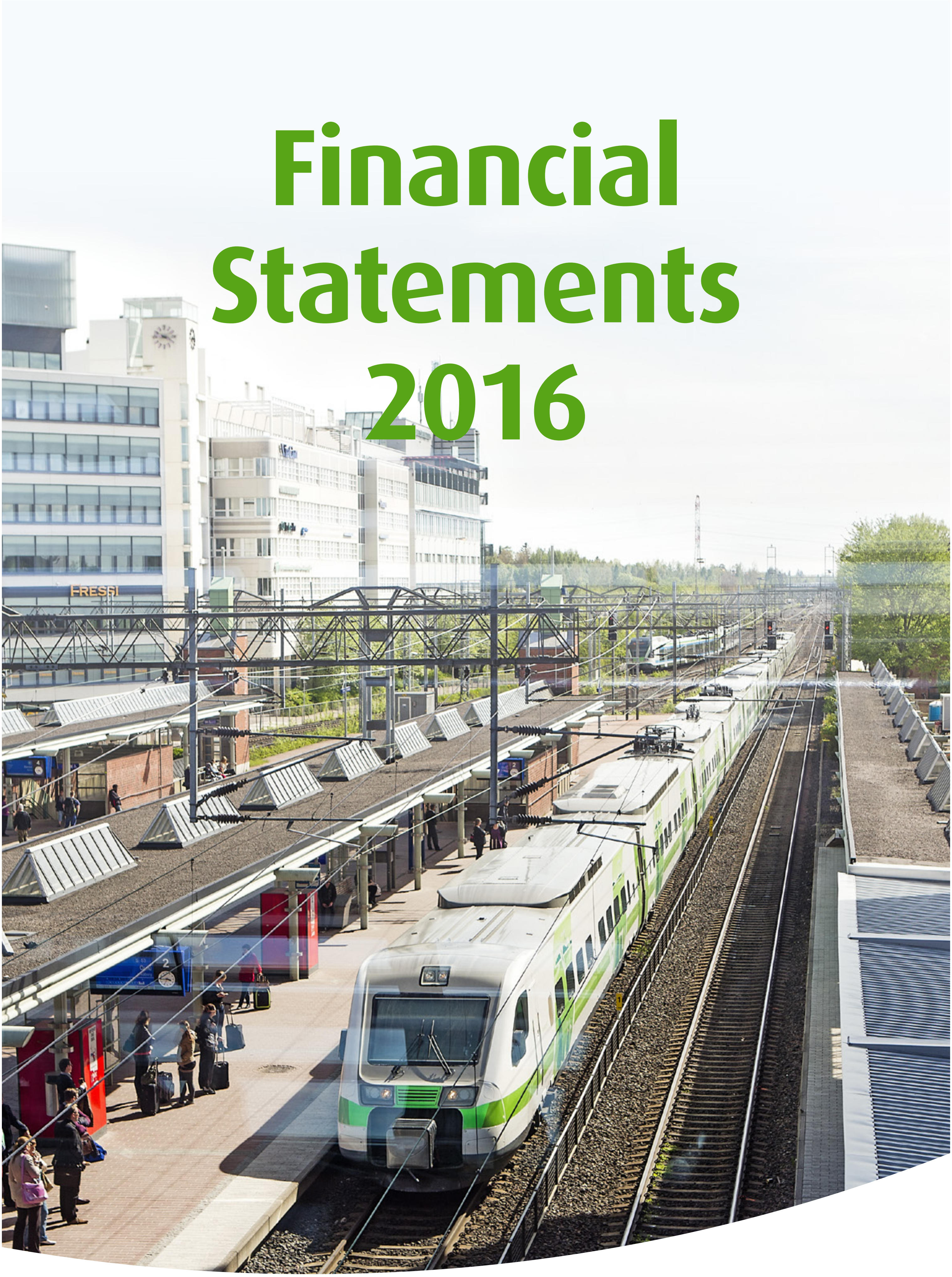
Financial Statements 2016



VR GROUP

Contents

Governance

In its decision-making, administration and management, VR-Group Ltd complies with the Finnish Limited Liabilities Companies Act, the articles of association of VR-Group Ltd, the Finnish Corporate Governance Code 2015 issued by the Securities Market Association, and the opinions of the Ministerial Committee on Economic Policy that the Ownership Steering Department in the Prime Minister's Office informs the company of.

The company deviates from the Corporate Governance Code 2015 in its general meeting procedures and administration of insiders. The grounds for these deviations are that the company has only one shareholder and the company's shares are not listed on the stock exchange.

When selecting members to the Boards of Directors of the companies that it owns, the state owner observes its own guidelines and decisions concerning gender equality in the Boards of Directors of state-owned companies and the Government Action Plan for Gender Equality 2016–2019. In accordance with the Government Resolution on State -Ownership Policy of 3 November 2011, the Government ensures compliance with gender equality objectives and adequate representation of both genders in the Boards of state-owned companies. Moreover, the objective laid out in the Government's 2004 action plan for gender equality is that men and women should constitute at least 40 per cent each of the Board members in companies wholly owned by the state.

VR-Group Ltd observes the above-mentioned gender equality principles. In 2016, there were three women and five men in the Board of VR-Group Ltd.

The representation of both genders in the Board of VR-Group Ltd is in accordance with the Corporate Governance Code.

VR-Group Ltd publishes the Corporate Governance Statement, which has been approved by the Group's Board of Directors. The statement can be viewed on the company's website, at www.vrgroup.fi. The report is issued unaudited.

Supervisory Board

VR-Group Ltd's Supervisory Board comprises at least six and at most twelve members. The chair and the members of the Supervisory Board are elected by the Annual General Meeting. The Supervisory Board elects a vice chair from among its members. The term of office for members of the Supervisory Board is one year. The Annual General Meeting decides on the fees paid to members of the Supervisory Board.

Representatives of personnel organisations also attend the meetings of the Supervisory Board of VR-Group Ltd. The Raideammattilaisten yhteisjärjestö JHL (Railway section of the trade union JHL), the Finnish Locomotivemen's Union, Rautatiealan Teknisten Liitto (Union of Railway Technical Personnel), Rautatievirkamiesliitto (Union of Railway Officials) and VR Akava are represented in the Supervisory Board. The personnel organisation representatives have the right to be present and to speak at meetings, but they are not full members of the Supervisory Board.

Read more about the tasks of the Supervisory Board at: Corporate Governance Statement 2016

Organ	Number	%
Supervisory Board	**12**	
30–50	7	58%
More than 50	5	42%
Board of Directors	**8**	
30–50	1	12%
Yli 50	7	88%
Group Management Team	**10**	
30–50	8	80%
More than 50	2	20%
Grand total	**30**	
Supervisory Board	**12**	
Male	8	67%
Female	4	33%
Board of Directors	**8**	
Male	5	62%
Female	3	38%
Group Management Team	**10**	
Male	7	70%
Female	3	30%
Grand total	**30**	

Further information: Corporate Governance Statement 2016

Supervisory Board of VR-Group Ltd 2016

Chair:

- Ville Tavio (b. 1984), lawyer, entrepreneur, Member of Parliament

Members:

- Touko Aalto (b. 1984), B.Soc.Sc., Member of Parliament

- Thomas Blomqvist (b. 1965), farmer, entrepreneur, Member of Parliament
- Lauri Ihalainen (b. 1947), Member of Parliament
- Kalle Jokinen (b. 1961), police sergeant, Member of Parliament (from 13 September 2016)
- Elsi Katainen (b. 1966), agricultural entrepreneur, Member of Parliament
- Timo V. Korhonen (b. 1959), agrologist, Member of Parliament
- Joonas Leppänen (b. 1980), D.Soc.Sc., Party Secretary (from 13 September 2016)
- Kai Mykkänen (b. 1979), M.Sc. (Pol.), Member of Parliament (until 13 September 2016)
- Outi Mäkelä (b. 1974), M.Sc. (Econ.), Member of Parliament
- Arto Pirttilahti (b. 1963), executive director, agrologist, Member of Parliament
- Riikka Slunga-Poutsalo (b. 1971), entrepreneur, Party Secretary
- Katja Taimela (b. 1974), chef, institutional catering, Member of Parliament
- Erkki Virtanen (b. 1952), B.Soc.Sc., former Member of Parliament (until 13 September 2016)

Representatives of personnel organisations in 2016:

- Risto Elonen, Chairman, Finnish Locomotivemen's Union
- Vesa Mauriala, Chairman, Raideammattilaisten yhteisjärjestö JHL (Railway section of the trade union JHL)
- Veijo Sundqvist, Chairman, VR Akava
- Kari Vähäuski, Chairman, Rautatievirkamiesliitto (Union of Railway Officials)
- Johanna Wäre, Chair, Rautatiealan Teknisten Liitto (Union of Railway Technical Personnel)

The Supervisory Board met seven times during 2016.

Fees and other benefits paid to Board members

The VR-Group Ltd Annual General Meeting decides on the fees of the Supervisory Board members. The fees paid to the Supervisory Board under the decision of the Annual General Meeting of 29 March 2016 are as follows: The chair of the Supervisory Board receives EUR 800, the vice chairman EUR 600 and the ordinary members EUR 500 for each meeting.

In 2016 the members of the Supervisory Board were paid fees totalling EUR 41,600.

Supervisory Board members also receive a free VR rail pass.

SUPERVISORY BOARD OF VR-GROUP LTD IN 2016 - ATTENDANCE AND FEES

Name	Supervisory Board meetings, Attendance	Attendance fee	Paid in 2016, EUR
Chair Ville Tavio	7/7	800.00	5,600.00
Vice chair Timo V. Korhonen	7/7	600.00	6,000.00
Members from 1 January to 31 December 2016			
Touko Aalto	5/7	500.00	3,000.00
Thomas Blomqvist	6/7	500.00	3,000.00
Lauri Ihalainen	6/7	500.00	3,000.00
Elsi Katainen	7/7	500.00	3,000.00
Outi Mäkelä	6/7	500.00	3,000.00
Arto Pirttilahti	6/7	500.00	3,000.00
Riikka Slunga-Poutsalo	5/7	500.00	3,500.00
Katja Taimela	6/7	500.00	3,000.00
Members until 13 September 2016			
Kai Mykkänen	3/5	500.00	2,000.00
Erkki Virtanen	4/5	500.00	2,000.00
New members from 13 September 2016			
Kalle Jokinen	2/2	500.00	500.00
Joonas Leppänen	2/2	500.00	500.00

As the fees paid to the members of the Supervisory Board are given on payment basis, the fees paid in 2016 also include attendance fees for 2015. Similarly, some of the attendance fees for meetings held in 2016 will only be paid in 2017 and they are not shown in the table.

Operations of the Board of Directors

The Board of Directors observes the Articles of Association, the provisions of the Limited Liabilities Companies Act and other legislation in its work. The Board of Directors is responsible for the administration of the company and for the proper organisation of its business activities. The Board of Directors is also responsible for ensuring that the supervision of the company's accounting and financial management are properly organised.

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

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

The Annual General Meeting of VR-Group Ltd elects the chair and other members of the Board of Directors annually. The Board elects a vice chair from among its members. The Board of Directors comprises at least four and at most eight ordinary members.

The Board constitutes a quorum when more than half of the members are present provided that the invitation to the meeting has been properly conveyed to all members. The decisions must be made in accordance with the interests of the company and the shareholder and in accordance with the Limited Liabilities Companies Act.

In matters concerning disqualification of Board members, the Board of Directors observes the provisions laid down in the Limited Liabilities Companies Act. The Board of Directors must ensure that consideration is given to situations involving disqualification whenever necessary. Board members must also always take into account potential conflicts of interest.

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

Read more about the tasks of the Board of Directors and the Board chair at: Corporate Governance Statement 2016

VR-Group Ltd Board of Directors 2016

BOARD CHAIR:

Hannu Syrjänen (b. 1951), LL.M., M.Sc. (Econ.). Previously served as President and CEO of Sanoma Corporation. Board chair in: Orion Corporation, Lehtipiste Ltd and the Finnish Fair Cooperative. Vice chair of the Board of Directors: Norvestia Oyj. Board member in: John Nurminen Foundation. Chair of VR-Group Ltd's Board since 19 April 2011.

VICE CHAIR OF THE BOARD OF DIRECTORS:

Heikki Allonen (b. 1954), M.Sc. (Eng.), CEO, Hemmings Oy Ab. Previously served as Managing Director of Patria Plc, Fiskars Corporation and SRV Group Plc. Board member in: Nokian Tyres plc, Detection Technology Plc (also serves as the chair of the audit committee) and Nammo AS. Also serves as member of Ilmarinen's Supervisory Board. Member of VR-Group Ltd's Board since 15 April 2015.

ORDINARY MEMBERS:

Riku Aalto (b. 1965), M.Sc. (Admin.), Chairman of the Finnish Metalworkers' Union. Previously served as Financial Manager, Finnish Metalworkers' Union. Board chair in: VVO-yhtymä Oyj. Board member in: Central Organisation of Finnish Trade Unions (SAK) and Varma Mutual Pension Insurance Company. Supervisory Board member in: Unemployment Insurance Fund. Member of VR-Group Ltd's Board since 19 April 2011.

Jarmo Kilpelä (b. 1957), M.Sc. (Econ.), Senior Financial Counsellor, Ownership Steering Department at the Prime Minister's Office. Previously worked as financial counsellor in the Ministry of Finance, as the official responsible for administrative and financial matters in the Government Guarantee Fund, as a researcher in the Bank of Finland and as a head of department, deputy head of department and corporate researcher at Säästöpankkien Keskus-Osake-Pankki. Board chair in: Governia Oy and Gasonia Oy. Board member in: Altia Plc and Finavia Corporation. Member of VR-Group Ltd's Board since 20 March 2013.

Roberto Lencioni (b. 1961), LLM., Managing Director, Oy Gard (Baltic) Ab. Previously worked in managerial positions in Oy Baltic Protection Ab, Managing Director of Oy Baltic Insurance Brokers Ab, Sales Manager at Aspocomp Oy and company lawyer at Aspo Group. Also serves as vice chair of the Board of Directors at Aspo Plc and member of Aspo Plc's Board of Directors (since 1999) and chair of Aspo Plc's audit committee (since 2010). Member of VR-Group Ltd's Board since 15 April 2015.

