were made between equity items. An additional investment totalling EUR 12.4 million was made during the financial year 2020.

Cash and cash equivalents (EUR 1,000)

	2021	2020
Cash in hand and at banks	**65,845**	90,130
Commercial papers	**0**	51,910
Funds and shares	**0**	56,791
Total	**65,845**	198,831

Loans from financial institutions and lease liabilities

The key terms and conditions of the Group's liabilities are described in the table below.

(EUR 1,000)	Interest rate	Maturity	Nominal value 2021	Book value 2021	Nominal value 2020	Book value 2020
Loans from financial institution	6-month Euribor	2032	**31,005**	**31,005**	33,944	33,944
Lease liabilities	3-6-month Euribor	2026-2033	**177,058**	**160,583**	193,401	170,111
Above interest-bearing liabilities, total			**31,005**	**31,005**	227,345	204,055

The maturity distribution of interest-bearing liabilities is presented in risk management note 6.1

The measurement of interest on lease liabilities is described in Note 6.1

Loans from financial institutions includes the Group's share of the loan of Oy Karelian Trains Ltd, treated as a joint operation. As a party to a joint operation, the Group recognises a share of the liabilities of the joint operation in its financial statements. Karelian Trains has funded the acquisition of Allegro rolling stock with a floating-rate loan which is due in 2032. VR Group's share of the loan from financial institutions was EUR 31.0 million (EUR 33.9 million on 31 December 2020). In addition, the financing arrangement is accompanied by an interest rate swap that expires in 2032, which serves as an interest rate hedge for the acquisition share of the trains in the loan agreement and is included in the hedge accounting.

5.3. Financial income and expenses (EUR 1,000)

The table describes the items recognised through profit or loss

Financial income	2021	2020
Dividend income	**3**	2
Interest income according to the effective method	**374**	554
Change in the fair value of derivatives	**10,504**	1,615
Other financial income	**3,108**	3,244
Total	**13,989**	5,415

Financial expenses		
Impairment losses	**148**	-209
Interest expenses according to the effective method	**-6,882**	-7,283
Interest expenses of lease liabilities	**-2,032**	-1,958
Change in the fair value of derivatives		-3,782
Other financial expenses	**-2,429**	-6,342
Total	**-11,194**	-19,575

Financial income and expenses, total	**2,795**	-14,160

5.4. Equity and reserves

Share capital	2021 qty	2020 qty	2021 (EUR 1,000)	2020 (EUR 1,000)
Share capital 1 Jan	**2,200,000**	2,200,000	**370,013**	370,013
Share capital 31 Dec	**2,200,000**	2,200,000	**370,013**	370,013

Treasury shares

VR does not hold any treasury shares.

Hedging and other reserves

The effective part of the change in the fair value of derivatives in hedge accounting is recognised in the hedging reserve.

Invested non-restricted equity reserve (SVOP)

The invested non-restricted equity reserve includes other equity investments that are not recognised in share capital based on a specific decision. The invested non-restricted equity reserve is fully comprised of the invested non-restricted equity reserve of the parent company, VR-Group Ltd.

Dividends

The Board of Directors proposes to the Annual General Meeting that VR Group Ltd distribute a capital return of EUR 18.18 per share, a total of EUR 40,000,000.00 from the invested unrestricted equity fund, but that no dividend be paid on the result for 2021. The capital return will be paid by 30 June 2022.

6. Financial risk management

6.1. Financial risks

In its operations, the Group is exposed to liquidity risk, credit risk and market risk (interest risk, exchange risk, fuel and electricity price risk). The objective of VR Group's risk management is to ensure effective and successful implementation of risk management in order to meet its financial objectives. In addition, the Group's financial risk management aim is to maintain the Group's ability to receive funding from the market through a strong balance sheet position and consistent profitability.

Principles of financial risk management

The Board of Directors of VR Group decides on the Group's treasury policy that defines the principles governing the management of financial risks. The Group's treasury function, headed by the Group CFO, is responsible for risk management in practice. VR Group's Board of Directors and senior management are responsible for regulating risk appetite.

Market risk

The treasury function of the Group is responsible for the management of market risks and its practical implementation. The Group's market risks include interest rate risk, exchange risk and fuel and electricity price risk.

Interest rate risk

The Group's interest rate risk is primarily arising from floating-rate lease liabilities and loans from financial institutions.

Items exposed to interest rate risk (EUR 1,000)

Assets	2021	2020
Investments in commercial papers		51,910
Investments in fixed-income funds		56,791
Liabilities		
Loans from financial institutions	**31,655**	34,452
Lease liabilities	**270,639**	251,948
Total	**-302,294**	-177,700

Derivatives		
Interest rate swaps	**300,693**	218,314
Total	**300,693**	218,314

The Group's loans are floating-rate loans, and at the end of the 2021 financial year the Group's long-term interest-bearing financial liabilities totalled EUR 275 million (EUR 258 million). The reference rates for the floating-rate loans are Euribor rates (3–6-month Euribor).

The weighted average interest rate on the Group's floating-rate liabilities was 0.7% (31 December 2020: 0.4 per cent).

Sensitivity analysis of interest rate changes

The table below describes the impact of an interest rate change of one (1) percentage point on the Group's interest expenses for the next year, taking into consideration the impact of interest rate derivatives. The analysis assumes that other factors remain unchanged. Equity only includes items subject to hedge accounting.

	Income statement		Equity	
(EUR, 1 000)	increase, 1%	decrease, 1%	increase, 1%	decrease, 1%
Floating-rate receivables				
Floating-rate liabilities	-1,253			
Interest rate swaps	9,415	-10,046	6,961	-7,445
Total	**8,161**	**-10,046**	**6,961**	**-7,445**

Fuel and electricity price risk

Items exposed to price risk

	2021	2020
Fuel consumption, tonnes	**29,578**	28,583
Electricity consumption, GWh	**636**	635

Sensitivity analysis of changes in fuel and electricity prices on derivatives

The table below describes the impact a 20% change in fuel and electricity prices has on the Group's income and equity. The table indicates how much equity would change through the change in the market value of derivatives and how much the following year's net profit would change through cash flow. The analysis assumes that other factors remain unchanged.

	Income statement		Equity	
(EUR 1,000)	increase	decrease	increase	decrease
Fuel	616	-616	811	-885
Electricity (undiscounted figures)	3,999	-3,999	6,092	-6,092

Share price risk

VR Group's investment in NRC Group shares is measured at fair value through other comprehensive income. The +/-10 per cent change in the share price has an impact of EUR +/- 3.2 million on the Group's comprehensive income before taxes.

Currency risk

The foreign exchange loss recognised on the income statement amounted to EUR 1.3 million (EUR -5.3 million). The most significant exposure to changes in foreign exchange rates is due to the euro-denominated funding of EUR 16.0 million (EUR 20.2 million) granted by the Group to the subsidiaries operating in Russia. A +/-10 per cent change in the euro against the rouble has an impact of EUR -1.6/+ 1.6 million on the Group's net profit.

VR Group is indirectly exposed to the currency risk of the Norwegian krone (NOK) due to its investment in shares in NRC Group, which are quoted in NOK. Exchange rate changes arising from the price of a NRC Group share are recorded as part of the change in the value of investments in the fair value reserve.

Liquidity risk

Liquidity risk is the risk of the Group's companies not being able to engage in their normal business or fulfil their maturing payment obligations in due time due to a shortage of liquid assets.

The Group manages its liquidity risk by planning and managing its day-to-day liquidity and monitoring the liquidity situation. In order to ensure day-to-day liquidity, the Group has, for example, a commercial paper programme, short-term bank account limits and a long-term revolving credit facility.

The treasury function is responsible for managing the liquidity risk. The Group's management has defined the minimum liquidity requirements.

The table below describes the contractual cash flows of financial liabilities and interest rate derivatives. The reported data is undiscounted and includes both the payment of interest and repayment of the principal.

Contractual cash flows 2021 (EUR 1,000)

Financial liabilities not included in derivatives	Total	Under 12 months	1-5 years	over 5 years
Loans from financial institutions	31,655	2,961	11,852	16,841
Lease liabilities	270,639	23,984	90,995	155,660
Accounts payable	53,776	53,776	0	0
Total	**356,069**	**80,721**	**102,847**	**172,502**
Derivatives	**31,959**	**6,782**	**17,762**	**7,414**
Total	**388,028**	**87,503**	**120,609**	**179,916**

Contractual cash flows 2020 (EUR 1,000)

Financial liabilities not included in derivatives	Total	Under 12 months	1-5 years	over 5 years
Loans from financial institutions	34,452	3,033	12,132	19,288
Lease liabilities	251,948	24,938	78,379	148,631
Accounts payable	43,115	43,115	0	0
Total	**329,516**	**71,086**	**90,511**	**167,919**
Derivatives	**41,724**	**7,226**	**22,683**	**11,814**
Total	**371,239**	**78,312**	**113,194**	**179,733**

The table below describes VR Group's liquidity reserve aiming to secure the Group's short-term liquidity.

(EUR 1,000)	2021	2020
Cash on bank accounts	**65,845**	90,130
Money market investments		108,701
Total	**65,845**	198,831

Commercial paper programme (EUR 300 million)
Revolving Credit Facility (EUR 200 million)
Overdraft facility (EUR 5 million)

Cash and cash equivalents include the Group's cash and other available account arrangements.

VR Group has strengthened the Group's liquidity through a revolving credit facility totalling EUR 200 million, which expires on 3 June 2024 and can be extended by two one (1) year extensions until 3 June 2026. The RCF was fully undrawn at the reporting date. The agreement does not involve any financial covenants, but the State is required to hold more than 50% of the shares.

In addition, VR Group has a short-term overdraft facility of EUR 5 million that was unused at the reporting date. The Group also has a EUR 300 million commercial paper programme that was unused at the reporting date.