Liisa Rohweder (b. 1960), D.Sc. (Econ.), Secretary General of WWF Finland. Also serves as member of the international steering group of the Baltic Sea and Himalayas programmes of WWF and as chair of the international Arctic programme. Previously served as Senior Teacher at HAAGA-HELIA University of Applied Sciences, energy economy researcher and the head of petrochemicals logistics department at Neste. Board member in: Lappeenranta University of Technology. Also serves as member of the sustainability advisory board of S Group, OP-Pohjola Group and LUKE. Positions of trust in central government: member of the National Commission on Sustainable Development, Forest Council and the Arctic Advisory Board. Member of VR-Group Ltd's Board since 20 March 2013.

Tuija Soanjärvi (b. 1955), M.Sc. (Econ.). Previously served as CFO at Itella Corporation, Elisa Corporation and TietoEnator Corporation. Board member in: Basware plc (also serves as chair of the audit committee), Nixu Corporation, Affecto Plc (also serves as chair of the audit committee), Metsähallitus (also serves as the chair of the audit committee), Metsähallitus Metsätalous Oy, Silta Group Oy and Silta Oy. Also serves as the chair of the Finnish Orienteering Federation. Member of VR-Group Ltd's Board since 28 March 2012.

Maija Strandberg (b. 1969), M.Sc. (Econ.), Executive Vice President, Finance at Uponor Corporation (from 6 March 2017). Previously served as Vice President, Finance, at Valmet Pulp and Energy business line as well as paper machine business, Managing Director of ALSO Nordic Holding and ALSO Finland Oy and as Vice President, Finance, in Metso Paper Oy, GNT Holding Oy and John Deere Forestry Group Europe. Board member in: Dustin Group Ab and Danske Bank Plc. Member of VR-Group Ltd's Board since 15 May 2014.

The Board members are independent of the company and of the shareholder, apart from Jarmo Kilpelä who represents the Ownership Steering Department at the Prime Minister's Office. Board members do not own shares of VR-Group Ltd or its group companies.

As a rule the Board of Directors meets once a month. During 2016, the Board met 15 times and the average attendance rate of the Board members was 97 per cent. The attendance rate of the Board members is shown in the table below.

Name	Board meetings, attendance
Chair Hannu Syrjänen	15/15
Vice chair Heikki Allonen	15/15
Members	
Riku Aalto	15/15
Jarmo Kilpelä	14/15
Roberto Lencioni	15/15
Liisa Rohweder	13/15
Tuija Soanjärvi	15/15
Maija Strandberg	14/15

Fees and other benefits paid to Board members

Members of the Board of Directors were paid the following fees in 2016, as decided by the Annual General Meeting on 29 March 2016:

Chair of the Board	EUR 54,750/year
Vice chair of the Board	EUR 25,800/year
Ordinary member of the Board	EUR 22,800/year

Each Board member is also paid an attendance fee of EUR 600 per meeting for Board and Board committee meetings. In 2016 the members of the Board of Directors were paid fees totalling EUR 306,750.

The table below shows the fees paid to the Board chair, vice chair of the Board and Board members in 2016.

Name	Total fees, EUR
Chair Hannu Syrjänen	64,350
Vice chair Heikki Allonen	35,400
Members	
Riku Aalto	35,400
Jarmo Kilpelä	31,800
Roberto Lencioni	36,600
Liisa Rohweder	31,200
Tuija Soanjärvi	36,600
Maija Strandberg	35,400

Each Board member also received a free VR rail pass.

Committees of the Board of Directors

The Board of Directors has formed two committees from among its members: the audit committee and the human resources committee. The term of office of these committees is one year. The term of office starts at the appointment of the committee after VR-Group Ltd's Annual General Meeting and lasts until the following Annual General Meeting.

The committees convene 4–7 times a year. The rules of procedure for the committees have been confirmed by the Board and the committees report to the Board of Directors. The main content of the committees' rules of procedure is described below.

Audit committee

The committee focuses on preparing matters concerning financial reporting and supervision for the Board to consider. The committee is in contact with the auditors and the internal audit, if necessary.

The committee must comprise at least three independent Board members possessing competence required in the task that are not employed by VR Group. At least one of the members must possess expertise in accounting or auditing.

On 31 March 2016 the Board of Directors elected the following persons as members of the audit committee: Maija Strandberg (chair), Riku Aalto, Roberto Lencioni and Tuija Soanjärvi. During 2016 the audit committee met six times and the average attendance rate for its members was 96 per cent.

Read more about the tasks of the audit committee and the committee chair and the participation of the chair in the committee meetings at: Corporate Governance Statement 2016

Human resources committee

The human resources committee focuses on preparing matters relating to developing incentive schemes for the President and CEO, other management and personnel and on preparing key appointments, for the Board of Directors to consider. As a rule, the committee has at least three members.

The following persons served as members of the human resources committee in 2016: Hannu Syrjänen (chair), Heikki Allonen, Liisa Rohweder and Jarmo Kilpelä.

During 2016 the human resources committee met three times and the average attendance rate of its members was 100 per cent.

Read more about the tasks of the human resources committee and the committee chair and the participation of the chair in the committee meetings at: Corporate Governance Statement 2016

President and CEO and Management Team

The President and CEO is responsible for managing the Group's day-to-day administration in accordance with the instructions and orders given by the Board of Directors.

The Board selects and dismisses the President and CEO and determines his remuneration.

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

The Management Team addresses matters of strategic importance and other matters that are of importance to VR's business operations, drafts plans and monitors their implementation. It also discusses major day-to-day activities and operational issues. The Management Team generally meets once a week.

VR-Group Ltd Management Team 2016

The Management Team is presented on page 9.

Reward and incentive schemes

Excluding the President and CEO the members of the Management Team were paid a total of EUR 2,061,546 in salaries and fringe benefits and EUR 443,124 in remunerations in 2016. The members of the management team were not given a bonus of shares or share-based rights during the financial year.

Principles for incentive scheme for President and CEO and other company management

The Board of Directors of VR-Group Ltd has approved the incentive scheme for Group management. In 2016, the short-term incentive scheme was used. For the long-term incentive scheme no new three-year monitoring period was started during the year. The Group's Board of Directors approves the overall criteria for the scheme and the persons included in the scheme, as well as the more detailed criteria for the incentive scheme, the threshold values, and entry, exit and other governing rules.

The human resources committee of the Board of Directors has reviewed the rules and principles of the scheme in effect at any particular time.

The incentive schemes are in accordance with the resolution issued by the Government on the matter. Under the terms of the scheme the Board of Directors may, in exceptional circumstances, amend the terms of the scheme and postpone payment of the bonus.

Short-term incentive scheme

The review period for the short-term incentive scheme is one year. The scheme is divided into four organisational levels. In 2016 about 160 people belonged to the scheme. The President and CEO belongs to level L1, other members of the Management Team and immediate subordinates of the President and CEO in relation to head office functions to level L2 (11 persons) and other senior management to L3 (100 people).

The other people selected for the bonus scheme are in positions as supervisors or experts that have a significant impact on business operations, and they belong to level L4 (altogether 49 people).

Each year the Group's Board of Directors approves the persons to be included in the scheme.

The objectives, indexes and threshold values for the short-term incentive scheme are set each year so that there are a maximum of six indexes. The operating profit of the Group/unit serves as one index. Depending on the content of the tasks, it has a weighting of between 60 and 15 per cent. The weighting of the other indexes supporting the strategy and unit-specific targets is between 40 and 85 per cent.

Under the short-term incentive scheme, the proportion of the maximum reward of the annual salary (including fringe benefits and holiday bonuses), as paid on the basis of the targeted performance is as follows: L1-L3 level 30 per cent and L4 level 25 per cent. The bonus for exceptionally good performance at level L1-L3 is 50 per cent.

VR Group has no share-based incentive schemes.

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

Financial reporting

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

Internal and external reports are made of the financial situation. Senior management monitors the achievement of financial targets in the Group's Management Team at least on a monthly basis, through internal reporting at Group level and for the individual business sectors. The reports monitor the net result, investments and their implementation, the financial situation, the number of personnel and volume of traffic. The Group's financial situation is reported to the Board of Directors once a month. The group-level profit forecast for the year is updated every quarter and it is also used as a basis for the following year's budget.

External reporting involves preparing the half-yearly performance reports and the annual report. The Board of Directors reviews all half-yearly reports and financial statements before they are published.

The Group's finance unit is responsible for the accuracy of the Group's financial reporting. The finance unit comprises the finances service centre (accounting, taxes, processing of invoices), business control (reporting, budgeting, management support) and treasury (financing, insurance, vehicle management). Financial reporting complies with legislation and other regulations and with generally approved accounting principles and other rules governing companies. VR Group observes Finnish accounting practices (not IFRS). The aim is to ensure that the Group's financial reporting produces correct information, in all material respects, for internal reports and the reports that are released for publication.

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

Risk management

The management of VR Group is committed to risk management and its continued development. The risk management of VR Group is guided by the risk management policy approved by the Board of Directors of VR-Group Ltd. The policy sets out the principles, objectives and responsibilities of risk management and the operating practices observed in the risk management.

The purpose of risk management is to provide an up-to-date, accurate and comprehensive understanding of the risks of VR Group. Risk management is an ongoing process, the purpose of which is to comprehensively identify, assess, manage and control the main risks in a way that is relevant to the business.

Risk management has an essential role in all operations and processes and in various projects. The President and CEO is responsible for appropriate risk management in the Group. In business and support units, risk management is the responsibility of the senior management. The Risk Manager is responsible for ensuring an up-to-date risk management policy, for supporting its implementation and for monitoring and developing risk management practices and for reporting on them to the Management Team and the Board of Directors. A separately appointed Risk Management Team steers and supports the planning and implementation of risk management.

Risk management within the VR Group supports the achievement of the Group's strategic and operational objectives and ensures that the Group's business operations are on a profitable and long-term basis. Effective risk management is a way to ensure that any identified risks do not result in major financial loss or, for example, compromise the safety or health of personnel.

Read more about risk management: Corporate Governance Statement 2016

Audit

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

Ernst & Young Oy, Authorised Public Accountants, was elected as auditor for 2016, with Mikko Rytilahti, APA, CPFA, as principal auditor. The fees paid to the auditor for the audit during the 2016 financial year totalled EUR 309,118.09. The fees paid to the auditor for services not connected with the audit totalled EUR 62,300.82.

VR-Group Ltd Management Team 2016

Rolf Jansson (b. 1969), M.Sc. (Eng.), M.Sc. (Econ.) President and CEO since 20 January 2016. Previously served as Director at VR Transpoint, Director, Nordea Corporate Finance, and Management Consultant at Booz Allen Hamilton. Rolf Jansson is a member of the Board of Directors of Sarlin Group Oy Ab. Member of the Management Team since 27 July 2009.

Petri Auno (b. 1973), M.Phil., Senior Vice President, Train Operations, VR-Group Ltd. Previously served as Transport Manager responsible for train driver operations and as Regional Manager at VR-Group and as project manager at the University of Oulu. Member of the Management Team since 20 November 2012.

Kimmo Soini (b. 1958), M.Sc. (Eng.), Senior Vice President, Maintenance, VR-Group Ltd. Previously worked at VR-Group as the head of Helsinki depot and in managerial positions in Finnair. Member of the Management Team since 1 March 2015.

Outi Henriksson (b. 1969), M.Sc. (Econ.), Senior Vice President, CFO, VR-Group Ltd. Previously served as financial management of Sonera, Cultor and Sulake. Member of the Management Team since 13 August 2012.

Martti Koskinen (b. 1957), B. Eng., Director, VR Transpoint. Previously worked as VR Transpoint's Director of Sales and Marketing, Director of Central and East European Business Operations at Corus Ltd as well as Rautaruukki PLC's Marketing and Procurement Director and, before this, Regional Manager for Central Europe. Member of the Management Team since 5 December 2016.

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

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

Päivi Minkkinen (b. 1959), B.Sc. (Linguistics) and Executive MBA, Senior Vice President, Russia and International Business, VR-Group Ltd. Previously served as Head of International Affairs, VR Group. Member of the Management Team since 20 August 2009.

Maisa Romanainen (b. 1967), M.Sc. (Econ.), Senior Vice President, Passenger Services, VR-Group Ltd. Previously served as Executive Vice President and Director of the Department Store Division at Stockmann plc. Member of the Management Team since 1 November 2014.

Harri Lukkarinen (b. 1970), M.Sc. (Eng.), Managing Director, VR Track Oy. Previously served as Vice President of Construction at VR Track and Director of Infrastructure Construction at CMC Terasto Oy (part of Jaakko Pöyry Infra). Serves as a member of INFRA Ry (Association for Finnish Infra Contractors). Member of the Management Team since 21 November 2016.

Ville Saksi (Managing Director of VR Track Oy) and Teemu Sipilä (acting Managing Director of VR Track Oy) also served as members of the Management Team during 2016 (until 16 September 2016 and between 16 September and 21 November 2016, respectively). Mikael Aro, Executive MBA (b. 1965), served as the company's President and CEO between 1 July 2009 and 20 October 2016. Before this he served as Senior Vice President, Northern Europe, Carlsberg and CEO of Sinebrychoff, part of Carlsberg.

Report and Financial Statements of the Board of Directors 2016

Market conditions and operating environment

Market conditions remained tight for long-distance traffic in VR passenger transport operations as price competition for long-distance traffic further increased. Domestic long-distance competitiveness was strengthened in February by permanently lowering ticket prices and making the pricing structure clearer. These significantly lowered prices led to market-based train journey numbers rising once again, especially on the main routes between large cities. However, the lower price level also meant, as anticipated, a drop in net sales. The drop in net sales was also affected by the Ministry of Transport and Communications' (LVM) contract traffic cuts made in March 2016. However, from May onwards there was an upturn in the number of passengers using the Allegro trains. For commuter traffic, a contract extension to Summer 2021 was signed with Helsinki Region Transport (HSL). After this, the HSL tendered commuter traffic contract will enter into force.

For passenger transport, trains are in competition with both other forms of public transport as well as private vehicles. The number of passengers is affected by factors such as consumer and travel habits, the regional distribution of the population, developments in the infrastructure and transport services for different modes of transport, and the environmental friendliness of different modes of transport. Pricing, travel times and availability are the main factors influencing the demand for services, but also important are comfort, punctuality and the smoothness and ease of the overall travel process.

General market conditions in the logistics sector have been tight for a couple of years already, and this can be seen in VR Transports lowered freight prices and heightened competition. The economic situation has improved since the beginning of 2016, but there is still over supply in transport services for some transport flows.

VR Track focuses on producing planning, construction and maintenance services for the Finnish and Swedish markets based on the lifespan of infrastructure projects. Competition has tightened further in the markets for track construction and maintenance, and every job is won through a competitive tendering process.

Consolidated net sales, result and liquidity

The Group's net sales in 2016 were EUR 1,186.7 million (EUR 1,231.4 million in 2015), a decrease of 3.6 per cent on the previous year. Most of this change can be accounted for by the lowered price level for long-distance passenger services.

VR Group posted an operating profit of EUR 43.3 million (EUR 65.4 million).

Operating profit for 2016 was strong in all Finnish business operations. VR Group's result was weakened, however, by the losses experienced by VR Track's Swedish subsidiary VR Track Sweden. These losses resulted primarily from one maintenance project. It has been agreed to end the project in question ahead of schedule. Losses from this project for the coming years have also been recorded in the result for 2016.

Passenger services

VR's net sales for passenger services was EUR 502.0 million (EUR 534.8 million), which represents a drop of 6.1 per cent. This figure includes a 7.9 per cent fall in net sales for train transport, and a 1.3 per cent decrease for bus and coach transport. Net sales for restaurant services provider Avecra rose by 2.2 per cent overall, with particularly high growth for train services.

In 2016, a total of 117.9 million passenger trips were made. The number of journeys rose by 6.7 per cent compared to the previous year. A total of 82.1 million train journeys were made, representing an increase of 9.0 per cent on the previous year. A total of 35.8 million bus and coach journeys were made, representing an increase of 1.7 per cent on the previous year.

For long-distance traffic, journey numbers increased by 2.8 per cent in spite of the significant cuts in LVM contract traffic. The quantity of market-based journeys rose by 8.4 per cent. The number of journeys made on Allegro services between Finland and Russia increased by 8.2 per cent.

The filling rate for market-based traffic clearly increased, rising to 41.7 per cent. Commuter traffic journeys rose by 10.2 per cent, in large part thanks to the Ring Rail Line.

Passenger Services recorded an operating profit of EUR 16.6 million (EUR 9.9 million). The competitiveness programme initiated in 2015 for increasing the operational efficiency of long-distance traffic lowered expenses by EUR 41.9 million. The set goal of EUR 50 million of expenses saved will be achieved in full during 2017. Efficiency measures have made possible a lowering of ticket prices. Also, the earlier-initiated efficiency measures for commuter traffic continued.

The punctuality of long-distance services in 2016 was 86.0 per cent (87.2%), while the figure for commuter services was 95.5 per cent (94.7%). The factors behind these delays included rolling stock and safety equipment malfunctions as well as the extra speed limits resulting from track work, which continued throughout almost the whole year.

VR Transpoint

Net sales for VR Transpoint totalled EUR 380.7 million, an increase of 0.1 per cent on the previous year (EUR 380.5 million). Net sales in rail logistics grew by 3.0 per cent, but net sales in road services declined by 9.6 per cent compared to the previous year. VR Transpoint posted an operating profit of EUR 34.5 million (EUR 27.0 million).

VR Transpoint's transports consist primarily of raw materials and products for the mechanical and chemical forest industry and the metal, construction and chemical industries. VR Transpoint's total transport volumes in 2016 rose 7.6 per cent from the previous year's levels, totalling 41.3 million tonnes (38.4 million tonnes).

Rail logistics improved its result through improvements in operational efficiency, which also enabled investments in price competitiveness.

VR Track

VR Track's net sales were EUR 294.3 million (EUR 300.5 million), which represents a decrease of 2.1 per cent on the previous year. VR Track posted an operating loss of EUR -14.1 million (EUR 18.1 million). The loss resulted primarily from one project undertaken by VR Track's Swedish subsidiary VR Track Sweden AB. It has been agreed with the client that this project be concluded in April 2017. The projected losses for the remaining duration of the project have been entered into obligatory provisions having a negative effect on the accounting period's result. VR Track Sweden has initiated a change programme for improving profitability, and operational efficiency has already improved.

In Finland, VR Track's construction business activities developed positively, with net sales rising by 11.1 percent compared to the previous year. Business related to infrastructure project planning also developed well, seeing a rise of 14.2 per cent in net sales.

The other financial indicators are given in section [23] of the notes to the financial statements.

Shareholders' equity

The company has a total of 2,200,000 shares. The company's share capital is EUR 370,013,438.22. The parent company's distributable profit totalled EUR 91.8 million at the end of 2016.

Main events during the financial year

The pricing reforms to long-distance passenger services introduced in February 2016 had their anticipated impact, causing a rise in journey numbers. The competitiveness programme initiated in 2015 for boosting the efficiency of long-distance traffic was implemented to its full extent and will result in annual savings of EUR 50 million. Part of the co-determination talks carried out as part of the programme were concluded in the first half of the year.

During the year, a number of changes were made to the timetables and transport structure for long-distance traffic. In June, many routes were made faster and the number of direct connections was increased, resulting in the average speed on the rail network rising to 113km/h (2015 106km/h). The number of contract and public service obligation services was reduced in March, which resulted from the cuts to the LVM contract traffic budget. LVM issued a new decision on the content of VR's public service obligations which is in effect until December 2017. Public service obligations refer to loss-making services that have to be run as part of the exclusive rights agreement. The new public service obligation structure and increase in market-based services brought to different parts of Finland hundreds of extra train services per week.

Significant investments continued into long-distance rolling stock, with 10 new sleeping cars being acquired during the year.

Ticket sales have shifted significantly towards self-service channels, which now account for 80.5 per cent of journeys sold. The largest growth was in sales via mobile phone, which increased by 80.6 per cent.

A new five-year direct award agreement, effective from 1 April 2016, was made between VR commuter traffic services and HSL. Through this agreement, commuter traffic services are preparing for implementation of a new customer service model. Ticket sales will transfer to digital channels for commuter traffic as well: in autumn a new VR Lähijunat mobile app will be released and single tickets will be available for sale in the vr.fi online store.

Net sales for Pohjolan Liikenne's city bus services rose by 1.7 per cent for the whole year. The growth was seen primarily in the autumn, as new service agreements began in August for Espoo and Helsinki transport and delays to the Länsimetro brought the company extra coach service demand. The extra business led to a 26 per cent increase in vehicle stock and the hiring of 170 extra bus drivers.

Avecra sales saw strong growth in both domestic train services and Allegro services. As of June, restaurant services are on offer on all domestic long-distance routes. Attention was also focused in Avecra on improving customer service. Similarly, work was done to develop a new train concept, one which will change the range of food and drink on offer as well as the restaurant environment itself. The new concept will be implemented at the start of 2017. During 2016 Avecra streamlined its administration and adjusted its operations in accordance with the company's new strategic objectives. The Pasila station units closed due to the construction works for the new Pasila station.

Factors contributing to the clear rise in VR Transpoint's volumes included higher demand for customers' final products and improved price competitiveness. Positive developments in rail logistics volumes resulted especially from a clear growth in Russian import and transit transports.

Forest industry volumes saw a very pleasing increase. Successes were achieved in forest industry transports, but there were also realised volume risks due to a fall in raw material prices. Variations over the course of the year in chemical industry imports were partly due to availability risks from the customers' own suppliers.

There were further improvements in 2016 in the operating efficiency of rail logistics. Thanks to increased operational efficiency, a higher level of cost efficiency was achieved. Development of planning and work methods and better use of technology made possible an increase in average train weights and an adjustment of total train kilometres. This positive trend has continued since 2012. Electric traction's share of total transports increased to record levels, reaching 76 per cent.

A new domestic road logistics terminal was opened in Riihimäki. Also, there was clear growth in traffic connected with the Rail&Road concept, which combines rail and road transports.

VR Transpoint saw in increase in customer satisfaction levels. In the most recent survey, the overall satisfaction rating was 3.85 on a scale of 1 to 5. The comparable result for the previous year was 3.82.

Rail logistics punctuality dropped slightly, but remained at a good level at 91.2 percent (93.1). The target for freight traffic punctuality was 91.9 per cent with a 30 minute delay threshold.

VR Track saw success in Finland in 2016 with its large railway projects. During the year, contracts were won for the Oulu–Kontiomäki superstructure project and the Riihimäki–Tampere renewal of safety equipment. The later was carried out in consortium with Siemens Oy. In addition, the implementation phases began for the alliance projects won the previous year, the Tampere tram project and the Äänekoski bioproduct mill. Several of the larger projects were completed this year, including Vaala–Kivesjärvi superstructure contract 2, Kokkola–Riippa construction contract 1 and the Ruha–Lapua railtrack contract.

The most significant planning projects were for the Tampere Tram Alliance and the transport connections for the Äänekoski bioproduct mill. Regarding maintenance work in Finland, the maintenance contract for rail network maintenance area 5 came to an end and the development phase began for the maintenance alliance for rail network maintenance area 2. Deliveries of track materials continued at a good level and the capacity utilisation rate at Haapamäki impregnation plant was better than in the previous year. It was decided together with the client Trafikverket to terminate in April 2017 the contract for the Södra Stambana maintenance area in Sweden.

Defects were observed in point maintenance of the track maintenance areas in Finland which VR Track is responsible for. The defects were repaired during Autumn 2016 and operating practices and work methods have been improved.

Ville Saksi, Managing Director of VR Track Oy, handed in his notice in September. Teemu Sipilä, General Counsel at VR Group, took the role of acting Managing Director for VR Track, and at the end of November Harri Lukkarinen was named as the new Managing Director. In September, Managing Director Mattias Hörling took the helm of VR Track Sweden AB.

In June 2016, VR Group Ltd President and CEO Mikael Aro handed in his resignation and continued for another six months until the end of his period of notice. In October, Rolf Jansson was named as the new President and CEO of VR Group Ltd.

Capital expenditure and rolling stock purchases

The Group's total investments in 2016 amounted to EUR 123.1 million (EUR 119.8 million). Leasing agreements accounted for EUR 21.5 million (EUR 29.8 million) of total investments. Expenditure on rail rolling stock totalled EUR 59.0 million (EUR 70.6 million). IT investments accounted for EUR 19.0 million of this total (EUR 15.5 million) and expenditure on property for EUR 20.3 million (EUR 17.6 million).

The most important investments comprised new control and sleeping cars for passenger services, bus purchases for Pohjolan Liikenne and rolling stock for VR Transpoint. The impact of investment in new electric locomotives in 2016 was still relatively small but its impact will increase substantially in the coming years. The other investments were primarily replacement investments for fixed assets.

Changes in corporate structure and real estate transactions

April saw the founding of VR Infrapro AB, a subsidiary wholly owned by VR Track Oy that will carry out project planning business activities in Sweden.

In June, ZAO ATV's legal form was changed and its name changed to AO Transpoint International. AO Transpoint International is a wholly owned subsidiary of Transpoint International (FI).

In July, 10 per cent of the shares of associated company Vossloh Cogifer Finland Oy were sold, followed in October by a sale of 10 per cent of shares in Vossloh Rail Services Oy.

2016 saw the termination of operations for both VR Track Oy's Estonian subsidiary VR Track Estonia AS and the Estonian branch office.

Profits on the sale of real estate in 2016 totalled EUR 14.0 million (EUR 17.4 million).

Safety

In 2016, there were no accidents in train traffic or shunting operations resulting in deaths among passengers or personnel. The most dangerous situation occurred in August, when a freight train collided into empty freight wagons in the Oulu shunting yard.

The number of deviations in shunting operations declined. For train operations, however, there was a rise in the number of deviations, particularly in the areas of incorrect access paths, passing of stop signs and collisions. A special action programme was drawn up at the end of 2016 for the development of railway safety. This programme will extend into 2017.

Supervisors held more safety briefings than in 2015 in order to improve the safety culture and the target for occupational safety observations by employees was substantially exceeded.

The Group's accident rate target was achieved. The rate achieved was 13.0 and the goal was 15.5 (accidents per million work hours). VR Group is continuing its systematic work to reduce the number of accidents.

Environment

The Group has a joint environment management system which complies with the requirements and implementation guidelines of the ISO 14001 standard. VR Group continued the implementation of its environmental promises during the year. Carbon dioxide emissions of train traffic declined by 5 per cent, a result of lower consumption of diesel fuel. The proportion of renewable energy in rail traffic increased to 72 per cent (71%).

Soil surveys and decontamination comprise in financial terms a significant part of the Group's environmental activities. The costs for action relating to the soil and groundwater totalled EUR 1.1 million (EUR 1.1 million).

In accordance with its environmental promises, VR Group aims to operate in a more energy and material efficient manner and increase the use of renewable energy. The Group will ensure that there are no chemical leaks polluting the environment during transport or other operations. The aim is also to ensure that customers are satisfied with the cleanliness of stations and trains.

In Spring 2016, VR Group signed a contract together with two partnering organisations for the implementation of a system to support economic driving methods. Rail traffic consumes three quarters of VR Group's total energy consumption. The remaining quarter is consumed in the running and maintenance of machine shops, depots, road transport and building premises. The guidance system for economic driving will improve the efficiency, punctuality and reliability of rail traffic. The system was in test-drive phase during 2016.

VR Group's environmental activities, key figures and the environmental promises for the period 2013–2020 are presented in the responsibility section of the annual report.

Assessment of business risks and uncertainties

The largest business risks faced by VR passenger services relate to tight competitive conditions and the opening up of the market to competition. VR Group is preparing for competition in railway passenger services. VR has exclusive rights to the provision of railway passenger services until the end of 2024, but the Ministry of Transport and Communications has notified that it intends to speed up the opening of the railways to competition. Trains compete continually with other modes of transport, especially with bus and coach services and private motoring.

VR's most significant operational risks relate to the condition of track infrastructure and ageing rolling stock as well as disruptions caused by weather conditions. VR has protected itself against business risks by means of insurance arrangements.

VR Transpoint estimates that the improved economic outlook will bring growth, but the risks related to Russia are sill significant for business operations. The major sources of uncertainty faced are possible structural changes in Finnish industries and their impacts on production volumes, and the new competition in Russian traffic that will result when the new Finnish-Russian Railway Traffic Agreement enters into force. Possible implementation problems or cancellations of the investments planned in forest and mining industries would affect future prospects.