Credit risk

Credit risk refers to the risk of losses caused by the counterparties and customers of Group companies not being able to fulfil their contractual obligations and the guarantees received not securing the receivables.

The Group is exposed to credit risk due to accounts receivable, loan receivables and investments recognised at amortised cost. The Group manages credit risk through careful monitoring of customers' creditworthiness and payment behaviour. With regard to investments, the Group has defined counterparty-specific limits for investment activities in accordance with the treasury policy.

Financial management and the risk management function are responsible for the practical implementation and supervision of the credit risk management.

Items exposed to credit risk, total (EUR 1,000)

	2021	2020
Loan receivable	**8,609**	8,079
Investments		108,760
Accounts receivable	**57,726**	49,422
Total	**66,335**	166,261

Expected credit losses

The Group calculates the expected credit loss (ECL) for financial assets measured at amortised cost. The expected credit loss describes the probability-weighted estimate of credit risks that will materialise. An allowance for the expected credit loss is recognised for accounts receivable, loan receivables and investments.

All actual credit losses are recognised through profit or loss. The credit loss is cancelled in a subsequent period if the cancellation can be objectively considered to be related to an event after the recognition of the credit loss.
The calculation of the expected credit losses of accounts receivable is described in Note 4.6.2.

The expected credit loss associated with certificates of claim and loan receivables is calculated applying the general approach of IFRS 9.

Expected credit losses from investments

Credit risk data obtained from an external database and an estimate of the recovery rate are used as estimates of the probability of credit loss in calculating the provision for credit losses. The credit risk of the investment portfolio is estimated to be low, because the investments concern investments with high creditworthiness according to the Group's estimate. No expected credit loss was recognised for the investments in 2021 (EUR 59.5 thousand in 2020).

6.2. Derivatives and hedge accounting

In line with its treasury policy, VR Group uses interest and commodity derivatives to reduce the interest rate and commodity risks arising from the Group's financial leasing liabilities in the balance sheet as well as its future electricity and fuel purchases. In addition, the Group uses currency derivatives to hedge foreign currency purchases and sales that expose the Group to foreign currency risk. VR Group makes derivative contracts for hedging purposes, but not all contracts are subject to hedge accounting.

VR Group uses interest rate swaps to reduce the interest rate risk related to payments on floating-rate loan agreements. Interest rate swaps are used in changing floating interest rates into fixed interest rates. Aforementioned contracts are used for hedging purposes, however, hedge accounting is not applied for all of the contracts. Changes in the fair values of interest rate swaps qualifying for hedge accounting, and which are effective, are recognised in the cash flow hedging reserve within balance sheet's restricted equity (cash flow hedge). In case contracts are not effective or not meeting the hedge accounting requirements, the fair value changes are recorded in the income statement under financial items.

At the end reporting period, total nominal value of interest rate swaps amounted to EUR 300.7 million (EUR 218.3 million), of which EUR 124.7 million (EUR 27.1 million) amount was subject to hedge accounting. Correspondingly, total fair value of the contracts amounted to EUR -27.8 million (EUR -40.5 million), of which EUR -1.7 million (EUR -3.8 million) amount was subject to hedge accounting. During the reporting period, the Group has entered into new forward starting interest rate swap contracts in order to hedge interest rate risk arising from highly probable future loan arrangements. Hedge accounting is applied for the new contracts.

Hedge accounting

Risk of changes in fuel and electricity prices

VR Group applies IFRS hedge accounting principles when hedging future cash flows (cash flow hedges). Fuel and electricity price risk refers to the uncertainty of cash flow and net profit resulting from fluctuations in fuel and electricity prices. VR Group uses OTC commodity derivatives to hedge the price risk of electricity and light fuel oil. With regard to the electricity price risk, both the system price and the area price difference are hedged, and together they form the area price of electricity in Finland. Changes in the fair value of derivatives are recognised on the balance sheet in the cash flow hedging reserve under equity when the contracts meet hedge accounting requirements and are effective.

In line with VR Group's treasury policy, the hedging level for fuel and electricity derivatives is expected to be 75% of the forecasted consumption for the next 12 months.

Karelian Trains

VR Group's investment in Oy Karelian Trains Ltd is treated as a joint operation pursuant to IFRS 11 Joint Arrangements. A party to a joint arrangement must recognise in its financial statements for example, its interest in the liabilities of the joint arrangement including its share of the joint liabilities, if there are any. The classification as a joint arrangement is described in detail in Note 9.1. VR Group's share of the derivatives of Oy Karelian Trains Ltd is recorded in VR Group's IFRS balance sheet and hedge accounting is applied to them. Oy Karelian Trains Ltd has financed the acquisition of Allegro rolling stock with a floating-rate loan from a financial institution. The financing arrangement includes an interest rate swap that is included in hedge accounting (cash flow hedge). In the arrangement, the hedged item is the portion of the floating-rate loan agreement associated with the acquisition of Allegro trains. The purpose of interest rate hedging is to limit the negative impact of changes in market rates on the company's cash flow and net profit.

Approximately 80% of floating-rate loan facilities have been hedged with interest rate derivatives until 2032.

Hedge accounting prerequisites

In order to meet the prerequisites for hedge accounting, financial instruments are initially designated as hedging instruments and hedge relationship is documented. The Group also verifies, both at the start of the hedging relationship and annually with efficiency testing, that the hedging relationship is efficient. In this case, it is probable in the future that the hedging instrument almost fully offsets changes in the fair value or cash flows of the hedged item (concerning the hedged risk). The Group considers that in cash flow hedging, the most significant terms and conditions of the hedged items and hedging instruments coincide and the hedge ratio 1:1 is applied for hedged items. Changes in the fair value of derivatives are recognised on the balance sheet in the cash flow hedging reserve under restricted equity when the contracts meet hedge accounting requirements and are effective.

In case contracts are not effective or not meeting the hedge accounting requirements, the fair value changes are recorded in the income statement.

Nominal values and fair values of derivatives 2021 (EUR 1,000)

Derivatives in hedge accounting	Nominal value	Positive fair value	Negative fair value	Fair value, net
Interest rate derivatives				
Interest rate swaps	124,726	1,200	-2,894	-1,694
Interest rate derivatives, total	**124,726**	**1,200**	**-2,894**	**-1,694**
Commodity derivatives				
Oil derivatives, tonnes	7,680	1,432	0	1,432
Electricity derivatives, GWh	749	11,728	-4	11,724
Commodity derivatives, total		**13,159**	**-4**	**13,155**
Derivatives in hedge accounting, total		**14,359**	**-2,898**	**11,461**
Derivatives not included in hedge accounting				
Interest rate swaps	175,967		-26,070	-26,070
Currency derivatives	2,915		-39	-39
Total		**14,359**	**-29,007**	**-14,649**

Nominal values and fair values of derivatives 2020 (EUR 1,000)

Derivatives in hedge accounting	Nominal value	Positive fair value	Negative fair value	Fair value, net
Interest rate derivatives				
Interest rate swaps	27,081		-3,811	-3,811
Interest rate derivatives, total	**27,081**		**-3,811**	**-3,811**
Commodity derivatives				
Oil derivatives, tonnes	12,510	193	-265	-72
Electricity derivatives, GWh	922	912	-2,208	-1,297
Commodity derivatives, total		**1,105**	**-2,473**	**-1,369**
Derivatives in hedge accounting, total		**1,105**	**-6,284**	**-5,180**
Derivatives not included in hedge accounting				
Interest rate swaps	191,233		-36,714	-36,714
Currency derivatives				0
Total		**1,105**	**-42,999**	**-41,894**

Maturity distribution of derivatives subject to hedge accounting

At the end of the 2021 and 2020 financial years, the Group had the following instruments with which it hedges against changes in interest rates and changes in commodity prices:

2021 (EUR 1,000)

Interest rate risk	Nominal amounts, total	Maturity (Nominal amounts) Less than 12 months	1–5 years	Over 5 years
Interest rate derivatives	124,726	102,355	9,419	12,952
Price risk				
Fuel derivatives	7,680 tonnes	5,280 tonnes	2,400 tonnes	
Electricity derivatives	749 GWh	346 GWh	403 GWh	

2020 (EUR 1,000)

Interest rate risk	Nominal amounts, total	Maturity (Nominal amounts) Less than 12 months	1-5 years	Over 5 years
Interest rate derivatives	27,081	2,355	9,419	15,306
Price risk				
Fuel derivatives	12,510 tonnes	7,230 tonnes	5,280 tonnes	
Electricity derivatives	922 GWh	372 GWh	550 GWh	

Balance sheet values of derivatives subject to hedge accounting and the items recognised to the income statement

2021 (EUR 1,000)

	At year-end Balance sheet value			During the year Transferred to the income statement	
Cash flow hedges	Receivables	Liabilities	Net, cash flow hedging reserve	To interest expenses	Included in materials and services
Interest rate swaps	1,200	2,894	-1,694	-620	
Fuel derivatives	1,432	0	1,432		916
Electricity derivatives	11,728	4	11,724		13,588

2020 (EUR 1,000)

	At year-end Balance sheet value			During the year Transferred to the income statement	
Cash flow hedges	Receivables	Liabilities	Net, cash flow hedging reserve	To interest expenses	Included in materials and services
Interest rate swaps		3,811	-3,811	-677	
Fuel derivatives	193	265	-72		-731
Electricity derivatives	912	2,208	-1,297		-5,909

Balance sheet values of derivatives subject to hedge accounting and the items recognised to the income statement

7. Income tax

The tax expense for the period on the income statement is comprised of tax based on the taxable income for the period, income tax on previous financial years and changes in deferred tax liabilities and receivables. Income taxes are recognised through profit or loss, except for taxes associated with other comprehensive income or items recognised directly in equity. In these cases, the income tax is recognised through either comprehensive income or equity according to the items concerned.

Recognition of taxable income

VR Group calculates the tax on taxable income for the period in each country in which it operates on the basis of the taxable income specified in respective legislation and valid tax rate. The taxable income for the period is adjusted or any taxes associated with previous financial years. Only tax rates (and laws) prescribed or practically approved by the closing date of the reporting period are taken into consideration in calculating the taxes for the financial year. Other taxes, such as property and other local taxes, are included in other operating expenses. VR Group does not have any uncertain tax positions.

The Group's taxable income does not directly equal the net profit reported on the consolidated financial statements, as some income or expense items can be taxable or tax-deductible in different years. In addition, certain income items are not necessarily taxable at all, while some expense items are not eligible for deduction in taxation.

Recognition of deferred taxes
Deferred taxes are generally recognised:

- For temporary differences between the book values and taxable values of assets and liabilities on the closing date, and
- Unused tax losses and unused tax rebates.

Deferred tax liabilities are generally recognised on the balance sheet in full. However, a deferred tax liability is not recognised if it is due to:

- Initial recognition of goodwill, or
- initial recognition of an asset or liability if it is not a business combination and the transaction will not have an impact on the accounting profit or taxable income during its time of materialisation.

A deferred tax receivable is recognised for tax-deductible temporary differences only up to an amount by which it is probable that there will be future taxable income against which VR Group can utilise the temporary difference. A deferred tax receivable can be recognised or not recognised on the balance sheet. Their treatment differs as follows:

- Deferred tax receivables recognised on the balance sheet: the amount of these deferred tax receivables and the probability of their utilisation is re-evaluated at the end of each reporting period. If the Group no longer considers the tax benefit in question probable, a corresponding decrease is recognised for the book value of the deferred tax receivable.
- Deferred tax receivables not recognised on the balance sheet: these items are re-evaluated at the end of each period. They are recognised on the balance sheet up to the amount that it is probable that the said receivables can be utilised against future taxable income.

At VR Group, the most significant temporary differences result from provisions, shares in NRC, defined-benefit pensions and depreciation difference. Deferred taxes are not recognised for non-tax-deductible impairment losses of goodwill, and neither for the undistributed earnings of subsidiaries to the extent that the difference is not likely to be cancelled in the foreseeable future. Taxes are recognised for undistributed earnings of foreign subsidiaries only if they are known to result in tax consequences. Deferred tax receivables and liabilities are offset (netted) when they are related to taxes collected by the same taxation authority and can be legally offset under an enforceable right.

VR Group determines the deferred tax receivables and liabilities using the tax rates (and tax laws) which will probably be valid in the period during which the asset will be liquidated or otherwise utilised or the liability will be paid. The tax rate used is the tax rate in force on the closing date of the reporting period or tax rates for the year following the financial year if they have been approved in practice by the closing date of the reporting period in the countries concerned.

The management of VR Group has made assumptions and used certain estimates regarding the tax consequences for future years due to differences between the book values recognised on the financial statements and their taxable values. The key assumptions concern, for instance, the utilisation period of estimated deductible confirmed tax losses remaining unchanged and the tax laws and rates in force remaining unchanged in the near future. The usability of deferred tax receivables is assessed on each closing date, and if the circumstances indicate that no taxable income will be generated in the future against which the temporary difference could be utilised, the deferred tax receivable is cancelled up to the amount that can be used.

No changes have taken place in the corporate tax rates of the countries in which VR Group operates during the current or reference period.

The table below presents the amount of income tax recognised through profit or loss for the 2021 and 2020 financial years.

Amount of income tax recognised through profit or loss (EUR 1,000)

	2021	2020
Tax based on the taxable income for the financial year	**-268**	2,845
Taxes for previous financial years	**647**	63
Change in deferred taxes	**-6,161**	-8,292
Total	**-5,782**	-5,384

The tax expenses included in the consolidated income statement differ from the tax calculated according to Finland's nominal tax rate of 20.0 per cent (20.0) as follows:

	2021	2020
Profit (loss) before income taxes	**-19,458**	-38,458
Taxes calculated using the domestic tax rate	**-3,892**	-7,958
Differing tax rates of foreign subsidiaries	**0**	0
Income taxes for previous years	**647**	63
Unrecognised deferred tax receivables for tax losses	**-303**	0
Non-deductible expenses	**610**	58
Tax-free income	**-27**	-200
Use of tax losses unrecognized for previous years	**25**	0
Subsidiary dividends	**-162**	0
Adjustments concerning consolidation	**-2 680**	2,653
Income taxes on the income statement, total	**-5 782**	-5,384
Effective tax rate, %	**30%**	14%

The tax rate of VR Group's parent company in Finland was 20.0 per cent (20.0). Between 2020 and 2021, there were no changes in the Russian corporate tax rate, and the tax rate in both years was 20.0%, so the tax changes had no impact on the deferred tax receivables and liabilities of the subsidiaries operating in the country.

The table below presents taxes recognised in other comprehensive income

Taxes recognised in other comprehensive income (EUR 1,000)

	2021			2020		
Items that may be reclassified to profit or loss	Before taxes	Tax expense (-) / tax benefit (+)	After taxes	Before taxes	Tax expense (-) / tax benefit (+)	After taxes
Translation differences	-216	0	-216	424	0	424
Cash flow hedging	16,641	-3,328	13,313	-7,293	1,480	-5,813
Items that will not be reclassified to profit or loss						
Items from remeasurements of defined-benefit plans	14,942	-2,988	11,954	-14,155	2,831	-11,324
Financial assets at fair value through other comprehensive income	-8,155	1,631	-6,524	-29,256	5,851	-23,405
Total	**23,212**	**-4,686**	**18,526**	**-50,281**	**10,162**	**-40,118**

The table below presents changes in deferred tax receivables and liabilities

2021 (EUR 1,000)

Deferred tax receivables	1 January 2021	Recognised through profit or loss	Recognised through other compre-hensive income	Exchange rate differences and other changes	31 December 2021
Consolidation	762	337	-183		916
Provisions	9,750	-368			9,382
Hedging	7,987	-2,138	-3,145		2,704
Other items	23,747	7,332	1,631		32,710
Total	**42,247**	**5,163**	**-1,697**	**0**	**45,712**
Netted to deferred tax liabilities	-42,247	-5,163	1,697		-45,712
Deferred tax receivables on the balance sheet	**0**	**0**	**0**	**0**	**0**

Deferred tax liabilities	1 January 2021	Recognised through profit or loss	Recognised through other compre-hensive income	Exchange rate differences and other changes	31 December 2021
Consolidation	1,252	422			1,674
Provisions	7,898	-23			7,875
Pension obligations	15,519	-2,148	2,988		16,359
Depreciation difference	97,196	1,683		-754	98,124
Investment properties	-1,602			1,602	0
Other items	5,904	-932		-513	4,460
Total	**126,166**	**-998**	**2,988**	**335**	**128,492**
Netted from deferred tax receivables	-42,247	-5,163	1,697		-45,712
Deferred tax liabilities on the balance sheet	**83,920**	**-6,161**	**4,686**	**335**	**82,779**

2020 (EUR 1,000)

Deferred tax receivables	1 January 2021	Recognised through profit or loss	Recognised through other compre-hensive income	Exchange rate differences and other changes	31 December 2021
Consolidation	868	200		-305	762
Provisions	10,236	-485		0	9,750
Hedging	6,423	4		1,560	7,987
Other items	4,844	13,052		5,851	23,747
Total	**22,371**	**12,770**	**0**	**7,106**	**42,247**
Netted to deferred tax liabilities	-22,371	-12,770		-7,106	-42,247
Deferred tax receivables on the balance sheet	**0**	**0**	**0**	**0**	**0**

Deferred tax liabilities	1 January 2021	Recognised through profit or loss	Recognised through other compre-hensive income	Exchange rate differences and other changes	31 December 2021
Consolidation	1,138	114			1,252
Provisions	7,921	-23			7,898
Pension obligations	18,539	-189		-2,831	15,519
Depreciation difference	93,960	3,545		-310	97,196
Investment properties	-1,602				-1,602
Other items	4,873	1,031			5,904
Total	**124,829**	**4,478**	**0**	**-3,141**	**126,166**
Netted from deferred tax receivables	-22,371	-12,770		-7,106	-42,247
Deferred tax liabilities on the balance sheet	**102,458**	**-8,292**	**0**	**-10,247**	**83,920**

8. Group structure

8.1. Group structure

The consolidated financial statements include the parent company VR-Group Ltd and all of the subsidiaries over which the parent company has control. The Group has control when it is exposed, or has rights, to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. VR Group's control is based on voting power. The consolidation of a subsidiary begins when VR Group obtains control and ends when control ceases to exist. Changes in holdings that do not result in losing control are treated as equity transactions.

In preparing the consolidated financial statements, intra-Group transactions, receivables, liabilities and unrealised margins and internal distribution of profit are eliminated.

VR Group consolidates acquired or established subsidiaries in the consolidated financial statements using the acquisition method. In this case, the consideration given, the Group's existing investment in the acquiree and the identifiable assets and liabilities of the acquiree are measured at air values at the time of acquisition. The consideration given in conjunction with acquisitions includes any assets given, liabilities emerging with the acquiring party to the previous owners of the acquiree and issued equity interests. Acquisition-related expenses are recognised as expenses through profit or loss, except for expenses resulting from the issue of debt or equity instruments.

Any conditional consideration (earn-out) is measured at fair value at the time of acquisition. An earn-out classified as a liability is measured at fair value on the closing date of each reporting period.

Non-controlling interest in the acquiree is measured at fair value or an amount corresponding to the non-controlling interests' proportional share of the identifiable net assets of the acquiree.

Associated companies

At VR Group, associated companies are companies over which the Group exerts considerable influence. Considerable influence is considered to emerge if the Group holds a minimum of 20 per cent of votes in the company or when the Group otherwise has considerable influence on the company, but not control. Associated companies are consolidated using the equity method.