VR is responding to the opening up of eastern traffic routes and the tightened competition that will result by improving its competitiveness and by adopting a strongly customer-oriented approach. In road logistics, efforts are being made to achieve profitable growth after a difficult market cycle. Raw material prices on the world market can have a significant impact on demand for metal products and the transport flows most important to VR Transpoint.

The most significant domestic risks for VR Track relate to increased competition in track construction and maintenance, maintenance of the quality anomalies identified in 2016, and reliance on one large customer. Tough competition on contracts in Sweden has resulted in low project profitability. Tougher competition affects contract pricing and there is a great deal of pressure to remain competitive. In earlier years, the contracts won in Sweden have turned out to be unprofitable in part, and so the change programme initiated in 2016 seeks to raise the profitability of operations to the desired level. No significant contracts were won in Sweden in 2016 owing to low participation in new contract competitions.

In line with its financial policy, VR uses interest and commodity derivatives to lower the interest and commodity risks resulting from the financial leasing debts and future electricity and fuel purchases on the Group's balance sheet. VR applies hedge accounting principles in the protection of future cash flows (cash flow protection). These principles are applied to fuel and electricity price risks and in protection against financial leasing interest payments.

Personnel

There were further reductions in the number of personnel in VR Group in 2016. The reduction amounted to 717 Full Time Equivalents and the average number of personnel during the year was 7,898. VR Group continues to adhere to the change security model in accordance with the principles observed by the Group. A total of 416 persons retired during the year.

A total of 72 per cent of the employees submitted responses to the personnel survey conducted in the autumn (response rate for 2015 was 73%). From these responses, the clearest increases can be seen in the belief in future success and VR's capacity for renewal and development. Supervisory work has continued to develop, with the supervisor index rising from 3.72 to 3.74 and now standing at a good level also in relation to external comparative data. The overall result of the personnel survey at group level was 3.41 (compared with 3.43 in 2015).

Rewarding

During the fiscal period, in accordance with the decision of the Annual General Meeting held on 29 March 2016, the chairman of the Board of Directors of VR-Group Ltd was paid fees of EUR 54,750, the vice chairman EUR 25,800 and the ordinary members EUR 22,800 for the year. In addition, the Board chair and members are paid a fee of EUR 600 for each meeting. In accordance with the decision of the Annual General Meeting, the chairman of the Supervisory Board was paid a fee of EUR 800 per meeting, the vice chairman EUR 600 and the ordinary members EUR 500.

In addition to the attendance fees, Supervisory Board members also receive a free VR rail pass.

VR-Group Ltd appointed a new President and CEO in October 2016. The salary and fringe benefits paid to Mikael Aro in 2016 totalled EUR 550,636 and the bonus paid to him for 2015 on the basis of the short-term incentive scheme was EUR 132,962. The sum paid as salaries includes work in special tasks of the Board of Directors between 20 October and 30 November

PERSONNEL FIGURES 2013–2016

Name	2016	2015	2014	2013
Full Time Equivalents – average	7,898	8,615	9,689	10,234
Change, %	-8.3	-11.1	-5.3	-7.6
Number of employees working outside Finland	470	514	580	531
Total salaries and wages EUR million	380.7	396.0	445.1	460.9
Permanent employees (average) % of Group work force [1]	97.9	97.6	98.4	97.4
Fixed term employees (average) % of Group work force [1]	2.1	2.4	1.6	2.6
Full time employees (average) % of Group work force [1]	94.9	94.8	96.4	96.0
Part time employees (average) % of Group work force [1]	5.1	5.2	3.6	4.0
% of men in work force [1]	82.4	82.4	82.4	82.4
% of women in work force [1]	17.6	17.6	17.6	17.6
Average age of personnel, years [1]	44.3	44.5	44.9	45.0
Average length of employment relationship, years [1]	15	16	18	19
Number of new employment relationships [1] [2]	784	670	683	718
Number of employment relationships ended [1] [2]	1,214	1,389	1,182	1,166
Total personnel turnover % [1] [2]	12.2	11.0	9.9	8.5
Retired [1]				
old-age pension	375	359	408	445
disability pension	41	55	55	62
Average retirement age [1]	59.4	59.1	59.1	58.9
% of personnel that have development interviews [1]	78	80	73	78
Sickness absence as % of regular working hours [1]	4.9	5.0	5.4	5.3
Group's accident frequency rate (total number of accidents at work per million hours worked)	13.0	15.3	18.9	19.1

The employment relationships of the personnel in VR Track's and VR Transpoint's foreign operations are given as employment relationships valid until further notice. This is because no information on fixed-term employment relationships has been collected.

[1] The figures do not include the foreign operations of VR Track and VR Transpoint.

[2] For 2015, the figures describing the personnel turnover rate include both permanent and fixed term employees (until 2014 only permanent employees were included).

2016 and the payments arising from the end of the employment relationship (including annual holiday).

The retirement age (63 years) and pension for the President and CEO are in accordance with the Employees' Pensions Act. Mikael Aro had an additional pension insurance paid by the employer that includes life insurance in case of death. In 2016, the costs arising from the insurance totalled EUR 9,605.

The salary of the new President and CEO for the period 20 October - 31 December 2016 totalled EUR 74,048.

The bonus scheme of VR Group covers all personnel. VR Group complies with current collective agreements and legislation applying to the sector when paying salaries, wages and other remunerations to its employees.

Management and audit

The Annual General Meeting held on 29/03/2016 decided that the Board of Directors of VR-Group Ltd will have eight members. Hannu Syrjänen was re-elected chairman of the Board. At its constitutive meeting after the Annual General Meeting, the Board of Directors elected Heikki Allonen to continue as vice chair. Riku Aalto, Jarmo Kilpelä, Roberto Lencioni, Liisa Rohweder, Tuija Soanjärvi and Markku Strandberg will continue as the other members of the Board. The Board of Directors met a total of 15 times during 2016, with an attendance rate of 97 per cent.

On 31/03/2016, Board elected Hannu Syrjänen (chair), Heikki Allonen, Liisa Rohweder and Jarmo Kilpelä to serve in the human resources committee. During 2016 the human resources committee met three times and the average attendance rate of its members was 100 per cent. On 31/03/2016, the Board elected Maija Strandberg (chair), Riku Aalto, Roberto Lencioni and Tuija Soanjärvi to serve in the audit committee. During 2016 the audit committee met six times and the average attendance rate for its members was 96 per cent.

The Annual General Meeting decided that the Supervisory Board of VR-Group Ltd will have 12 members. The following persons were selected as ordinary members of the supervisory board for VR

Group Ltd: Ville Tavio (chair), Touko Aalto, Thomas Blomqvist, Lauri Ihalainen, Elsi Katainen, Timo V. Korhonen, Kai Mykkänen (until 13 September 2016), Outi Mäkelä, Arto Pirttilahti, Riikka Slunga-Poutsalo, Katja Taimela and Erkki Virtanen (until 13 September 2016). The extraordinary general meeting for VR Group Ltd held on 13 September 2016 selected Kalle Jokinen and Joonas Leppänen as ordinary members of the Supervisory Board. The Supervisory Board met eight times during the year.

Representatives of personnel organisations also attend the meetings of the Supervisory Board of VR-Group Ltd. The representatives of employee organisations have been: Vesa Mauriala, chairman of Raideammattilaisten yhteisjärjestö JHL (Railway section of the trade union JHL); Risto Elonen, chairman of the Finnish Locomotivemen's Union; Johanna Wäre, chair of the Rautatiealan Teknisten Liitto (Union of Railway Technical Personnel); Kari Vähäuski, chairman of Rautatievirkamiesliitto (Union of Railway Officials); and Veijo Sundqvist, chairman of VR Akava.

Ernst & Young Oy, Authorised Public Accountants, was elected as auditor, with Mikko Rytilahti, APA, CPFA, as principal auditor.

Major events after the end of the financial year

In order to improve the competitiveness and cost efficiency of rolling stock maintenance, it was decided to move the machine shop work in Hyvinkää to other maintenance units, primarily to the Helsinki depot at Ilmala. The measures will be implemented in stages throughout 2017 and 2018.

At the start of February, VR Track's new competitiveness contract entered into force. This contract contains clarifications of employment conditions agreed between personnel representatives and employer representatives, with a focus on conditions relating to working hours and travel. The contract ensures the market competitiveness of VR Track's employment conditions.

In February, Martti Koskinen was named as Director of VR Transpoint, with Rolf Jansson having transferred already in 2016 to become President and CEO of VR Group Ltd.

Outlook for 2017

At the end of 2016, a wide-ranging passenger experience development programme was initiated for VR long-distance passenger services. This programme involved both the development of individualised customer service and updates to digital channels. Travel concepts will also be renewed in the coming years, especially for Extra Class and train restaurants. In addition, reforms to the operational control system will be initiated leading to a modernisation of seat reservation, rolling stock planning, and control operations. Travel chain development represents the business of the future, in which VR seeks cooperation with other modes of transport to offer a seamless travel experience.

The outlook for VR Transpoint in 2017 continues to be closely connected with the growth prospects of Finnish industries and the economic and political situation in Russia. Economic conditions are expected to remain moderately positive. Efforts are being made in cooperation with customers to forge new operating models to improve transport system efficiency, and at the same time new growth opportunities are being actively sought. Customer-orientated systems development continues, supported by our service promises.

The operating environment for VR Track is expected to remain at the 2016 level. Competition will remain right, however, even though an upturn in the construction markets is in sight. The outlook in Finland is reasonable. In Sweden, the tough competition and the need to raise the profitability of operations to the desired level will present challenges in 2017.

Board's proposal on the disposal of profit

The parent company's distributable profit totalled EUR 91.8 million, which includes a net profit for the year of EUR 42.5 million. 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 pay a dividend of EUR 90 million (equivalent to EUR 40.91 per share) from distributable funds and that the remaining funds be retained under shareholder equity.

Financial Statements

CONSOLIDATED INCOME STATEMENT (1,000 €)

	Note	1.1.–31.12.2016	1.1.–31.12.2015
Net sales	1	**1,186,717**	1,231,415
Change in inventories of finished goods and work in progress		**0**	-8
Production for own use		**16,357**	18,957
Income from associated companies		**2,276**	1,173
Other operating income	2	**47,431**	60,155
Materials and services	3	**-352,760**	-362,580
Personnel expenses	4	**-476,637**	-491,304
Depreciations, amortizations and impairment losses	5	**-130,011**	-117,819
Other operating expenses	6	**-250,114**	-274,623
Expenses, total		**-1,209,521**	-1,246,326
Operating profit	7	**43,260**	65,366
Financial income and expenses	8	**-8,920**	-1,750
Profit before taxes		**34,340**	63,617
Income taxes	11	**-12,048**	-12,893
Minority interest		**-1,140**	-683
Net profit		**21,152**	50,041

CONSOLIDATED BALANCE SHEET (1,000 €)

	Note	31.12.2016	Adjusted 31.12.2015
ASSETS			
Non-current assets			
Intangible assets	12	**92,578**	98,186
Goodwill on consolidation	12	**0**	0
Tangible assets	12	**1,331,243**	1,299,398
Investments	13		
Holdings in and receivables from associated companies		**12,533**	15,768
Other investments		**12,638**	14,968
Non-current assets, total		**1,448,992**	1,428,320
Current assets			
Inventories	14	**84,616**	92,609
Deferred tax assets	15	**3,122**	1,768
Long-term receivables	15	**3,710**	198
Short-term receivables	15	**170,744**	201,429
Financial securities	16	**257,140**	276,815
Cash and cash equivalents		**33,899**	27,409
Current assets, total		**553,231**	600,228
ASSETS TOTAL		**2,002,222**	2,028,548
EQUITY AND LIABILITIES			
Equity	17		
Share capital		**370,013**	370,013
Statutory reserve		**525,754**	525,808
Fair value reserve		**-46,246**	-60,882
Retained earnings		**476,166**	534,435
Net profit for the year		**21,152**	50,041
Equity, total		**1,346,838**	1,419,416
Minority interest		**5,983**	5,358
Provisions	18	**15,201**	4,762
Liabilities			
Deferred tax liabilities	18	**86,411**	84,904
Long-term liabilities	19	**298,157**	262,872
Short-term liabilities	19	**249,633**	251,236
Liabilities, total		**634,201**	599,012
EQUITY AND LIABILITIES TOTAL		**2,002,222**	2,028,548

CONSOLIDATED CASH FLOW STATEMENT (1,000 €)

	1.1.–31.12.2016	Reported 1.1.–31.12.2015
Cash flow from operating activities		
Operating profit	**43,260**	65,366
Adjustments to operating profit 1)	**93,845**	92,014
Change in inventories	**7,951**	-1,288
Change in short-term receivables	**30,787**	-4,490
Change in short-term liabilities	**9,456**	-15,981
Interest received	**1,588**	1,912
Interest paid and payments for other financial transactions	**-7,481**	-5,836
Dividends received	**3,929**	152
Income taxes paid	**-15,853**	-6,757
Net cash from operating activities	**167,483**	125,092
Cash flow from investing activities		
Capital expenditure on fixed assets	**-101,411**	-91,022
Disposal of fixed assets	**17,578**	22,082
Change in holdings in associated companies 2)	**2,405**	6,544
Subsidiaries sold 3)	**0**	-4,842
Change in other shares and holdings	**1**	0
Change in other long-term investments	**2,329**	15,315
Net cash from investing activities	**-79,099**	-51,925
Cash flow before financing activities	**88,385**	73,168
Cash flow from financing activities		
Change in long-term receivables	**-1,076**	71
Change in long-term liabilities	**23**	385
Change in short-term interest-bearing liabilities	**0**	20
Dividends paid	**-100,000**	-100,003
Dividends paid to minority interests	**-515**	-413
Net cash from financing activities	**-101,569**	-99,940
Change in cash and cash equivalents	**-13,184**	-26,773
Cash and cash equivalents 1.1.	**304,223**	330,996
Cash and cash equivalents 31.12.	**291,039**	304,223

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

1) Planned depreciations, other non-cash flow items and items showed elsewhere in cash flow.

2) VR Track Ltd sold 10 % of Vossloh Cogifer Finland Oy in July 2016 and owned 30 % of the company at year end 2016. VR Track Ltd sold 10 % of Vossloh Rail Services Finland Oy in October 2016 and owned 30 % of the company at year end 2016.

VR Track Ltd sold the welding and turnout business areas to Vossloh Group in the end of June 2015. Together with Vossloh Group VR Track Ltd established two associated companies, Vossloh Cogifer Finland Oy and Vossloh Rail Services Finland Oy, to run these business areas. VR Track Ltd owned 40 % of these companies at year end 2015.