If the Group's share of the losses of the associated company exceed the book value of the investment, the investment is recognised at zero value on the balance sheet. Losses exceeding the book value are not consolidated, unless the Group has committed itself to fulfill the obligations of the associated companies. The investment in an associated company includes the goodwill arising from its acquisition. The Group's share of profit in associated companies, based on the Group's holding in the companies, is shown on the income statement under operating profit (EBIT). The Group's share of changes recognised in other comprehensive income of the associated company is shown in the Group's other comprehensive income.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control involves the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Arrangements subject to joint control are classified as either a joint venture or a joint operation.

A joint venture is an arrangement in which the parties sharing joint control have rights to the net assets of the arrangement. A joint operation is an arrangement in which the parties sharing joint control have rights to assets and obligations for liabilities.

All of the Group's joint arrangements, such as the alliance, Karelian Trains Ltd and mutual real estate companies, are joint operations. The Group consolidates its share of the assets and liabilities and income and expenses of the joint operations line by line on the balance sheet and income statement. The rolling stock company Oy Karelian Trains Ltd was established in November 2006 to acquire high-speed rolling stock for the Helsinki–St. Petersburg route. The company is also responsible for procuring the servicing and maintenance services required by the rolling stock and leasing rolling stock to operators managing passenger services. The company is domiciled in Helsinki. The company is owned by VR-Group Ltd and Russian Railways OAO RZD with equal holdings.

The management has exercised discretion in classifying the nature of VR's holding in Karelian Trains and the joint operation. In particular, the agreed decision-making mechanism, legal structure and funding of the arrangement are reviewed in determining the classification.

Group structure

VR Group includes the following companies:

Company	Domicile	Group holding (%) 2021	2020	Segment
Oy Pohjolan Liikenne Ab	Helsinki	100	100	VR Passenger Services
Transpoint International (FI) Oy	Helsinki	0	100	VR Transpoint
OOO VR Transpoint	Russia	0	100	VR Transpoint
AO Transpoint International (RU)	Russia	0	100	VR Transpoint
Avecra Oy	Helsinki	100	100	VR Passenger Services
VR FleetCare Ltd	Helsinki	100	100	VR FleetCare
SeaRail Oy	Tampere	100	100	VR Transpoint
Transitar Oy	Kuopio	100	0	VR Transpoint
Limited Liability Company Finnlog	Russia	100	100	VR Transpoint
VR Norge AS	Norway	100	0	VR Passenger Services

During the financial year, VR Group divested its holding in Transpoint companies in Finland and Russia.

Transitar Oy which was acquired during the financial year provides recycling logistics services in Finland and the neighbouring areas as part of VR Transpoint's road logistics.

The acquired VR Norge AS has not had any business operations during the year. Pohjolan Liikenne manages bus service traffic in the capital region and operates domestic and international charter and contract services.

VR FleetCare Ltd is VR-Group's subsidiary which is responsible for ensuring the maintenance of rolling stock. The company has depots and machine shops in Helsinki, Tampere, Kouvola, Joensuu, Kokkola, Oulu and Pieksämäki, as well as sites in Kotka, Hamina and Imatra. VR FleetCare Ltd offers expert services for rolling stock, track infrastructure and their systems, also to customers outside VR Group.

SeaRail offers terminal and material handling services to Metsä Board's Tako board mill in Tampere, and it operates as part of VR Transpoint's road logistics. Avecra provides restaurant, café and kiosk services on long-distance trains and at railway stations.

Finnlog operates in import traffic between Russia and Finland. Finnlog operates the cars in Russia, takes care of the maintenance agreements and has the operative responsibility for planning and managing the use of the wagons in Russia. Limited Liability Company Finnlog leases wagons for the wood import traffic of Finnish forestry businesses. The goal is to expand the operations to cover other product groups as well.

Associated companies

Information about the Group's associated companies is presented in the table below:

Company	Domicile	Group holding (%) 2021	2020	Book value (EUR 1,000) 2021	2020	Segment
Freight One Scandinavia Ltd.	Helsinki	**50**	50	**816**	749	VR Transpoint
Oy ContainerTrans Scandinavia Ltd.	Helsinki	**50**	50	**944**	746	VR Transpoint
Varkauden Keskusliikenneasemakiinteistö Oy	Varkaus	**33.3**	33.3	**208**	207	Other operations
Associated companies, total				**1,968**	1,703	

Freight One Scandinavia Ltd. is a logistics company specialising in railway transport between Finland, Russia and the CIS countries. The company sells and operates wagon-load transports in Eastern traffic.

Oy ContainerTransScandinavia Ltd. (CTS) is a joint venture established by VR and JSC TransContainer in 2007, specialising in rail transport of container goods.

Varkauden keskusliikenneasema Oy is owned by the City of Varkaus, Matkahuolto Oy and VR-Group Ltd. The station is located in the city of Varkaus, and it serves train, bus and taxi passengers.

The Group considers the associated companies not to be independently major. Below is a summary of the financial data of the associated companies.

(EUR 1,000)	**2021**	**2020**
Group's share of the profit for the financial period	**466**	260
Group's share of other comprehensive income	**0**	0
Group's share of comprehensive income	**466**	260

Joint arrangements

Information about the Group's joint arrangements, all of which are joint operations, is presented below:

Company	Domicile	Group holding (%) 2021	2020
Oy Karelian Trains Ltd	Helsinki	50	50

Joint operations

VR Group consolidates Oy Karelian Trains Ltd as a joint operation. The parties to the joint operation aim to timely and cost-efficiently address the growing need for passenger services between Helsinki and St. Petersburg. The company was established to procure and lease high-speed rolling stock for the operators of the service between Helsinki and St. Petersburg. The operators are VR in Finland and RZD in Russia. The line of business of Oy Karelian Trains Ltd is to procure, lease, own and manage rolling stock.

VR's share of Karelian Trains' income and expenses and assets, liabilities and shares of the company's joint items are consolidated into VR Group's consolidated financial statements in accordance with the principles agreed upon in the shareholders' agreement. VR Group's interest in the share capital of the arrangement is 50 per cent.

VR Group implements planning service and rail traffic operation services in Tampere via an alliance. The alliance is based on the parties' agreement on implementing services in cooperation. The parties to the arrangement are jointly liable for the liabilities and obligations of the alliance.

8.2. Consolidation

Acquired subsidiaries are consolidated using the acquisition method. The consideration given and the identifiable assets and liabilities of the acquiree are measured at fair value at the time of acquisition. The consideration given includes any assets given and liabilities emerging with the acquiring party to the previous owners of the acquiree.

Acquisition-related expenses, such as expert fees, are recognised as expenses for the period during which the expenses occur and services are received. The amount by which the consideration transferred and previous holding in the acquiree at fair value exceed the net identifiable assets and liabilities of the acquiree is booked as goodwill.

During the financial year, VR Group acquired Transitar Oy, a transport company that specialises in recycling logistics. The deal was agreed upon on 23 June 2021, and the acquisition was completed on 1 July 2021. Transitar will continue as a wholly owned subsidiary of VR Group, as part of VR Transpoint's road logistics business. The net sales of Transitar Oy for an entire financial year are approximately EUR 16 million and the impact on the net sales of VR Group for the financial year is EUR 8 million. The purchase price and the impact of the acquisition on the income for the financial period were not significant. The parties have agreed to not disclose the purchase price.

22 September 2021 VR Group established a subsidiary in Norway by acquiring the shares of VR Norge AS. The company did not have any business during the financial year.

8.3. Divestments

VR Group sold its international road logistics business to the Finnish company Avind International Oy. The transaction was implemented on 18 June 2021, and it comprised Transpoint International (FI) Oy owned by VR-Group and two Russian subsidiaries owned by Transpoint International (FI) Oy. Transpoint International (FI) has been responsible for VR Transpoint's international road traffic in Russia. The net sales of the companies sold totalled EUR 18 million in the financial period 2020. The impact of the corporate sales on the net sales for the financial year 2021 is approximately EUR -9 million. The sale did not have a significant impact on the VR Group's figures.

9. Off-balance sheet items

9.1. Contingent liabilities, contingent assets and commitments

A contingent liability arises for VR Group when there is a possible obligation that arises from past events whose existence will be confirmed only by a future event not within the control of the Group. The Group has a present obligation that arises from past events but either it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the Group cannot measure the amount of the obligation with sufficient reliability.

Contingent liabilities are not recognised in the balance sheet, but are reported in notes of the financial statement, unless it is very improbable that the payment obligation will materialise.
A contingent asset arises for VR Group if future economic benefit to the Group is probable but not certain in practice and depends on an events that is not wholly within the control of the Group. Contingent assets are reported in notes. If the materialisation of the income item is practically certain, it is recognised.

9.1.1. Securities

(EUR 1,000)	2021	2020
Guarantees given on own behalf		
Mortgages on properties	**6,100**	6,100
Contract and agreement guarantees	**58,559**	52,001
Rental commitments	**675**	661
Other commitments given	**651**	1,104
Commitments given, total	**65,985**	59,867

9.1.3. Commitments and other open liabilities

On 12 February 2014, VR Group Ltd and a consortium formed by Siemens Oy and Siemens AG signed a contract, by which VR Group Ltd ordered 80 electric locomotives, their documentation, spare parts, tools and training. The commitment was worth EUR 314.5 million when the contract was signed. The deliveries will take place during 2017–2026. As of 31 December 2021, 42 locomotives have been delivered with an open purchase commitment amounting to EUR 143.2 million (EUR 156.9 million on 31 December 2020).

On 12 April 2019, VR-Group Ltd entered into an agreement with Stadler Rail Valencia S.A.U. for 60 diesel locomotives and related documentation, spare parts, tools and training. The value of the commitment was EUR 209.0 million at the time of signing. The first locomotives are estimated to be introduced in commercial traffic in 2023 and all 60 locomotives to be delivered by the end of 2026. The amount of the open purchase commitment is EUR 182.2 million on 31 December 2021.