3) Subsidiaries sold less cash and cash equivalents at time of sales.

PARENT COMPANY INCOME STATEMENT (1,000 €)

	Note	1.1.–31.12.2016	1.1.–31.12.2015
Net sales	1	**754,336**	786,278
Production for own use		**16,357**	15,193
Other operating income	2	**66,213**	75,320
Materials and services	3	**-177,788**	-189,104
Personnel expenses	4	**-299,727**	-317,566
Depreciations, amortizations and impairment losses	5	**-116,273**	-108,663
Other operating expenses	6	**-190,889**	-216,429
Expenses, total		**-784,677**	-831,763
Operating profit		**52,229**	45,028
Financial income and expenses	8	**-7,273**	143
Profit before appropriations and taxes		**44,956**	45,171
Change in depreciation difference	9	**-8,185**	-19,465
Group contributions	10	**16,235**	13,723
Income taxes	11	**-10,488**	-7,373
Net profit		**42,518**	32,056

PARENT COMPANY BALANCE SHEET (1,000 €)

	Note	31.12.2016	Adjusted 31.12.2015
ASSETS			
Non-current assets			
Intangible assets	12	**86,746**	92,768
Tangible assets	12	**1,232,107**	1,206,163
Investments	13		
Holdings in and receivables from group companies		**56,012**	58,512
Holdings in and receivables from associated companies		**3,753**	3,753
Other investments		**12,576**	14,906
Non-current assets, total		**1,391,194**	1,376,103
Current assets			
Inventories	14	**67,327**	70,532
Long-term receivables	15	**4,182**	22,431
Short-term receivables	15	**97,158**	122,493
Financial securities	16	**257,140**	276,815
Cash and cash equivalents		**27,867**	22,202
Current assets, total		**453,674**	514,472
ASSETS TOTAL		**1,844,869**	1,890,575
EQUITY AND LIABILITIES			
Equity	17		
Share capital		**370,013**	370,013
Statutory reserve		**525,754**	525,754
Fair value reserve		**-46,246**	-60,882
Retained earnings		**95,555**	171,749
Net profit for the year		**42,518**	32,056
Equity, total		**987,594**	1,038,690
Appropriations	18	**421,439**	413,254
Provisions	18	**9,759**	1,346
Liabilities			
Long-term liabilities	19	**241,140**	216,323
Short-term liabilities	19	**184,936**	220,962
Liabilities, total		**426,077**	437,285
EQUITY AND LIABILITIES TOTAL		**1,844,869**	1,890,575

PARENT COMPANY CASH FLOW STATEMENT (1,000 €)

	1.1.–31.12.2016	Reported 1.1.–31.12.2015
Cash flow from operating activities		
Operating profit	**52,229**	45,028
Adjustments to operating profit 1)	**87,895**	93,181
Change in inventories	**3,205**	-3,544
Change in short-term receivables	**22,908**	1,960
Change in short-term liabilities	**-545**	-20,913
Interest received	**2,113**	2,305
Interest paid and payments for other financial transactions	**-8,178**	-2,713
Dividends received	**1,441**	721
Income taxes paid	**-14,719**	-6,445
Net cash from operating activities	**146,349**	109,582
Cash flow from investing activities		
Capital expenditure on fixed assets	**-96,678**	-82,661
Disposal of fixed assets	**15,473**	19,968
Subsidiaries sold	**0**	3
Change in other shares and holdings	**1**	0
Change in other long-term investments	**2,329**	15,270
Net cash from investing activities	**-78,875**	-47,420
Cash flow before financing activities	**67,474**	62,162
Cash flow from financing activities		
Change in long-term receivables	**20,684**	787
Change in short-term interest-bearing receivables	**6,672**	0
Change in long-term liabilities	**23**	33
Change in short-term interest-bearing liabilities	**15**	-4
Group contributions	**14,223**	17,850
Dividends paid	**-100,000**	-100,003
Change in funds transferred to Group accounts	**-23,099**	-2,453
Net cash from financing activities	**-81,484**	-83,791
Change in cash and cash equivalents	**-14,009**	-21,629
Cash and cash equivalents 1.1.	**299,016**	320,646
Cash and cash equivalents 31.12.	**285,007**	299,016

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

1) Planned depreciations, other non-cash flow items and items showed elsewhere in cash flow.

ACCOUNTING PRINCIPLES

Scope of consolidated financial statements

The consolidated financial statements comprise the parent company, all subsidiaries and associated companies. More information about the companies in the Group is given below in note 13.

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

Principles for consolidation

Intragroup shareholdings

The consolidated financial statements are prepared using the aquisition method. Goodwill on consolidation is amortized in five years.

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 is shown as a separate item.

Comparability of the consolidated financial statements

The consolidated financial statements are prepared in accordance with the Finnish Accounting Act of 30 December 1997 (1336). The figures for comparison are from the financial year 1 January–31 December 2015, 12 months. The balance sheet for 2015 has been adjusted regarding derivatives and financial leasing agreements. The income statement for 2015 has not been adjusted. From the beginning of 2016 the depreciation period for passenger coaches has been extended from 20 years to 30 years and new spare part bogies are reclassed from inventories to tangible assets. The figures for 2015 has not been adjusted.

The effect of derivatives to the adjusted balance sheet for 2015 is: M€ +0.1 long-term derivative assets, M€ -60.9 fair value reserve in restricted equity, M€ +51.3 long-term derivative liabilities, M€ +9.7 short-term accrued expenses and prepaid income.

The effect of financial leasing agreements to the adjusted balance sheet for 2015 is: M€ +227.9 tangible assets, M€ +3.3 retained earnings in unrestricted equity, M€ +211.2 long-term financial leasing liabilities, M€ +17.3 short-term financial leasing liabilities and M€ -3.8 short-term accounts payables.

Comparability of parent company 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 financial year 1 January - 31 December 2015, 12 months. The balance sheet for 2015 has been adjusted regarding derivatives and financial leasing agreements. The income statement for 2015 has not been adjusted. From the beginning of 2016 the depreciation period for passenger coaches has been extended from 20 years to 30 years and new spare part bogies are reclassed from inventories to tangible assets. The figures for 2015 has not been adjusted.

The effect of derivatives to the adjusted balance sheet for 2015 is: M€ +0.1 long-term derivative assets, M€ -60.9 fair value reserve in restricted equity, M€ +51.3 long-term derivative liabilities, M€ +9.7 short-term accrued expenses and prepaid income.

The effect of financial leasing agreements to the adjusted balance sheet for 2015 is: M€ +179.3 tangible assets, M€ +4.8 retained earnings in unrestricted equity, M€ +164.6 long-term financial leasing liabilities and M€ +9.8 short-term financial leasing liabilities.

Essential corrections of errors regarding earlier financial years

In 2016 retained earnings have been corrected regarding land area sold by VR-Group Ltd in 2014 and an unbooked provision for cleaning contaminated land in connection with that. The effect in equity is M€ -8.3 in 2016.

Valuation principles

Fixed assets are capitalized at direct acquisition costs. Fixed assets totalling M€ 16.4 (M€ 15.2) were produced for own use.

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 at the balance sheet date. Production for own use included in inventories also includes a part of fixed costs.

Financial securities are valued at acquisition cost.

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

Balance sheets of foreign subsidiaries are consolidated at average exchange rate at the balance sheet date and income statements at average exchange rate of the financial year published by the European Central bank.

Financial leasing

From the beginning of 2016 VR Group applies § 5:5b of the Finnish Accounting Act, according to which assets acquired by financial leasing agreements can be booked in the financial statements. In other words if a group company has done a leasing agreement according to which the risks and benefits of the leasing object essentially are transferred to the lessee in the beginning of the leasing period, the lessor can book the asset in its financial statament as if the asset was sold and the lessee as if the asset was bought.

In VR Group the financial leasing commitments of rolling stock and vehicles, where risks and benefits essentially are transferred to the lessee in the beginning of the leasing period, are booked in the balance sheet. Earlier these commitments have been reported only in the notes. In practice machinery and equipment as well as liabilities have increased in the balance sheet and in the income statement leasing costs have decreased while depreciations and financial costs have increased. The balance sheet for 2015 has been adjusted, but not the income statement.

Derivatives

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

Changes in derivatives' fair values are booked in the balance sheet in fair value reserve in 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 booked in the income statement. The effectiveness of the hedges is tested annually with sensitivity analyses.

Recognition of revenue of long-term projects

Revenue from VR-Track Ltd's contruction projects is recognized as a precentage of their completion. The precentage of completion is determined by monitoring the actual project costs to date and comparing them with the estimated total costs of the project. As net sales is recognized a share of the estimated total revenue of the projects based on the precentage of their completion. In case of estimated losses from long-term projects, losses from the uncompleted precentage of the projects are recognized as provisions.

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 VR Pension Fund. The Pension Fund is closed since 1.7.1995. The Pension Fund administers supplementary pension benefits for 1129 employees at year end 2016. In 2016 no additional payments 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 statement using the tax rate for the following years as confirmed at the balance sheet date. In the balance sheet the deferred tax liabilities are included altogether and the deferred tax receivables are included to an estimated likely receivable.

In order to follow the principle of prudence the Group has not recorded deferred tax receivables in the balance sheet from confirmed losses and losses from the financial year to be confirmed regarding foreign group companies.

1 Net sales by business segment and geographical area (1,000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Net sales by business segment				
Passenger services				
Rail services	**379,797**	412,171	**379,868**	412,250
Road services	**87,046**	88,208	**0**	0
Catering and restaurant services	**35,126**	34,374	**0**	0
VR Transpoint				
Rail services	**301,603**	292,952	**301,979**	293,568
Road services	**79,081**	87,503	**60,271**	61,141
VR Track	**294,281**	300,472	**0**	0
Other services	**9,783**	15,734	**12,218**	19,319
Total	**1,186,717**	1,231,415	**754,336**	786,278
Net sales by geographical area				
Finland	**1,115,135**	1,140,025	**754,336**	786,278
Rest of Europe	**71,581**	91,391	**0**	0
Total	**1,186,717**	1,231,415	**754,336**	786,278

Revenue from long-term track construction projects is recognized as a percentage of completion, calculated from actual costs and estimated total costs. The amount recognized during the year was M€ 225.1 (M€ 249.0).

2 Other operating income (1,000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Rental income	**17,894**	17,190	**24,621**	24,049
Profit on sale of non-current assets	**17,144**	23,264	**14,609**	17,933
Other income	**12,394**	19,701	**26,983**	33,338
Total	**47,431**	60,155	**66,213**	75,320

3 Materials and services (1,000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Materials and supplies (goods)				
Purchases during the year	**-174,694**	-193,790	**-88,011**	-105,172
Change in inventories	**-6,659**	1,909	**-3,205**	3,544
External services purchased	**-171,407**	-170,698	**-86,571**	-87,476
Total	**-352,760**	-362,580	**-177,788**	-189,104

4 Employees and personnel expenses

The average number of employees by business segment was as follows:

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Passenger services	**2,502**	2,720	**1,285**	1,450
VR Transpoint	**1,316**	1,472	**1,178**	1,245
VR Track	**1,711**	1,739	**0**	0
Maintenance	**964**	1,156	**964**	1,156
Train operations	**1,078**	1,198	**1,078**	1,198
Other Group services	**327**	330	**327**	330
Total	**7,898**	8,615	**4,831**	5,379

Personnel expenses (1,000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Wages and salaries	**-380,706**	-396,027	**-242,295**	-258,478
Pension expanses	**-64,628**	-65,496	**-41,143**	-43,074
Other personnel related expenses	**-31,303**	-29,781	**-16,289**	-16,014
Total	**-476,637**	-491,304	**-299,727**	-317,566

Management renumeration (1,000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
CEOs	**-2,039**	-2,175	**-758**	-768
Members of Boards of Directors	**-314**	-333	**-308**	-319
Supervisory Board	**-53**	-54	**-53**	-54
Total	**-2,406**	-2,562	**-1,118**	-1,141

The CEOs of VR-Group Ltd and VR Track Ltd changed in 2016. Reported personnel expenses include statutory payments, such as annual holidays, paid to the former CEOs at the end of their employments. In addition, VR-Group Ltd's former CEO's reported personnel expenses include expenses when working with special management task 20.10.–31.11.2016. The former CEO of VR-Group Ltd has also had a personal additional pension insurance, including life insurance in case of death, of 9,604.50 euro paid by the employer.

5 Depreciations, amortizations and impairment losses (1,000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Planned depreciations and amortizations				
Intangible assets	**-19,730**	-17,912	**-17,921**	-16,580
Buildings and structures	**-16,049**	-15,879	**-15,754**	-15,603
Tractive and rolling stock	**-71,136**	-69,214	**-71,136**	-69,214
Other machinery and equipment	**-22,250**	-13,706	**-8,167**	-6,528
Other tangible assets	**-846**	-805	**-797**	-738
Amortization of goodwill on consolidation	**0**	-303	**0**	0
Impairment losses				
Holdings in group companies	**0**	0	**-2,500**	0
Total	**-130,011**	-117,819	**-116,273**	-108,663

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

Planned depreciation periods and methods are:		
Intangible assets	5 years	straight-line
Other capitalized long-term expenses	3–10 years	straight-line
Buildings	4%–7%	declining
Sturctures	20%	declining
Tractive stock	30 years	straight-line
Electric trains	25 years	straight-line
Rolling stock	15–30 years*	straight-line
Other machinery and equipment	5–15 years	straight-line
Other tangible assets	5–30 years	straight-line

*The depreciation period for passenger coaches has been extended from 20 years to 30 years from the beginning of 2016. The new depreciation period better reflects the economic life of the assets.