In its decision KHO 2018:68, the Supreme Administrative Court has interpreted the restoration costs of degraded land and the demolition of old buildings on the property in certain cases as being closely linked to the sale of the property, which is a VAT-free event. As a result, the selling company was also not allowed to deduct VAT for restoration and demolition costs. Over the past few years, VR Group has sold properties where cleaning operations worth a total of approximately ten million euros have been carried out. Additionally, when estimating the cost of restoring the degraded land held by VR Group, VR Group deducted VAT for them. It is possible that in some of the cases mentioned above, VAT is not deductible in accordance with the above court decision. VR Group has asked the tax authority for a preliminary ruling on the right to deduct VAT. Before a resolution is reached, it is not possible to reliably estimate the impact on the amount of the required reservation.

9.1.4. Legal proceedings and disputes

On 17 June 2021, the Helsinki District Court issued its decision concerning the matter related to the supplementary pensions paid by VR Pension Fund. The claimants demand VR to compensate for the amount by which the claimants' overall pension remains lower after the supplementary pension is adjusted for the reduction for early retirement. The District Court accepted the claimants' demands. VR has made an appeal to the Helsinki Court of Appeal.

An action has been brought before the Helsinki District Court (more than 260 locomotive drivers in total) concerning the matter of unpaid food breaks. The plaintiffs request the District Court to confirm that the right to eat during working hours has become a condition of the employment between the plaintiffs and the defendants.

There is a pending case in the South Savo District Court related to an environmental accident that occurred in Kinni, Mäntyharju in the spring of 2018. The prosecutor has demanded a corporate fine for VR in this case.

The Group did not have any other pending legal proceedings or disputes in the financial years 2020–2021.

10. Events after the closing date of the reporting period

VR-Group Ltd and the Ministry of Transport and Communications signed a nine-year contract on the procurement of contract passenger train services for the period 1 February 2022 to 31 December 2030. The state acquires traffic from VR Group on routes where ticket revenue is insufficient to cover commercially viable services. The total value of the contract (including VAT) is EUR 313.8 million, i.e. the annual compensation for operation is EUR 34.9 million.

Russia's attack on Ukraine has led to economic sanctions against Russia by the West. VR co-operates with the Russian Railways RZD in passenger and freight transport in the border traffic between Finland and Russia. Oy Karelian Trains Ltd, a 50/50 joint venture between VR and RZD, owns the Allegro stock that operates between Helsinki and St. Petersburg. The RZD is listed on the EU-US sanctions list, and the sanctions imposed are on finance and infrastructure. RZD's rail transport business is not subject to sanctions.

Parent company financial statements (FAS)

Parent company income statement (EUR 1,000)

	Note	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Net sales	1	**674,022**	636,106
Other operating income	2	**74,863**	64,160
Materials and services	3	**-136,907**	-120,999
Personnel expenses	4	**-212,966**	-215,511
Depreciations, amortisations and impairment losses	5	**-127,484**	-115,901
Other operating expenses	6	**-286,451**	-286,403
Expenses, total		**-763,807**	-738,815
Operating profit (EBIT)		**-14,922**	-38,548
Financial income and expenses	7	**-8,456**	-39,283
Profit before appropriations and taxes		**-23,378**	-77,831
Change in depreciation difference	8	**-10,636**	-13,324
Group contributions	9	**5,300**	500
Income taxes	10	**-11**	-18
Net profit for the year		**-28,724**	-90,672

Parent company balance sheet (EUR 1,000)

Assets

	Note	12/31/21	12/31/20
Non-current assets			
Intangible assets	11	**36,407**	33,588
Tangible assets	11	**1,299,689**	1,275,649
Investments	12		
Holdings in and receivables from Group companies		**66,596**	63,862
Holdings in and receivables from associated companies		**1,273**	1,273
Other investments		**33,398**	41,641
Non-current assets, total		**1,437,363**	1,416,012
Current assets			
Inventories	13	**836**	750
Long-term receivables	14	**18,991**	22,479
Short-term receivables	14	**127,766**	80,602
Financial securities	15	**0**	108,760
Cash and cash equivalents		**56,460**	87,415
Current assets, total		**218,610**	300,005
Assets, total		**1,641,417**	1,716,017

Equity and liabilities

	Note	12/31/21	12/31/20
Equity	16		
Share capital		**370,013**	370,013
Fair value reserve		**-16,515**	-36,443
Invested non-restricted equity reserve		**376,228**	376,228
Retained earnings		**60,021**	150,694
Net profit for the year		**-28,724**	-90,672
Equity, total		**761,024**	769,819
Appropriations	17	**466,378**	455,742
Provisions	18	**7,269**	7,277
Liabilities			
Long-term liabilities	19	**210,595**	225,739
Short-term liabilities	19	**196,151**	257,439
Liabilities, total		**406,747**	483,178
Equity and liabilities, total		**1,641,417**	1,716,017

Parent company cash flow statement (EUR 1,000)

Cash flow from operating activities	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Operating profit (EBIT)	**-14,961**	-38,548
Planned depreciation, amortisation and impairment losses	**104,724**	102,105
Amortisation of right-of-use assets	**12,638**	13,797
Sales profit from the disposal of fixed assets and other adjustments (1)	**9,510**	4,021
Change in inventories	**-86**	-128
Change in short-term receivables	**-14,198**	11,141
Change in short-term liabilities	**29,712**	-39,227
Interest received	**547**	779
Interest paid and payments for other financial transactions	**-6,889**	-7,185
Interest paid for right-of-use liabilities	**-1,478**	-1,665
Dividends received	**962**	1,001
Income taxes paid	**-3,575**	0
Net cash from operating activities	**116,906**	46,091

Cash and cash equivalents consist of financial securities and cash and cash equivalents.

(1) Non-cash flow items and items shown elsewhere in the cash flow.

Cash flow from investing activities	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Capital expenditure on fixed assets	**-139,649**	-130,642
Disposal of fixed assets	**5,303**	1,803
Shares in subsidiaries sold	**600**	1,310
Change in holdings in associated companies	**0**	3
Subsidiaries acquired	**-2,963**	0
Change in other shares and holdings	**-10**	-12,368
Change in other long-term investments	**0**	0
Net cash from investing activities	**-136,720**	-139,893
Cash flow before financing activities	**-19,814**	-93,802
Cash flow from financing activities		
Change in long-term receivables	**2,516**	-5,044
Change in short-term interest-bearing receivables	**-367**	-1,269
Change in long-term liabilities	**0**	22
Repayment of right-of-use liabilities	**-14,903**	-14,769
Group contributions	**500**	11,900
Dividends paid	**-100,000**	0
Change in funds transferred to Group accounts	**-7,648**	0
Net cash from financing activities	**-119,901**	-9,160
Change in cash and cash equivalents	**-139,715**	-102,962
Cash and cash equivalents 1 Jan.	**196,175**	299,329
Cash and cash equivalents 31 Dec.	**56,460**	196,175

Accounting principles

Scope of the consolidated financial statements

All subsidiaries and associated companies are consolidated in the consolidated financial statements. More information about the companies and associated companies in the Group is described in the Note “Investments”.

The parent company of the Group is VR-Group Ltd and its domicile is Helsinki, Finland. Copies of the consolidated financial statements are available from the company’s headquarters at Radiokatu 3, P.O. Box 488, 00240 Helsinki, Finland.

Basis of preparation for consolidated financial statements

Intragroup shareholdings

The consolidated financial statements are prepared using the acquisition method. Goodwill is measured at original acquisition cost less accumulated impairment losses, the amount of which the Group assesses annually at the minimum. Goodwill is not regularly amortised.

Intragroup transactions and margins

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

Minority interests

Minority interests are separated from the Group’s equity and net profit and shown as a separate item.

Associated companies

Associated companies are consolidated using the equity method. The Group’s share of profit in associated companies, based on the Group’s holding in the companies, is shown as a separate item.

Comparability of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) approved by the EU in force on 31 December 2021. International Financial Reporting Standards refers to the standards and associated interpretations in the Finnish Accounting Act and in regulations issued under it that are approved by the EU for application in accordance with the procedure laid down in Regulation (EC) No 1606/2002. The Group has applied these accounting principles both to the financial years 2021 and 2020. The comparative financial year is 12 months, 1 January - 31 December 2020.

Comparability of the parent company´s financial statements

The parent company financial statements are prepared in accordance with the Finnish Accounting Act of 30 December 1997 (1336). The figures for comparison are from the accounting period 1 January–31 December 2020 (12 months).

Valuation principles

Fixed assets are capitalised at direct acquisition costs.

Inventories are valued at average cost in line with the prudence concept of accounting. Production for own use included in inventories is valued at direct production costs. Work in progress includes variable costs accrued on the balance sheet date. Production for own use included in inventories also includes a portion of fixed costs.

Financial securities are valued at acquisition cost.

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

The balance sheets of foreign subsidiaries are consolidated at the average exchange rate of the European Central Bank on the balance sheet date and their income statements at the average exchange rate for the accounting period.

Leases

From the beginning of 2016, VR Group has applied Chapter 5, Section 5 b of the Finnish Accounting Act, according to which assets acquired under financial leasing can be recognised in the financial statements. The IFRS 16 Leases standard that came into effect as of 1 January 2019 deals with the definition, recognition, measurement and disclosure of leases and other financial statements for leases. The standard requires the lessee to recognise a right-of-use asset and a financial liabilityin their balance sheet.

The Group adopted the standard by using the simplified approach, in other words the comparison periods are no longer adjusted, and the lease liability is determined using as the discount rate the current value of the remaining lease payment additional credit rate at the deployment time. The right-of-use assets with regard to fixed-term contracts are written down in the balance sheet as if the standard had always been in effect. The right-of-use assets with regard to fixed-term contracts are recorded as equal to the liability.

The relief for leases of less than 12 months and for low value assets included in the standard have been implemented.