6 Other operating expenses (1,000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Track access fee and tax	**-45,413**	-44,451	**-45,413**	-44,451
Rents and other real estate expenses	**-60,031**	-82,360	**-50,014**	-66,036
Travel and other personnel expenses	**-32,490**	-39,849	**-17,583**	-25,355
Telecommunication and information management expenses	**-44,365**	-46,842	**-35,389**	-39,016
Other transportation expenses	**-22,767**	-20,013	**-21,238**	-17,725
Administration and other expenses	**-45,049**	-41,108	**-21,252**	-23,845
Total	**-250,114**	-274,623	**-190,889**	-216,429

Auditors' fees (1 000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Auditing fees	**-309**	-172	**-132**	-71
Tax advisory services	**-12**	-4	**-3**	-4
Other services	**-51**	-52	**-8**	-43
Total	**-371**	-228	**-143**	-118

7 Operating profit by main business segments (1,000 €)

	Group	
	2016	**2015**
Passenger services	**16,609**	9,882
VR Transpoint	**34,513**	27,045
VR Track	**-14,104**	18,141
Others	**6,242**	10,299
Total	**43,260**	65,366

8 Financial income and expenses (1,000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Dividend income				
From group companies	**0**	0	**752**	570
From associated companies	**0**	0	**688**	150
From others	**2**	2	**1**	2
Dividend income, total	**2**	2	**1,441**	721
Interest income from long-term investments				
From group companies	**0**	0	**310**	47
From associated companies	**43**	88	**43**	88
From others	**105**	173	**104**	173
Other short-term interest and financial income				
From group companies	**0**	0	**229**	369
From associated companies	**1**	10	**1**	10
From others	**5,250**	4,529	**3,496**	3,786
Interest and other financial income, total	**5,398**	4,801	**4,183**	4,473
Interest expenses and other financial expenses				
To group companies	**0**	0	**0**	-7
To others	**-14,320**	-6,552	**-12,897**	-5,044
Interest and other financial expenses, total	**-14,320**	-6,552	**-12,897**	-5,052
Financial income and expenses, total	**-8,920**	-1,750	**-7,273**	143

9 Change in depreciation difference (1,000 €)

	Parent company	
	2016	**2015**
Difference between planned depreciations and depreciations in taxation		
Change in depreciation difference (increase -, decrease +)	**-8,185**	-19,465

In the consolidated financial statements the depreciation difference is divided into net profit and non-restricted equity as well as change in deferred tax liabilities and deferred tax liabilities.

10 Group contributions (1,000 €)

	Parent company	
	2016	**2015**
Group contributions received	**17,100**	14,223
Group contributions paid	**-865**	-500
Total	**16,235**	13,723

11 Income taxes (1,000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Income tax on operating activities	**-11,130**	-7,295	**-10,496**	-7,360
Income tax related to previous years	**-726**	-29	**8**	54
Deferred taxes	**-192**	-5,569	**0**	-67
Total	**-12,048**	-12,893	**-10,488**	-7,373

12 Non-current assets (1,000 €)

	Intangible assets				Tangible assets							
Group 2016	**Intangible rights and other capitalised long-term expenditure**	**Goodwill**	**Goodwill on consolidation**	**Total**	**Land and water areas**	**Buildings and structures**	**Machinery and equipment**	**Machinery and equipment financial leasing**	**Other tangible assets**	**Advanced payments and construction in progress**	**Total**	**Assets, total**
Aquisition cost 1.1.	171,383	282	11,033	182,698	47,346	422,442	1,769,045	275,123	15,611	97,851	2,627,417	**2,810,115**
Translation difference	0	0	0	0	0	9	323	0	0	-38	294	**294**
Increases	0	0	0	0	64	0	233	56,829	0	101,074	158,201	**158,201**
Decreases	-121	0	0	-121	-647	-782	-8,569	0	0	-38	-10,035	**-10,156**
Reclassifications	14,193	0	0	14,193	27	4,974	50,733	0	774	-70,701	-14,193	**0**
Aquisition cost 31.12.	**185,454**	**282**	**11,033**	**196,769**	**46,790**	**426,643**	**1,811,765**	**331,952**	**16,385**	**128,148**	**2,761,684**	**2,958,453**
Accumulated depreciation 1.1.	-73,211	-267	-11,033	-84,511	0	-186,411	-1,084,682	-47,206	-9,721	0	-1,328,020	**-1,412,531**
Translation difference	0	0	0	0	0	-7	-58	0	0	0	-65	**-65**
Decreases	50	0	0	50	0	450	7,474	0	0	0	7,924	**7,975**
Depreciations of the year	-19,725	-5	0	-19,730	0	-16,049	-77,470	-15,916	-846	0	-110,281	**-130,011**
Accumulated depreciation 31.12.	**-92,886**	**-272**	**-11,033**	**-104,191**	**0**	**-202,016**	**-1,154,737**	**-63,122**	**-10,567**	**0**	**-1,430,441**	**-1,534,632**
Book value 31.12.	**92,569**	**10**	**0**	**92,578**	**46,790**	**224,627**	**657,028**	**268,830**	**5,818**	**128,148**	**1,331,243**	**1,423,821**

	Intangible assets				Tangible assets						
Group 2015 reported	**Intangible rights and other capitalised long-term expenditure**	**Goodwill**	**Goodwill on consolidation**	**Total**	**Land and water areas**	**Buildings and structures**	**Machinery and equipment**	**Other tangible assets**	**Advanced payments and construction in progress**	**Total**	**Assets, total**
Aquisition cost 1.1.	158,417	362	22,199	180,978	47,868	408,169	1,751,681	16,866	74,662	2,299,247	**2,480,225**
Translation difference	1	0	0	1	0	-4	-81	23	0	-62	**-61**
Increases	8	0	0	8	4	0	1,055	74	89,562	90,694	**90,702**
Decreases	-1,362	-81	-11,166	-12,608	-898	-2,785	-17,538	-1,247	623	-21,846	**-34,454**
Reclassifications	14,318	0	0	14,318	372	17,062	33,928	-104	-66,996	-15,738	**-1,420**
Aquisition cost 31.12.	**171,383**	**282**	**11,033**	**182,698**	**47,346**	**422,442**	**1,769,045**	**15,611**	**97,851**	**2,352,295**	**2,534,992**
Accumulated depreciation 1.1.	-56,568	-327	-21,634	-78,529	0	-172,029	-1,016,653	-9,962	0	-1,198,644	**-1,277,173**
Translation difference	0	0	0	0	0	3	25	0	0	28	**28**
Increases	0	0	0	0	0	0	-1,126	0	0	-1,126	**-1,126**
Decreases	1,055	292	10,954	12,301	0	1,576	15,933	1,146	0	18,655	**30,956**
Depreciations of the year	-17,679	-233	-353	-18,264	0	-15,879	-82,920	-805	0	-99,604	**-117,869**
Reclassifications	-18	0	0	-18	0	-82	59	-99	0	-122	**-140**
Accumulated depreciation 31.12.	**-73,211**	**-267**	**-11,033**	**-84,511**	**0**	**-186,411**	**-1,084,682**	**-9,721**	**0**	**-1,280,814**	**-1,365,325**
Book value 31.12.	**98,172**	**15**	**0**	**98,186**	**47,346**	**236,032**	**684,362**	**5,890**	**97,851**	**1,071,481**	**1,169,667**

	Intangible assets				Tangible assets							
Group 2015 adjusted	**Intangible rights and other capitalised long-term expenditure**	**Goodwill**	**Goodwill on consolidation**	**Total**	**Land and water areas**	**Buildings and structures**	**Machinery and equipment**	**Machinery and equipment financial leasing**	**Other tangible assets**	**Advanced payments and construction in progress**	**Total**	**Assets, total**
Aquisition cost 1.1.	158,417	362	22,199	180,978	47,868	408,169	1,751,681		16,866	74,662	2,299,247	**2,480,225**
Translation difference	1	0	0	1	0	-4	-81		23	0	-62	**-61**
Increases	8	0	0	8	4	0	1,055	275,123	74	89,562	365,817	**365,825**
Decreases	-1,362	-81	-11,166	-12,608	-898	-2,785	-17,538	0	-1,247	623	-21,846	**-34,454**
Reclassifications	14,318	0	0	14,318	372	17,062	33,928		-104	-66,996	-15,738	**-1,420**
Aquisition cost 31.12.	**171,383**	**282**	**11,033**	**182,698**	**47,346**	**422,442**	**1,769,045**	**275,123**	**15,611**	**97,851**	**2,627,417**	**2,810,115**
Accumulated depreciation 1.1.	-56,568	-327	-21,634	-78,529	0	-172,029	-1,016,653		-9,962	0	-1,198,644	**-1,277,173**
Translation difference	0	0	0	0	0	3	25		0	0	28	**28**
Increases	0	0	0	0	0	0	-1,126	-47,206	0	0	-48,332	**-48,332**
Decreases	1,055	292	10,954	12,301	0	1,576	15,933	0	1,146	0	18,655	**30,956**
Depreciations of the year	-17,679	-233	-353	-18,264	0	-15,879	-82,920		-805	0	-99,604	**-117,869**
Reclassifications	-18	0	0	-18	0	-82	59		-99	0	-122	**-140**
Accumulated depreciation 31.12.	**-73,211**	**-267**	**-11,033**	**-84,511**	**0**	**-186,411**	**-1,084,682**	**-47,206**	**-9,721**	**0**	**-1,328,020**	**-1,412,531**
Book value 31.12.	**98,172**	**15**	**0**	**98,186**	**47,346**	**236,032**	**684,362**	**227,917**	**5,890**	**97,851**	**1,299,398**	**1,397,584**

	Intangible assets			Tangible assets							
Parent company 2016	**Intangible rights and other capitalised long-term expenditure**	**Goodwill**	**Total**	**Land and water areas**	**Buildings and structures**	**Machinery and equipment**	**Machinery and equipment financial leasing**	**Other tangible assets**	**Advanced payments and construction in progress**	**Total**	**Assets, total**
Aquisition cost 1.1.	157,086	198	157,284	46,673	413,667	1,580,800	204,177	14,455	95,500	2,355,272	**2,512,555**
Increases	0	0	0	64	0	12	38,028	0	96,601	134,705	**134,705**
Decreases	0	0	0	-647	-737	-3,428	0	0	0	-4,812	**-4,812**
Reclassifications	11,898	0	11,898	0	4,445	48,817	0	774	-65,935	-11,898	**0**
Aquisition cost 31.12.	**168,984**	**198**	**169,182**	**46,090**	**417,375**	**1,626,201**	**242,205**	**15,229**	**126,166**	**2,473,267**	**2,642,449**
Accumulated depreciation 1.1.	-64,317	-198	-64,515	0	-184,385	-930,996	-24,903	-8,825	0	-1,149,108	**-1,213,624**
Decreases	0	0	0	0	413	3,388	0	0	0	3,801	**3,801**
Depreciations of the year	-17,921	0	-17,921	0	-15,754	-70,547	-8,756	-797	0	-95,853	**-113,773**
Accumulated depreciation 31.12.	**-82,238**	**-198**	**-82,436**	**0**	**-199,726**	**-998,155**	**-33,659**	**-9,621**	**0**	**-1,241,161**	**-1,323,597**
Book value 31.12.	**86,746**	**0**	**86,746**	**46,090**	**217,650**	**628,047**	**208,546**	**5,608**	**126,166**	**1,232,107**	**1,318,853**

	Intangible assets			Tangible assets							
Parent company 2015 reported	**Intangible rights and other capitalised long-term expenditure**	**Goodwill**	**Total**	**Land and water areas**	**Buildings and structures**	**Machinery and equipment**		**Other tangible assets**	**Advanced payments and construction in progress**	**Total**	**Assets, total**
Aquisition cost 1.1.	148,175	198	148,373	47,273	399,783	1,535,301		13,866	71,194	2,067,417	**2,215,790**
Increases	0	0	0	4	0	93		0	82,895	82,992	**82,992**
Decreases	-1,227	0	-1,227	-898	-2,746	14,487		-20	0	10,823	**9,596**
Reclassifications	10,138	0	10,138	294	16,629	30,920		608	-58,589	-10,138	**0**
Aquisition cost 31.12.	**157,086**	**198**	**157,284**	**46,673**	**413,667**	**1,580,800**		**14,455**	**95,500**	**2,151,094**	**2,308,378**
Accumulated depreciation 1.1.	-48,728	-182	-48,910	0	-170,340	-840,894		-8,102	0	-1,019,336	**-1,068,246**
Decreases	975	0	975	0	1,558	-14,360		15	0	-12,787	**-11,812**
Depreciations of the year	-16,564	-16	-16,580	0	-15,603	-75,742		-738	0	-92,083	**-108,663**
Accumulated depreciation 31.12.	**-64,317**	**-198**	**-64,515**	**0**	**-184,385**	**-930,996**		**-8,825**	**0**	**-1,124,205**	**-1,188,721**
Book value 31.12.	**92,768**	**0**	**92,768**	**46,673**	**229,281**	**649,805**		**5,630**	**95,500**	**1,026,889**	**1,119,657**

	Intangible assets			Tangible assets							
Parent company 2015 adjusted	**Intangible rights and other capitalised long-term expenditure**	**Goodwill**	**Total**	**Land and water areas**	**Buildings and structures**	**Machinery and equipment**	**Machinery and equipment financial leasing**	**Other tangible assets**	**Advanced payments and construction in progress**	**Total**	**Assets, total**
Aquisition cost 1.1.	148,175	198	148,373	47,273	399,783	1,535,301		13,866	71,194	2,067,417	**2,215,790**
Increases	0	0	0	4	0	93	204,177	0	82,895	287,169	**287,169**
Decreases	-1,227	0	-1,227	-898	-2,746	14,487	0	-20	0	10,823	**9,596**
Reclassifications	10,138	0	10,138	294	16,629	30,920		608	-58,589	-10,138	**0**
Aquisition cost 31.12.	**157,086**	**198**	**157,284**	**46,673**	**413,667**	**1,580,800**	**204,177**	**14,455**	**95,500**	**2,355,272**	**2,512,555**
Accumulated depreciation 1.1.	-48,728	-182	-48,910	0	-170,340	-840,894		-8,102	0	-1,019,336	**-1,068,246**
Increases	0	0	0	0	0	0	-24,903	0	0	-24,903	**-24,903**
Decreases	975	0	975	0	1,558	-14,360	0	15	0	-12,787	**-11,812**
Depreciations of the year	-16,564	-16	-16,580	0	-15,603	-75,742		-738	0	-92,083	**-108,663**
Accumulated depreciation 31.12.	**-64,317**	**-198**	**-64,515**	**0**	**-184,385**	**-930,996**	**-24,903**	**-8,825**	**0**	**-1,149,108**	**-1,213,624**
Book value 31.12.	**92,768**	**0**	**92,768**	**46,673**	**229,281**	**649,805**	**179,275**	**5,630**	**95,500**	**1,206,163**	**1,298,931**