Derivatives

From the beginning of 2016, VR Group has applied Chapter 5, Section 2 a of the Finnish Accounting Act, according to which derivatives can be recognised on the balance sheet at fair value. The fair values are based either on market prices on the balance sheet date or on the net present value of future cash flows by using interest rates at the balance sheet date.

Changes in the fair value of derivatives are recorded on the balance sheet in the fair value reserve under restricted equity when hedge accounting principles are applicable and the hedges are effective. If the hedge accounting principles are not applicable or the hedges are not effective, the changes in fair values are recorded in the income statement. The effectiveness of the hedges is tested annually with sensitivity analysis.

Pensions

The statutory pension security under the Employees Pensions Act (TyEL) is arranged through an external pension insurance company. Pension costs are expensed as incurred. Some of the employees enjoy a supplementary pension plan, which is arranged through the VR Pension Fund. The Pension Fund was closed on 1 July 1995. The Pension Fund administers supplementary pension benefits for 195 employees at the end of 2020. In 2021, no contributions were paid to the VR Pension Fund. The Group’s pension commitments are fully covered.

Deferred taxes

Deferred tax liabilities and receivables are calculated for temporary differences between taxation and the financial statements using the tax rate for the following years as confirmed on the balance sheet date. The balance sheet includes deferred tax liabilities in their entirety and deferred tax receivables as the estimated number of likely receivables.

In order to follow the principle of prudence, the Group has not recorded deferred tax receivables on the balance sheet for confirmed losses or for losses from the financial year to be confirmed with regard to the Group’s foreign subsidiaries.

Notes to the income statement

1. Net sales by sector and geographical area
(EUR 1,000)

Net sales by sector	2021	2020
VR		
Rail services	**303,013**	274,532
VR Transpoint		
Rail services	**304,748**	302,332
Road transport	**66,261**	59,243
Total	**674,022**	636,106

Net sales by geographical area		
Finland	**674,022**	636,106
Total	**674,022**	636,106

2. Other operating income (EUR 1,000)

	2021	2020
Rental income	**44,557**	44,093
Profit on sale of non-current assets	**3,834**	1,227
Other income	**26,473**	18,841
Total	**74,863**	64,160

3. Materials and services (EUR 1,000)

Materials and supplies (goods)	2021	2020
Purchases during the year	**-55,467**	-44,371
Change in inventories	**13**	-147
External services purchased	**-81,453**	-76,481
Total	**-136,907**	-120,999

4. Employees and personnel expenses

During the accounting period, the average number of VR-Group Ltd's employees by sector was as follows:

	2021	2020
VR Passenger services	**1,058**	1,041
VR Transpoint	**1,038**	1,046
Train operations	**998**	1,032
Other Group services	**204**	221
Total	**3,298**	3,339

Personnel expenses (EUR 1,000)

	2021	2020
Wages and salaries	**-184,990**	-182,130
Pension expenses	**-20,792**	-26,256
Other personnel related expenses	**-7,184**	-7,125
Total	**-212,966**	-215,511

5. Depreciations, amortisations and impairment losses (EUR 1,000)

	2021	2020
Planned depreciations and amortisations (1)		
Intangible assets	**-9,686**	-11,309
Buildings and structures	**-16,230**	-17,729
Tractive and rolling stock	**-92,058**	-79,436
Other machinery and rolling stock	**-7,670**	-6,678
Other tangible assets	**-1,840**	-749
Total	**-127,484**	-115,901

(1) Itemisation of rental property assets in note 12

Planned depreciation periods and methods are:

Intangible rights	5 years	straight-line depreciation
Other long-term expenses	3–10 years	straight-line depreciation
Buildings	4–7%	declining
Structures	20 %	declining
Tractive stock	30 years	straight-line depreciation
Electric trains	25 years	straight-line depreciation
Cars	15–30 years	straight-line depreciation
Other machinery and equipment	5–15 years	straight-line depreciation
Other tangible assets	5–30 years	straight-line depreciation

Planned depreciations are calculated on a straight-line basis from the original acquisition cost based on the economic life of the fixed assets except for buildings and structures.

6. Other operating expenses (EUR 1,000)

	2021	2020
Track access fees and track taxes	**-43,685**	-41,645
Rents and other real estate expenses	**-34,644**	-33,078
Travel and other personnel expenses	**-13,966**	-11,520
Telecommunication and information management expenses	**-30,079**	-32,214
Other operation-related expenses	**-16,034**	-15,575
Administration and other expenses	**-148,043**	-152,372
Total	**-286,451**	-286,403

Auditors' fees (EUR 1,000)

	2021	2020
Auditing fees	**-275**	-136
Other services	**-64**	-38
Total	**-339**	-174

7. Financial income and expenses (EUR 1,000)

Dividend income	2021	2020
From Group companies	**810**	800
From associated companies	**150**	200
From others	**2**	1
Dividend income, total	**962**	1,001
Other short-term interest and financial income		
From Group companies	**423**	517
From associated companies	**0**	0
From others	**10,869**	1,460
Interest and other financial income, total	**11,293**	1,977
Interest expenses and other financial expenses		
Impairment losses from investments in non-current assets	**-8,155**	-29,256
Impairment losses from financial securities in current assets	**148**	-209
Interest expenses of lease liabilities	**-1,478**	-1,665
To others	**-11,226**	-11,131
Interest and other financial expenses, total	**-20,711**	-42,262
Financial income and expenses, total	**-8,456**	-39,283

8. Change in depreciation difference (EUR 1,000)

Difference between planned depreciations and depreciations in taxation

	2021	2020
Change in depreciation difference (increase -, decrease +)	**-10,636**	-13,324

9. Group contributions (EUR 1,000)

	2021	2020
Group contributions received	**5,300**	500
Total	**5,300**	500

10. Income taxes (EUR 1,000)

	2021	2020
Income tax on operating activities	**-3**	0
Other income taxes	**-7**	-18
Total	**-11**	-18

11. Non-current assets

2021 (EUR 1,000)

	Intangible assets			Tangible assets					
	Intangible rights and other capitalised long-term expenses	Goodwill	Total	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 January	124,446	198	124,644	30,402	403,470	1,918,942	14,109	126,125	2,493,048
Increases	4,409		4,409	10	9	93,126	11	52,171	145,328
Decreases	-1,516		-1,516	-92	-2,172	-41,855			-44,119
Reclassifications	8,902		8,902		1,813	52,700	424	-62,345	-7,409
Acquisition cost 31 Dec.	**136,241**	**198**	**136,439**	**30,321**	**403,120**	**2,022,913**	**14,544**	**115,951**	**2,586,848**
Accumulated depreciations 1 January	-90,857	-198	-91,055	0	-220,869	-1,194,795	-8,942	0	-1,424,606
Accumulated depreciation for decreases	710		710		1,384	22,395			23,779
Depreciations and impairment losses for the financial year	-9,686		-9,686		-13,878	-80,361	-799		-95,038
Reclassifications						-1,490			-1,490
Accumulated depreciations 31 December	**-99,833**	**-198**	**-100,031**	**0**	**-233,362**	**-1,254,252**	**-9,741**	**0**	**-1,497,355**
Book value 31 December	**36,407**	**0**	**36,407**	**30,321**	**169,758**	**768,661**	**4,803**	**115,951**	**1,089,494**

2020 (EUR 1,000)

	Intangible rights and other capitalised long-term expenses	Goodwill	Total	Land and water areas	Buildings and structures	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 January	121,648	198	121,846	30,740	399,184	1,833,845	12,547	125,901	2,402,218
Increases								130,658	130,658
Decreases	-6,697		-6,697	-338	-1,779	-28,041		-175	-30,333
Internal transfers									0
Reclassifications	9,494		9,494	0	6,065	113,138	1,562	-130,260	-9,494
Acquisition cost 31 Dec.	**124,446**	**198**	**124,644**	**30,402**	**403,470**	**1,918,942**	**14,109**	**126,125**	**2,493,048**
Accumulated depreciations 1 January	-84,666	-198	-84,864	0	-206,779	-1,145,048	-8,241	0	-1,360,068
Accumulated depreciation for decreases	5,119		5,119		428	25,829			26,258
Depreciations of the year	-11,309		-11,309		-14,518	-75,577	-701		-90,795
Accumulated depreciation 31 Dec.	**-90,857**	**-198**	**-91,055**	**0**	**-220,869**	**-1,194,795**	**-8,942**	**0**	**-1,424,606**
Book value 31 December	**33,589**	**0**	**33,589**	**30,402**	**182,602**	**724,147**	**5,167**	**126,125**	**1,068,443**

11. Non-current assets (EUR 1,000)

2021

The right-of-use assets, tangible assets	Land and water areas	Buildings and structures	Machinery and equipment	Total
Acquisition cost 1 Jan	588	27,598	255,396	283,582
Increases	16,857	9,789	2,430	29,076
Decreases		-800	-17,331	-18,131
Reclassifications			-44,869	-44,869
Acquisition cost 31 Dec	**17,445**	**36,588**	**195,626**	**249,658**
Accumulated depreciations 1 Jan	-96	-6,403	-69,877	-76,376
Accumulated depreciation for decreases		629	4,058	4,687
Depreciation of the financial year	-1,041	-2,352	-9,245	-12,638
Reclassifications			44,865	44,865
Accumulated depreciations 31 Dec	**-1,138**	**-8,126**	**-30,199**	**-39,463**
Book value 31 Dec	**16,307**	**28,461**	**165,427**	**210,196**

2020

The right-of-use assets, tangible assets	Land and water areas	Buildings and structures	Machinery and equipment	Total
Acquisition cost 1 Jan	588	29,003	254,832	284,423
Increases		196	380	576
Decreases		-1,601	184	-1,417
Reclassifications				0
Acquisition cost 31 Dec	**588**	**27,598**	**255,396**	**283,582**
Accumulated depreciations 1 Jan	-48	-3,089	-59,139	-62,277
Accumulated depreciation for decreases			85	85
Depreciation of the financial year	-48	-3,314	-10,822	-14,184
Reclassifications				0
Accumulated depreciations 31 Dec	**-96**	**-6,403**	**-69,877**	**-76,376**
Book value 31 Dec	**492**	**21,195**	**185,519**	**207,206**