13 Investments (1,000 €)

Group 2016	Holdings in group companies	Receivables from group companies	Holdings in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Aquisition cost 1.1.	0	0	13,564	2,204	1,584	13,383	**30,736**
Increases	0	0	32	0	0	10,828	**10,859**
Decreases	0	0	-1,170	0	-1	-13,156	**-14,327**
Income from associated companies	0	0	1,830	0	0	0	**1,830**
Dividend from associated companies	0	0	-3,928	0	0	0	**-3,928**
Aquisition cost 31.12.	**0**	**0**	**10,329**	**2,204**	**1,583**	**11,055**	**25,170**
Book value 31.12.	**0**	**0**	**10,329**	**2,204**	**1,583**	**11,055**	**25,170**

Group 2015	Holdings in group companies	Receivables from group companies	Holdings in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Aquisition cost 1.1.	0	0	6,204	2,204	1,629	28,699	**38,737**
Increases	0	0	6,348	0	0	4,861	**11,209**
Decreases	0	0	0	0	-45	-20,131	**-20,176**
Reclassifications	0	0	0	0	0	-46	**-46**
Income from associated companies	0	0	1,162	0	0	0	**1,162**
Dividend from associated companies	0	0	-150	0	0	0	**-150**
Aquisition cost 31.12.	**0**	**0**	**13,564**	**2,204**	**1,584**	**13,383**	**30,736**
Book value 31.12.	**0**	**0**	**13,564**	**2,204**	**1,584**	**13,383**	**30,736**

Parent company 2016	Holdings in group companies	Receivables from group companies	Holdings in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Aquisition cost 1.1.	58,512	0	1,549	2,204	1,522	13,383	**77,171**
Increases	0	0	0	0	0	10,828	**10,828**
Decreases	0	0	0	0	-1	-13,156	**-13,157**
Impairment losses	-2,500	0	0	0	0	0	**-2,500**
Aquisition cost 31.12.	**56,012**	**0**	**1,549**	**2,204**	**1,521**	**11,055**	**72,342**
Book value 31.12.	**56,012**	**0**	**1,549**	**2,204**	**1,521**	**11,055**	**72,342**

Parent company 2015	Holdings in group companies	Receivables from group companies	Holdings in associated companies	Receivables from associated companies	Other shares and holdings	Other receivables	Total
Aquisition cost 1.1.	58,516	0	1,549	2,204	1,567	28,653	**92,489**
Increases	0	0	0	0	0	4,861	**4,861**
Decreases	-3	0	0	0	-44	-20,131	**-20,179**
Aquisition cost 31.12.	**58,512**	**0**	**1,549**	**2,204**	**1,522**	**13,383**	**77,171**
Book value 31.12.	**58,512**	**0**	**1,549**	**2,204**	**1,522**	**13,383**	**77,171**

VR-Group Ltd has granted Pääkaupunkiseudun Junakalusto Oy an equity loan of M€ 2.2.

Investments include corporate and government bonds:

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Replacement value	**11,334**	13,442	**11,334**	13,442
Book value	**11,055**	13,383	**11,055**	13,383
Difference	**279**	59	**279**	59

Group and parent company holdings

GROUP COMPANIES	**Group ownership -%**	**Parent company ownership -%**
Napapiirin Turistiauto Oy, Helsinki	**100**	**100**
Oy Pohjolan Liikenne Ab, Helsinki	**100**	**100**
Transpoint International (FI) Oy, Helsinki	**100**	**100**
VR Track Ltd, Helsinki	**100**	**100**
OOO VR Transpoint, Russia	**100**	**0**
Oy Pohjolan Kaupunkiliikenne Ab, Helsinki	**100**	**0**
PL Fleet Oy, Helsinki	**100**	**0**
Transpoint International (EST) AS, Estonia	**100**	**0**
VR Infrapro AB, Sweden	**100**	**0**
VR Track Sweden AB, Sweden	**100**	**0**
AO Transpoint International (RU), Russia	**100**	**0**
Avecra Oy, Helsinki	**60**	**60**
Insinööritoimisto Arcus Oy, Turku	**70**	**0**
Kokkolan Tavaraterminaali Oy, Kokkola	**53.4**	**53.4**
Oulun Keskusliikenneasemakiinteistö Oy, Oulu	**57.3**	**57.3**

ASSOCIATED COMPANIES		
Freight One Scandinavia Oy, Helsinki	**50**	**50**
Oy ContainerTrans Scandinavia Ltd, Helsinki	**50**	**50**
Oy Karelian Trains Ltd, Helsinki	**50**	**50**
Metropolitan Area Rolling Stock Ltd, Helsinki	**35**	**35**
SeaRail Oy, Tampere	**50**	**50**
Seinäjoen Linja-autoasemakiinteistö Oy, Seinäjoki	**20.7**	**20.7**
Vainikkalan Vesi Oy, Lappeenranta	**42.5**	**42.5**
Varkauden Keskusliikenneasemakiinteistö Oy, Varkaus	**33.3**	**33.3**
Vossloh Cogifer Finland Oy, Kouvola	**30**	**0**
Vossloh Rail Services Finland Oy, Kouvola	**30**	**0**

14 Inventories (1,000 €)

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Materials and supplies	**84,616**	91,220	**67,327**	70,532
Work in progress	**0**	1,389	**0**	0
Total	**84,616**	92,609	**67,327**	70,532

15 Receivables (1,000 €)

	Group			Parent company		
		Reported	Adjusted		Reported	Adjusted
	2016	**2015**	**2015**	**2016**	**2015**	**2015**
Long-term receivables						
Receivables from group companies						
Loan receivables				**473**	22,233	22,233
Receivables from group companies, total				**473**	22,233	22,233
Receivables from others						
Deferred tax receivables	**3,122**	1,768	1,768	**0**	0	0
Long-term derivative assets	**2,495**	0	60	**2,495**	0	60
Other receivables	**1,215**	138	138	**1,215**	138	138
Receivables from others, total	**6,831**	1,906	1,966	**3,710**	138	198
Long-term receivables, total	**6,831**	1,906	1,966	**4,182**	22,371	22,431
Deferred tax receivables						
From temporary differences	**3,122**	1,768	1,768	**0**	0	0

In order to follow the principle of prudence the Group has not recorded deferred tax receivables from confirmed losses and losses from the financial year to be confirmed regarding foreign group companies when it is not likely that taxable income will occur from which the losses can be deducted. The Group had such deferred tax receivables unrecorded M€ 8.8 31.12.2016 (M€ 1.0 31.12.2015).

	Group			Parent company		
	2016	Reported **2015**	Adjusted **2015**	**2016**	Reported **2015**	Adjusted **2015**
Short-term receivables						
Receivables from group companies						
Accounts receivable				**538**	1,994	1,994
Loan receivables				**6,584**	13,256	13,256
Other receivables				**17,100**	14,223	14,223
Prepaid expenses and accrued income				**326**	219	219
Receivables from group companies, total				**24,547**	29,692	29,692
Receivables from associated companies						
Accounts receivable	**975**	913	913	**772**	487	487
Receivables from associated companies, total	**975**	913	913	**772**	487	487
Receivables from others						
Accounts receivable	**123,234**	109,997	109,997	**51,549**	47,420	47,420
Other receivables	**1,636**	2,899	2,899	**100**	105	105
Prepaid expenses and accrued income	**44,899**	87,620	87,620	**20,189**	44,789	44,789
Receivables from others, total	**169,769**	200,516	200,516	**71,838**	92,314	92,314
Short-term receivables, total	**170,744**	201,429	201,429	**97,158**	122,493	122,493

Main items in prepaid expenses and accrued income

The main items in the Group's prepaid expenses and accrued income are accruals from sales and expenses M€ 27.7 (M€ 54.1) and precentage of completion receivables M€ 9.5 (M€ 27.1).

The main items in the parent company's prepaid expenses and accrued income are accruals from sales and expenses M€ 17.3 (M€ 43.1).

16 Financial securities (1,000 €)

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

	Group		Parent company	
	2016	**2015**	**2016**	**2015**
Replacement value	**257,852**	276,740	**257,852**	276,740
Book value	**257,140**	276,815	**257,140**	276,815
Difference	**712**	-75	**712**	-75

17 Equity (1,000 €)

	Group			Parent company		
		Reported	Adjusted		Reported	Adjusted
	2016	**2015**	**2015**	**2016**	**2015**	**2015**
Restricted equity						
Share capital 1.1.	**370,013**	370,013	370,013	**370,013**	370,013	370,013
Share capital 31.12.	**370,013**	370,013	370,013	**370,013**	370,013	370,013
Statutory reserve 1.1.	**525,808**	525,808	525,808	**525,754**	525,754	525,754
Reclassifications	**-55**	0	0	**0**	0	0
Statutory reserve 31.12.	**525,754**	525,808	525,808	**525,754**	525,754	525,754
Fair value reserve 1.1.	**-60,882**	0	0	**-60,882**	0	0
Increases	**14,636**	0	60	**14,636**	0	60
Decreases	**0**	0	-60,942	**0**	0	-60,942
Fair value reserve 31.12.	**-46,246**	0	-60,882	**-46,246**	0	-60,882
Restricted equity, total	**849,521**	895,822	834,939	**849,521**	895,767	834,885
Non-restricted equity						
Retained earnings 1.1.	**584,476**	631,060	631,060	**203,805**	266,950	266,950
Dividends paid	**-100,000**	-100,003	-100,003	**-100,000**	-100,003	-100,003
Increases - Change in accounting principles financial leasing	**0**	0	3,257	**0**	0	4,802
Decreases - Correction of error regarding provisions for environmental obligations	**-8,250**	0	0	**-8,250**	0	0
Translation differences	**-115**	122	122	**0**	0	0
Reclassifications	**55**	0	0	**0**	0	0
Retained earnings 31.12.	**476,166**	531,179	534,435	**95,555**	166,947	171,749
Net profit for the year	**21,152**	50,041	50,041	**42,518**	32,056	32,056
Non-restricted equity, total	**497,318**	581,220	584,476	**138,074**	199,003	203,805
Equity, total	**1,346,838**	1,477,041	1,419,416	**987,594**	1,094,770	1,038,690

Calculation of distributable funds (1,000 €)

	Parent company		
		Reported	Adjusted
	2016	**2015**	**2015**
Retained earnings	**95,555**	166,947	166,947
Net profit for the year	**42,518**	32,056	32,056
Change in accounting principles financial leasing	**0**	0	4,802
Negative fair value reserve	**-46,246**	0	-60,882
Total	**91,827**	199,003	142,923

18 Provisions and appropriations (1,000 €)

	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Provisions	**15,201**	4,762	**9,759**	1,346

Provisions M€ 15.2 (M€ 4.8) include expected warranty costs on long-term construction projects M€ 0.5 (M€ 0.6), provisions for losses on orders/contracts M€ 4.9 (M€ 2.8) and provisions for environmental obligations M€ 9.8 (M€ 1.3).

Parent company provisions include provisions for environmental obligations M€ 9.8 (M€ 1.3).

Appropriations

Group 2016	Untaxed reserves	Depreciation differences	Total	Transferred to equity	Deferred tax liability	Minority interest	Total
Book value 1.1.	0	424,094	**424,094**	339,197	84,819	78	**424,094**
Change in income statement	0	7,588	**7,588**	6,120	1,518	-49	**7,588**
Translation difference	0	0	**0**	0	0	0	**0**
Book value 31.12.	**0**	**431,682**	**431,682**	**345,316**	**86,336**	**29**	**431,682**

Group 2015	Untaxed reserves	Depreciation differences	Total	Transferred to equity	Deferred tax liability	Minority interest	Total
Book value 1.1.	0	400,982	**400,982**	320,768	80,196	17	**400,982**
Change in income statement	0	23,073	**23,073**	18,397	4,615	61	**23,073**
Translation difference	0	39	**39**	32	8	0	**39**
Book value 31.12.	**0**	**424,094**	**424,094**	**339,197**	**84,819**	**78**	**424,094**

Parent company 2016	Untaxed reserves	Depreciation differences	Total
Book value 1.1.	0	413,254	**413,254**
Change in income statement	0	8,185	**8,185**
Book value 31.12.	**0**	**421,439**	**421,439**

Parent company 2015	Untaxed reserves	Depreciation differences	Total
Book value 1.1.	0	393,789	**393,789**
Change in income statement	0	19,465	**19,465**
Book value 31.12.	**0**	**413,254**	**413,254**

19 Liabilities (1,000 €)

	Group			Parent company		
		Reported	Adjusted		Reported	Adjusted
	2016	**2015**	**2015**	**2016**	**2015**	**2015**
Long-term liabilities						
Liabilities to others						
Long-term financial leasing liabilities	**249,024**	0	211,187	**192,007**	0	164,638
Deferred tax liabilities	**86,411**	84,904	84,904	**0**	0	0
Long-term derivative liabilities	**48,681**	0	51,255	**48,681**	0	51,255
Other liabilities	**453**	430	430	**453**	430	430
Liabilities to others, total	**384,568**	85,335	347,777	**241,140**	430	216,323
Long-term liabilities, total	**384,568**	85,335	347,777	**241,140**	430	216,323
Liabilities due after five years						
Long-term financial leasing liabilities	**175,184**	0	134,417	**150,922**	0	114,674
Long-term derivative liabilities	**46,716**	0	42,536	**46,716**	0	42,536
Deferred tax liabilities						
From depreciation differences	**86,336**	84,819	84,819	**0**	0	0
From temporary differences	**75**	86	86	**0**	0	0
Deferred tax liabilities, total	**86,411**	84,904	84,904	**0**	0	0
Short-term liabilities						
Liabilities to group companies						
Accounts payable				**1,717**	2,144	2,144
Accrued expenses and prepaid income				**1,306**	1,043	1,043
Other liabilities				**43,947**	66,181	66,181
Liabilities to group companies, total				**46,970**	69,368	69,368
Liabilities to associated companies						
Accounts payable	**287**	251	251	**23**	3	3
Liabilities to associated companies, total	**287**	251	251	**23**	3	3

Liabilities to others						
Short-term financial leasing liabilities	**18,412**	0	17,283	**10,057**	0	9,835
Accounts payable*	**47,778**	50,314	46,504	**32,364**	30,355	30,355
Accrued expenses and prepaid income**	**125,528**	129,990	139,677	**76,764**	85,860	95,548
Other liabilities	**21,731**	23,022	23,022	**6,104**	9,642	9,642
Advances received	**35,896**	24,498	24,498	**12,655**	6,212	6,212
Liabilities to others, total	**249,345**	227,824	250,984	**137,944**	132,069	151,591
Short-term liabilities, total	**249,633**	228,076	251,236	**184,936**	201,440	220,962

Main items in accrued expenses and prepaid income

The main items in the Group's accrued expenses and prepaid income are salaries and wages M€ 88.7 (M€ 89.7) and accruals from sales and expenses M€ 30.2 (M€ 29.1).