12. Investments (EUR 1,000)

2021

	Holdings in associated companies	Holdings in associated companies	Other shares and holdings	Total
Acquisition cost 1 Jan	66,362	1,272	92,493	**160,127**
Increases	6,083		10	**6,093**
Decreases	-5,848			**-5,848**
Acquisition cost 31 Dec	**66,596**	**1,272**	**92,503**	**160,372**
Accumulated depreciations 1 Jan	-2,500	0	-50,853	**-53,353**
Decreases	2,500			**2 500**
Impairment losses			-8,253	**-8,253**
Accumulated depreciation 31 Dec	**0**	**0**	**-59,106**	**-59,106**
Book value 31 Dec	**66,596**	**1,272**	**33,398**	**101,267**

2020

	Holdings in associated companies	Holdings in associated companies	Other shares and holdings	Total
Acquisition cost 1 Jan	68,571	1,301	80,136	**150,007**
Increases			12,368	**12,368**
Decreases	-2,209	-29	-10	**-2,248**
Acquisition cost 31 Dec	**66,362**	**1,272**	**92,493**	**160,127**
Accumulated depreciations 1 Jan	-2,500	0	-21,596	**-24,096**
Decreases				**0**
Impairment losses			-29,256	**-29,256**
Accumulated depreciation 31 Dec	**-2,500**	**0**	**-50,853**	**-53,353**
Book value 31 Dec	**63,862**	**1,272**	**41,641**	**106,775**

12. Investments

Shares owned by VR-Group Ltd

	ownership %	
Group companies	**2021**	**2020**
Oy Pohjolan Liikenne Ab, Helsinki	**100**	100
Transpoint International (FI) Oy, Helsinki	**0**	100
Avecra Oy, Helsinki	**100**	100
Searail, Tampere	**100**	100
Limited Liability Company Finnlog, Russia	**99.9**	99.9
VR Fleetcare Ltd, Helsinki	**100**	100
Transitar Oy, Kuopio	**100**	0
VR Norge As, Norja	**100**	0

13. Inventories (EUR 1,000)

	2021	**2020**
Materials and supplies	**836**	750
Total	**836**	750

14. Receivables (EUR 1,000)

Long-term receivables

Receivables from Group companies	**2021**	**2020**
Loan receivables	**13,959**	17,976
Receivables from Group companies, total	**13,959**	17,976

Receivables from others		
Non-current derivative receivables	**2,494**	3,886
Non-current loan receivables	**367**	0
Other receivables	**2,172**	617
Receivables from others, total	**5,032**	4,503

Long-term receivables, total	**18,991**	22,479

Short-term receivables

Receivables from Group companies	2021	2020
Accounts receivable	**594**	224
Loan receivables	**2,012**	2,792
Other receivables	**23,933**	1,990
Prepaid expenses and accrued income	**731**	116
Receivables from Group companies, total	**27,270**	5,122

Receivables from associated companies		
Accounts receivable	**328**	343
Receivables from associated companies, total	**328**	343

Receivables from others		
Accounts receivable	**52,004**	44,683
Current loan receivables	**367**	0
Other receivables	**4,501**	3,494
Prepaid expenses and accrued income	**43,297**	26,959
Receivables from others, total	**100,168**	75,136

Short-term receivables, total	**127,766**	80,602

Main items in prepaid expenses and accrued income

	2021	2020
Accrued income	**12,623**	14,091
Accrued expenses	**721**	940
Other prepaid expenses	**30,684**	12,045
Prepaid expenses and accrued income total	**44,028**	27,075

15. Financial securities (EUR 1,000)

The financial securities include investment certificates and certificates of deposit issued by banks, funds, commercial papers and the part of corporate and government bonds maturing within a year.

	2021	2020
Replacement value	**0**	108,791
Book value	**0**	108,760
Difference	**0**	31

16. Equity (EUR 1,000)

Restricted equity	2021	2020
Share capital 1 Jan	**370,013**	370,013
Share capital 31 Dec	**370,013**	370,013
Fair value reserve 1 Jan	**-36,443**	-32,115
Increases	**19,928**	-4,328
Fair value reserve 31 Dec	**-16,515**	-36,443
Restricted equity, total	**353,499**	333,570
Non-restricted equity		
Invested non-restricted equity reserve 1 Jan	**376,228**	376,228
Invested non-restricted equity reserve 31 Dec	**376,228**	376,228
Retained earnings 1 Jan	**60,021**	250,694
Dividends paid	**0**	-100,000
Decreases	**0**	0
Retained earnings 31 Dec	**60,021**	150,694
Net profit for the year	**-28,724**	-90,672
Non-restricted equity, total	**407,525**	436,249
Equity, total	**761,024**	769,819

Calculation of distributable funds (EUR 1,000)

	2021	2020
Retained earnings from previous financial years	**60,021**	150,694
Net profit for the financial year	**-28,724**	-90,672
Invested non-restricted equity reserve	**376,228**	376,228
Negative fair value reserve	**-16,515**	-36,443
Total	**391,010**	399,806

17. Depreciation difference (EUR 1,000)

2021	Depreciation difference	Total
Book value 1 Jan	455,742	**455,742**
Change in the income statement	10,636	**10,636**
Book value 31 Dec	**466,378**	**466,378**
2020		
Book value 1 Jan	442,418	**442,418**
Change in the income statement	13,324	**13,324**
Book value 31 Dec	**455,742**	**455,742**

Deferred tax liabilities related to the depreciation difference MEUR 93.3 (MEUR 91.1)

18. Provisions (EUR 1,000)

	2021	2020
Provisions	**7,269**	7,277

The regulated provisions consist of provisions for environmental obligations.

19. Liabilities (EUR 1,000)

Long-term liabilities

Liabilities to others	2021	2020
Long-term lease liabilities	**183,904**	183,199
Long-term derivative liabilities	**26,074**	42,143
Other liabilities	**618**	397
Liabilities to others, total	**210,595**	225,739
Long-term liabilities, total	**210,595**	225,739

Liabilities due after five years	2021	2020
Long-term lease liabilities	**126,796**	125,745
Long-term derivative liabilities	**24,992**	40,677

Short-term liabilities

Liabilities to Group companies	2021	2020
Accounts payable	**23,088**	4,443
Accrued expenses and prepaid income	**13,661**	23,986
Other liabilities	**14,345**	0
Liabilities to Group companies, total	**51,093**	28,429
Liabilities to associated companies		
Accounts payable	**17**	7
Liabilities to associated companies, total	**17**	7
Liabilities to others		
Short-term lease liabilities	**13,866**	14,904
Accounts payable	**35,622**	30,134
Accrued expenses and prepaid income	**78,700**	67,792
Other liabilities	**5,190**	7,944
Advances received	**11,754**	8,228
Dividend payment liability	**0**	100,000
Liabilities to others, total	**145,041**	229,003
Short-term liabilities, total	**196,241**	257,439

Main items in accrued expenses and prepaid income

	2021	2020
Personnel related liabilities	**41,509**	38,681
Accrued income and expenses	**36,421**	25,881
Other items	**14,341**	27,216
Total accured expenses and prepaid income	**92,271**	91,778

20. Leases

VR-Group Ltd has applied the IFRS 16 Leases standard as of 1 January 2019. According to the IFRS 16 standard, lessees must enter all lease contracts as right-of-use assets and lease liabilities on the balance sheet, excluding short-term and low value assets and leases in which the lease payments are based on the lessee's performance.

The right-of-use assets with regard to fixed-term contracts are recorded in the balance sheet as if the standard had always been in effect.

The right-of-use assets with regard to fixed-term contracts are recorded as equal to the liability.

Lease liability is valued at the present value of future rentals. The right-of-use assets is valued at acquisition cost and the depreciations are recorded according to the IAS 16 standard as straight-line depreciations.

VR Group has applied the alternative of transitional provisions in which the comparison periods are not adjusted.

In addition, VR Group has made use of the exemption permitted by the standard to exclude short-term and low-value leases.

Due dates of lease liabilities (EUR 1,000)

	2021	2020
Within one year	**13,866**	14,904
Between one year and five years	**57,108**	57,454
After five years	**126,796**	125,745
Total	**197,769**	198,103

21. Contingent liabilities (EUR 1,000)

Liabilities with the parent company's payment guarantee

	2021	2020
Financial leasing liabilities	**151,303**	160,705
Value of commitments given	**42,163**	17,663
On whose behalf the commitments were given:		
On behalf of Group companies	**42,163**	17,663

Other commitments given

On own behalf	2021	2020
Rental commitments	**547**	534
Mortgages in real estate on the basis of land leases	**6,100**	6,100
Contract and agreement guarantees	**53,045**	46,493
Other commitments given	**475**	490
On own behalf, total	**60,167**	53,617
On behalf of Group companies		
Rental commitments	**34**	35
Leasing commitments	**42,163**	17,663
Contract and agreement guarantees	**5,514**	5,508
Other commitments given	**814**	1,202
On behalf of Group companies, total	**48,525**	24,407
On behalf of others		
Loan guarantees	**31,005**	33,934
Rental commitments	**0**	0
On behalf of others, total	**31,005**	33,934
Other commitments given, total	**139,697**	64,698
Commitments given, total	**181,860**	79,764

Rental commitments

	2021	2020
Due in the next accounting period	**75**	0
Rental commitments, total	**75**	0

Leasing commitments

	2021	2020
Due in the next accounting period	**184**	911
Due in later accounting periods	**112**	437
Leasing commitments, total	**296**	1,348

Rental and leasing commitments include leases of less than 12 months' duration as well as low-value and usage-based leases.