The main items in the parent company's accrued expenses and prepaid income are salaries and wages M€ 53.6 (M€ 56.3) and accruals from sales and expenses M€ 18.6 (M€ 22.2).

*The adjusted accounts payable in 2015 include M€ -3.8 adjustments for short-term financial leasing liabilities in the Group.

**The adjusted accrued expenses and prepaid income in 2015 include M€ +9.7 adjustments for short-term derivative liabilities in the Group and M€ +9.7 adjustments for short-term derivative liabilities in the Parent company.

Due dates of financial leasing liabilities (1,000 €)

	Group			Parent company		
		Reported	Adjusted		Reported	Adjusted
	2016	**2015**	**2015**	**2016**	**2015**	**2015**
The gross leasing liabilities - the minimum rents are due						
Within one year	**18,412**	0	17,283	**10,057**	0	9,835
Between one year and five years	**73,840**	0	76,770	**41,085**	0	49,964
After five years	**175,184**	0	134,417	**150,922**	0	114,674
Total	**267,436**	0	228,470	**202,065**	0	174,473
Future financial expenses	**-1,102**	0	-2,771	**-114**	0	-103
The present value of leasing liabilities	**268,538**	0	231,241	**202,179**	0	174,576
The present value of leasing liabilities are due						
Within one year	**19,141**	0	20,087	**11,081**	0	13,084
Between one year and five years	**76,999**	0	79,482	**43,719**	0	50,724
After five years	**172,397**	0	131,672	**147,379**	0	110,767
Total	**268,538**	0	231,241	**202,179**	0	174,576

20 Contingent liabilities (1,000 €)

	Group			Parent company		
		Reported	Adjusted		Reported	Adjusted
	2016	**2015**	**2015**	**2016**	**2015**	**2015**
Liabilities with parent company's payment guarantee						
Financial leasing liabilities	**267,436**	0	228,470	**202,064**	0	174,473
The value of commitments given	**4,272**	0	5,371	**4,272**	0	5,371
Commitments given on:						
Own behalf	**4,272**	0	5,371	**0**	0	0
Group companies behalf	**0**	0	0	**4,272**	0	5,371
Other commitments given						
On own behalf						
Rental commitments	**170**	137	137	**0**	0	0
Leasing commitments	**2,760**	8,240	2,869	**0**	0	0
Mortgages in real estate due to land rental agreements	**6,100**	6,100	6,100	**6,100**	6,100	6,100
Land-use security	**2,842**	2,842	2,842	**2,842**	2,842	2,842
Construction work and Contract guarantees	**39,120**	46,700	46,700	**0**	0	0
Other commitments given	**528**	549	549	**0**	0	0
On own behalf, total	**51,520**	64,568	59,197	**8,942**	8,942	8,942
On Group companies behalf						
Rental commitments	**0**	0	0	**170**	137	137
Leasing commitments	**0**	0	0	**2,760**	8,240	2,869
Construction work and Contract guarantees	**0**	0	0	**23,417**	29,160	29,160
Other commitments given	**0**	0	0	**528**	549	549
On Group companies behalf, total	**0**	0	0	**26,875**	38,086	32,715
On others behalf						
Loan commitments	**45,651**	48,581	48,581	**45,651**	48,581	48,581
On others behalf, total	**45,651**	48,581	48,581	**45,651**	48,581	48,581
Other commitments given, total	**97,171**	113,149	107,778	**81,468**	95,609	90,238
Commitments given, total	**101,443**	113,149	113,149	**85,740**	95,609	95,609
Rental commitments						
Due in next financial year	**3,208**	3,189		**1,213**	995	
Due in later financial year	**5,239**	6,124		**1,816**	1,979	
Rental commitments, total	**8,447**	9,313		**3,029**	2,974	
Leasing commitments						
Due in next financial year	**7,294**	30,075	6,503	**3,289**	19,134	2,958
Due in later financial year	**13,703**	236,757	11,852	**5,871**	186,693	6,229
Leasing commitments, total	**20,997**	266,832	18,355	**9,160**	205,827	9,186

Leasing commitments are divided into financial leasing commitments, which are booked in the balance sheet, and other leasing commitments, which are not booked in the balance sheet. The financial leasing commitments mainly consist of leasing agreements for rolling stock and vehicles. The agreements for these leasing commitments comprise a purchase option and/or an obligation to nominate the purchaser of the leasing object. If a Group external party has been nominated as purchaser at the signing of the agreement, the leasing commitment is not booked in the balance sheet.

The other leasing commitments consist of IT-equipment and vehicles. IT-equipment has up to 5 years leasing agreements and no redemption clause is included. Vehicles have primarly 3 years leasing agreements and no redemption clause is included.

Pension commitments

The pension commitments in VR Pension Fund was M€ 449.8 at year end 2016. VR Pension Fund has 1.25 times more assets than liabilities. VR-Group Ltd has rented two land areas from VR Pension Fund with ten year rental agreements.

Other commitments

VR-Group Ltd and co-operation group Siemens Oy and Siemens AG signed an agreement 12.2.2014, where VR-Group Ltd orders 80 electric locomotives, their documentation, spare parts, tools and training. The commitment was worth M€ 314.5 at signing. The locomotives are delivered in years 2017–2026.

In addition VR-Group Ltd and Transtech Oy signed an agreement 31.3.2014, where VR-Group Ltd orders 27 passenger wagons, their documentation, spare parts, tools and training. The commitment was worth M€ 86.8 at signing. The wagons are delivered in years 2016–2017.

21 Derivatives (1,000 €)

According to the Treasury Policy VR Group uses interest rate and commodity derivatives to reduce interest and commodity risks. These risks arise from financial leasing liabilities and future electricity and fuel purchases.

Derivatives are booked in the balance sheet at fair value at the balance sheet date according to § 5:2a in the Finnish Accounting Act. The fair values are based on observable prices whereby the instruments could be sold or bought for at the balance sheet date. The fair values are defined as follows.

The fair values of all derivatives are based on prices at the balance sheet date received from the counterparties. The fair values of fuel and electricity derivatives are based on market prices at the balance sheet date. The fair values of interest rate swaps are calculated as net present value of future cash flows by using interest rates at the balance sheet date.

VR Group uses interest rate swaps to reduce variable interest rate risk of financial leases for rolling stock and financial leasing portfolio consisting of vehicles. The interest rate swaps are amortized and the last mature in 2034.

VR Group uses OTC-commodity derivatives, swaps and options, to hedge the price risk of light fuel oil used in trains. The market value is calculated by using 10PPM Ultra Low Sulphur Diesel-Cargoes CIF NWE-index.

VR Group uses OTC-commodity derivatives to control the price risk of electricity used in trains. The market value is calculated by using Nasdaq OMX prices for electricity derivatives.

VR Group applies hedge accounting principles when hedging future cash flows (cash flow hedge). These principles are applied when hedging fuel and electricity price risk and financial leases interest rate payments.

Changes in derivatives' fair values are booked in the balance sheet in fair value reserve in 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 booked in the income statement in the financial items. In VR Group all derivatives are proved to be effective and changes in their fair values are booked in fair value reserve in restricted equity. The effectiveness of the hedges is tested annually with sensitivity analysis. Sensitivity analysis measures the value of the hedge and the hedged object when the market price increases either by unit price or percentage.

Derivatives fair values hierarchy is divided into three levels depending on how the fair values are defined. In VR Group the fair values are defined only according to hierarchy level 2 as the fair values are based on the counterparties' prices, which can be observed at the market.

	2016				2015			
	Nominal value	**Fair value**			Nominal value	Fair value		
Group		**Positive**	**Negative**	**Net**		Positive	Negative	Net
Interest rate derivatives								
Interest rate swaps	**259,048**	**0**	**-46,716**	**-46,716**	274,798	0	-42,536	-42,536
Commodity derivatives								
Fuel derivatives, tons	**5,400**	**289**	**0**	**289**	7,200	0	-1,227	-1,227
Electricity derivatives, MWh	**2,030,653**	**3,536**	**-3,355**	**181**	1,582,694	60	-17,180	-17,120
Commodity derivatives, total		**3,824**	**-3,355**	**469**		60	-18,406	-18,347
Derivatives in hedge accounting, total		**3,824**	**-50,071**	**-46,246**		60	-60,942	-60,882
Derivatives outside hedge accounting, total		**0**	**0**	**0**		0	0	0
Derivatives, total		**3,824**	**-50,071**	**-46,246**		60	-60,942	-60,882

	2016				2015			
	Nominal value	**Fair value**			Nominal value	Fair value		
Parent company		**Positive**	**Negative**	**Net**		Positive	Negative	Net
Interest rate derivatives								
Interest rate swaps	**259,048**	**0**	**-46,716**	**-46,716**	274,798	0	-42,536	-42,536
Commodity derivatives								
Fuel derivatives, tons	**5,400**	**289**	**0**	**289**	7,200	0	-1,227	-1,227
Electricity derivatives, MWh	**2,030,653**	**3,536**	**-3,355**	**181**	1,582,694	60	-17,180	-17,120
Commodity derivatives, total		**3,824**	**-3,355**	**469**		60	-18,406	-18,347
Derivatives in hedge accounting, total		**3,824**	**-50,071**	**-46,246**		60	-60,942	-60,882

22 Disputes

The Finnish Competition and Consumer Authority (FCCA) has given a penalty payment proposal regarding Oy Pohjolan Liikenne Ab and VR-Group Ltd to the Market Court on 25 January 2016. The amount of the penalty payment proposed by FCCA is 5,790,000 euros. FCCA's proposal is pending in the Market Court and an oral hearing will be held in January–February 2017. Oy Pohjolan Liikenne Ab and VR-Group Ltd deny all of FCCA's claims and the penalty payment proposal. Therefore, the penalty payment proposal has not been included in the financial statements.

VR Group does not have any other material pending disputes.

23 Group key financial figures

			Reported	Adjusted			
		2016	**2015**	**2015**	**2014**	**2013**	**2012**
Scope of operations							
Net sales	M€	**1,187**	1,231	1,231	1,367	1,421	1,438
Balance sheet	M€	**2,002**	1,801	2,029	1,877	1,809	1,774
Gross capital expenditure*	M€	**123**	90	120	120	157	122
- as % of net sales	%	**10.3**	7.3	9.7	8.8	11.0	8.5
Average number of man years		**7,898**	8,615	8,615	9,689	10,234	11,080
Profitability							
Operating profit	M€	**43.3**	65.4	65.4	90.4	70.6	52.4
- as % of net sales	%	**3.6**	5.3	5.3	6.6	5.0	3.6
Net profit	M€	**21.2**	50.0	50.0	67.6	65.3	38.8
Return on investment (ROI)	%	**2.8**	4.5	4.5	5.9	4.8	3.9
Return on equity (ROE)	%	**1.6**	3.5	3.5	4.5	4.5	2.9
Solvency							
Equity ratio	%	**68.8**	83.5	71.1	82.5	83.5	82.2
Liquidity							
Quick Ratio		**2.1**	2.4	2.1	2.2	2.0	1.7

Calculation of key figures

Capital invested = Balance sheet total - interest-free liabilities

Return on investment (ROI) = $\frac{\text{(Profit before taxes + interest costs and other financial costs)*100}}{\text{Capital invested (average)}}$

Return on equity (ROE) = $\frac{\text{(Profit before taxes - income taxes and change in deferred taxes)*100}}{\text{Equity + minority interest (average)}}$

Equity ratio = $\frac{\text{(Equity + minority interest)*100}}{\text{Balance sheet total - short-term and long-term advanced payments received}}$

Quick Ratio = $\frac{\text{Financial assets (pl. long-term receivables) - receivables on precentage of completion}}{\text{Short-term liabilities - short-term advanced payments received}}$

*Gross capital expenditure includes leasing investments from 2016. Adjusted figure for 2015 also includes leasing investments.

Helsinki 2.3.2017

Hannu Syrjänen
Chairman of the Board

Riku Aalto

Liisa Rohweder

Jarmo Kilpelä

Maija Strandberg

Tuija Soanjärvi

Heikki Allonen

Roberto Lencioni

Rolf Jansson
CEO

A report on the audit performed has been issued today.

Helsinki 2.3.2017

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Rytilahti
Authorized Public Accountant

Auditor’s Report

To the Annual General Meeting of VR-Group Ltd

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements VR-Group Ltd (business identity code 1003521-5) for the year ended 31 December, 2016. The financial statements comprise the balance sheets, the income statements, cash flow statements and notes for the group as well as for the parent company.

In our opinion, the financial statements give a true and fair view of the group’s and the 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.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor’s Responsibilities for the Audit of Financial Statements section of our report. We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland an 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 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 information included in the report of the Board of Directors. 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 information included in the report of the Board of Directors and, in doing so, consider whether the information included in the report of the Board of Directors is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. 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 requirements.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this 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.

Helsinki, 2 March 2017

Ernst & Young Oy
Authorized Public Accountant Firm

Mikko Rytilahti
Authorized Public Accountant, Chartered Public Finance Auditor

Statement by the Supervisory Board of VR-Group Ltd

The Supervisory Board of VR-Group Ltd has today reviewed the parent company and consolidated financial statements for the period 1 January to 31 December 2016 and the auditors’ report.

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

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

Helsinki 2 March 2017

Ville Tavio **chair**	**Timo Korhonen** **vice chair**	**Touko Aalto**
Thomas Blomqvist	**Lauri Ihalainen**	**Elsi Katainen**
Kalle Jokinen	**Joonas Leppänen**	**Outi Mäkelä**
Arto Pirttilahti	**Riikka Slunga-Poutsalo**	**Katja Taimela**

VR-Yhtymä Oy
PL 488 (Vilhonkatu 13)
00101 Helsinki
www.vrgroup.fi
www.vr.fi

VR Track Oy
PL 488 (Vilhonkatu 13)
00101 Helsinki
www.vrtrack.fi

VR Transpoint
PL 488 (Vilhonkatu 13)
00101 Helsinki
www.vrtranspoint.fi