Pension commitments

The VR Pension Fund's pension commitments amounted to EUR 261.2 million at the end of 2021 and were fully covered. The VR Pension Fund has 1.6 times more assets than liabilities. VR-Group Ltd has rented two land areas from the VR Pension Fund with 30-year leases.

Other commitments

On 12 February 2014, VR-Group Ltd and a consortium formed by Siemens Oy and Siemens AG signed an agreement, with which VR-Group Ltd ordered 80 electric locomotives, their documentation, spare parts, tools and training. The commitment was worth EUR 314.5 million when the agreement was signed. The deliveries will take place in 2017–2026.

As of 31 December 2021, 42 locomotives have been delivered with an open purchase commitment amounting to EUR 143.2 million (MEUR 156.9 on 31 December 2020). On 12 April 2019, VR Group Ltd and Stadler Rail Valencia A.A.U. entered into an agreement to deliver 60 diesel locomotives, their documentation, spare parts, tools and training. At the signing date the commitment amounted to EUR 209.0 million. First locomotives are expected to start commercial operations in 2023 and all 60 locomotives to be delivered by the end of 2026. The open commitment at 31 December 2021 amounted to EUR 182.2 million.

In its decision KHO 2019:68, the Supreme Administrative Court has interpreted the contaminated land cleaning costs and the demolition of old buildings on the property in certain cases to be closely linked to the sale of the property, which is a non-VAT transaction. As a result, the seller company was also not allowed to deduct the VAT on cleaning and dismantling costs. In the past few years, VR Group Ltd has sold properties in connection with which around EUR 10 million worth of clean-up operations were performed. In addition VR Group Ltd has, when calculating the provisions on the cost of cleaning up contaminated land, deducted the included VAT. It is possible that in some of the above cases VAT is not deductible in accordance with the decision of the Supreme Court set out above. VR Group has requested a preliminary ruling from the tax authorities on the right to deduct VAT. Until the ruling is reveiced, it is not possible to reliably assess the impact on the amount of the required reserve.

22. Derivatives

In line with its treasury policy, VR-Group Ltd uses interest and commodity derivatives to reduce the interest rate and commodity risks arising from the company's financial leasing liabilities in the balance sheet as well as its future electricity and fuel purchases. In addition, the company may use currency derivatives to hedge foreign currency purchases or sales that expose the company to foreign currency risk.

Derivatives are recorded on the balance sheet at fair value on the closing date, pursuant to Chapter 5, Section 2 a of the Finnish Accounting Act. The fair values of derivatives are based on observable prices whereby the instruments could be sold or bought for on the balance sheet date. The fair values of derivatives are defined as presented below.

The fair values of all derivatives are calculated using the interest rates and quoted commodity prices on the balance sheet date. The fair values of fuel and electricity derivatives are calculated as the net present value of future cash flows. The fair values of interest rate swaps are calculated as the net present value of future cash flows.

VR Group uses interest rate swaps to reduce the interest rate risk related to payments on floating-rate loan agreements. Interest rate swaps are used in changing floating interest rates into fixed interest rates. Aforementioned contracts are used for hedging purposes, however, hedge accounting is not applied for all of the contracts. Changes in the fair values of interest rate swaps qualifying for hedge accounting, and which are effective, are recognised in the cash flow hedging reserve within balance sheet's restricted equity (cash flow hedging). In case contracts are not effective or not meeting the hedge accounting requirements, the fair value changes are recorded in the income statement under financial items.

At the end reporting period, total nominal value of interest rate swaps amounted to EUR 276.0 million (EUR 191.2 million), of which EUR 100.0 million (EUR 0.0 million) amount was subject to hedge accounting. Correspondingly, total fair value of the contracts amounted to EUR -24.9 million (EUR -36.7 million), of which EUR 1.2 million (EUR 0.0 million) amount was subject to hedge accounting. During the reporting period, the company has entered into new forward starting interest rate swap contracts in order to hedge interest rate risk arising from highly probable future loan arrangements. Hedge accounting is applied for the new contracts.

The company has conducted a sensitivity analysis regarding the impact of a one percentage point increase or decrease in the Euribor market rate on change in the fair value of interest rate swaps. If the floating Euribor rate had been one percentage point higher, the fair values of interest rate swaps would have totalled EUR -8.8 million instead of EUR -24.9 million. Correspondingly, if the floating Euribor rate had been one percentage point lower, the fair values would have totalled EUR -42.1 million. Changes in market rates have a direct impact on the value of the fair value reserve within equity.

VR Group uses OTC commodity derivatives to hedge the price risk of electricity and light fuel oil used in trains.

VR Group applies IFRS hedge accounting principles when hedging future cash flows (cash flow hedge). These principles are applied when hedging fuel and electricity price risks and interest payments on loans.

Changes in the fair value of derivatives are recognised on the balance sheet in the fair value reserve under restricted equity when the contracts meet hedge accounting requirements and are effective. With regard to the interest rate hedge maturing in 2033, it was decided on 30 June 2020 that the hedge no longer meets the requirements for hedge accounting and was therefore excluded from hedge accounting. Changes in the fair value of derivatives excluded from hedge accounting have been recognised in the income statement under financial items since the date of transfer. In addition, the negative market value accumulated in the fair value reserve of equity until the moment of transfer will be amortised through profit or loss over the remaining maturity of the contracts. For commodity derivatives, all contracts in VR Group are considered to meet the hedge accounting requirements and their related fair value changes are fully recognised in the fair value reserve of equity.

All derivatives of the VR Group are classified at level 2 of the fair value hierarchy. The fair values of level 2 instruments are based on, to a significant extent, inputs other than the quoted prices included in the level 1 but still based on information that can be observed for the asset or liability in question either directly (as a price) or indirectly (derived from prices).

22. Derivatives (EUR 1,000)

	2021				2020			
		Fair values				Fair values		
Interest rate derivatives*	Nominal value	Positive	Negative	Net	Nominal value	Positive	Negative	Net
Interest rate swaps	100,000	1,200	0	1,200	0	0	0	0
Interest rate derivatives, total	**100,000**	**1,200**	**0**	**1,200**	**0**	**0**	**0**	**0**
Commodity derivatives								
Oil derivatives, tons	7,680	1,432	0	1,432	12,510	193	-265	-72
Electricity derivatives, GWh	749	11,728	-4	11,724	922	912	-2,208	-1,297
Commodity derivatives, total		**13,159**	**-4**	**13,155**		**1,105**	**-2,473**	**-1,369**
Items in hedge accounting, total		**14,359**	**-4**	**14,355**		**1,105**	**-2,473**	**-1,369**
Items outside hedge accounting								
Interest rate swaps	175,967	0	-26,070	-26,070	191,233	0	-36,714	-36,714
Currency derivatives	2,915	0	-39	-39	0	0	0	0
Items outside hedge accounting, total		**0**	**-26,110**	**-26,110**		**0**	**-36,714**	**-36,714**
Derivatives, total		**14,359**	**-26,114**	**-11 755**		**1,105**	**-39,187**	**-38,083**

23. Public service obligation

According to the Public Service Contract Regulation (EC 1370/2007), a service operator must separate the accounts of services subject to the public service obligation. Pursuant to the Act on Transport Services (320/2017), the profit and loss accounts pertaining to the separate accounts are included in the Notes of the operator's financial statements.

Income and expenses have been allocated by using internal accounting according to the matching principle. The income and expenses pertaining to the separated business operations also include intra-company items.

Income statement (EUR 1,000)

	1 Jan-31 Dec 2021	1 Jan-31 Dec 2020
Net sales	**303,013**	274,532
Other operating income	**8,413**	4,504
Materials and services	**-34,383**	-88,749
Personnel expenses	**-94,392**	-62,876
Depreciations, amortisations and impairment losses	**-54,749**	-55,293
Other operating expenses	**-169,133**	-140,767
Expenses, total	**-352,657**	-347,685
Operating profit (EBIT)	**-41,231**	-68,649

24. Major events after the end of the financial year

VR-Group Ltd and the Ministry of Transport and Communications signed a nine-year contract on the procurement of contract passenger train services for the period 1 February 2022 to 31 December 2030. The state acquires traffic from VR Group on routes where ticket revenue is insufficient to cover commercially viable services. The total value of the contract (including VAT) is EUR 313.8 million, i.e. the annual compensation for operation is EUR 34.9 million.

Russia's invasion of Ukraine has led to economic sanctions being imposed by the Western countries against Russia. VR Group is cooperating with the Russian Railway RZD in passenger and freight transport between Finland and Russia in border traffic. Oy Karelian Trains, a 50/50 joint venture between VR Group and RZD owns the Allegro fleet operating between Helsinki and St. Petersburg. RZD is listed on the EU and US sanctions lists, with sanctions imposed on its financing and infrastructure operations. RZD's rail transport business is not subject to sanctions.

Auditor's report

To the Annual General Meeting of VR-Group Ltd

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of VR-Group Ltd (business identity code 1003521-5) for the year ended 31 December, 2020. The financial statements comprise the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies, as well as the parent company's balance sheet, income statement, statement of cash flows and notes.

In our opinion

- The consolidated financial statements give a true and fair view of the group's financial position as well as its financial performance and its cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU,
- The financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company’s or the group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors’ and the Managing Director’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company’s or the group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Other information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors prior to the date of this auditor's report and the Annual Report is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other opinions

We support that the financial statements should be adopted. The proposal by the Board of Directors regarding the use of the profit shown in the balance sheet is in compliance with the Limited Liability Companies Act. We support that the members of the Supervisory Board as well as of the Board of Directors of the parent company and the Managing Directors should be discharged from liability for the financial period audited by us.

In Helsinki, 8 March 2022

Ernst & Young Oy

Authorized Public Accountant Firm

Mikko Rytilahti

Authorized Public Accountant, Chartered Public Finance Auditor

Report of the Board of Directors and Financial Statements 2021

18 March 2022