

VR Group's business review for January–March 2022 – a difficult start to the year burdened profit, a turn for the better has taken place

Early in the year, VR Group's business operations were overshadowed by the Omicron variant of the coronavirus, affecting train travel. In addition, VR Transpoint's transport volumes decreased as a result of domestic industrial action and a decrease in Eastern traffic. The Group's result fell to a weak level. However, a turn for the better took place towards the end of the quarter when the volumes of VR Passenger Services increased significantly, driven by leisure travel.

January–March 2022 (Q1) in brief:

- The Group's operating profit (EBIT) was EUR -24.9 (-14.7) million, or -12.3% (-7.9%) of net sales.
- Comparable operating profit (EBIT) was EUR -24.9 (-14.7) million, or -12.3 per cent (-7.9%) of net sales.
- Cash flow from operating activities was EUR 3.1 (7.3) million.
- Travel volumes increased by 73.0% in long-distance trains in January–March, and 2.2 (1.3) million journeys were made.
- The Group's net sales increased by 7.8 per cent year-on-year to EUR 202.1 (187.5) million.
- The railway transport volumes of VR Transpoint decreased by 12.4 per cent and were 7.8 (8.9) million tonnes.

Key figures	1–3/2022	1–3/2021	1–12/2021
Net sales, M€	202.1	187.5	838.3
Operating profit/loss, M€	-24.9	-14.7	-22.7
% of net sales	-12.3	-7.9	-2.7
Comparable operating profit (EBIT), M€	-24.9	-14.7	-14.1
% of net sales	-12.3	-7.9	-1.7
Net profit/loss for the financial year, M€	-15.0	-11.2	-13.7
Cash flow from operating activities, M€	3.1	7.3	138.1
Investments, M€	30.2	42.9	168.8
Capital invested at the end of the period, M€	1,578.1	1,538.8	1,583.1
Return on capital employed (ROCE), %	-0.9	-0.6	-0.5
Comparable return on capital employed, %	-0.9	-0.6	-0.0

VR-Group Plc

P.O. Box 488
FI-00101 Helsinki
Finland

Radiokatu 3
FI-00240 Helsinki
Finland

T. +358 29 4343

firstname.lastname@vr.fi
www.vrgroup.fi

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Net interest-bearing debt at the end of the period, MEUR	247.1	112.8	238.1
Gearing, %	19.3	9.0	18.6
Average number of personnel	5,625	5,669	5,620

The figures are unaudited.

The calculation formulas for the key figures are presented in VR Group's 2021 Annual Report.

Interim CEO Topi Simola:

“VR Group’s first quarter was weak in terms of train travel compared to the situation at the end of 2021. The Omicron variant and the increase in the number of infections caused the authorities to tighten the restrictions again at the turn of the year, which affected mobility and reduced travel volumes for VR Passenger Services, especially in January–February. However, we celebrated our 160th anniversary and the expansion of our operations into Sweden. At the same time, the first months of the year were overshadowed by the shocking news of the Russian military aggression against Ukraine, which also prompted us to consider our cooperation with Russian Railways in a new way.

The number of journeys of VR Passenger Services turned into promising growth towards the end of the first quarter, and in the winter holiday season, we approached the record figures of 2019. In January, VR entered into a contract traffic agreement with the Ministry of Transport and Communications, which will continue until 2030 and will guarantee the continuation of train traffic on routes that are unprofitable on market terms.

In March, we were able to announce the news of expanding our operations into Sweden. VR Group has agreed to acquire the Swedish bus and rail operator Arriva Sverige. The agreed date of completion is 1 July 2022. The acquiree employs 3,800 people and its annual net sales are around EUR 300 million. With this transaction, we aim for strategic growth in the Nordic public transport market while strengthening our expertise in urban and commuter transport. At the same time, this is a great opportunity for us to export VR Group’s expertise in e-buses to Sweden.

In late February, the news about a war in Ukraine shocked the world. The VR Group showed its support for Ukraine, inter alia, by limiting its contacts with RZD to absolutely necessary communication required to operate cross-border traffic. When VR turned 160 in March, we donated EUR 160,000 to Ukraine for humanitarian aid. We kept the Allegro trains operating between Helsinki and St. Petersburg in traffic for a while to allow Finnish citizens to return home, until we suspended the Allegro service for the time being at the end of March.

Early in the year, freight traffic volumes have been affected by domestic industrial action in particular. In addition, since the start of the war, Eastern freight traffic has halved as a result of sanctions against Russia and our customers’ own policies. In early April, we announced that we would discontinue Eastern traffic completely.”

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Events after the period under review

On 4 April 2022, VR Group announced that CEO Lauri Sipponen had been dismissed. The recruitment of the new CEO began immediately, and Topi Simola, SVP, Passenger Services, was appointed as the interim CEO.

On 6 April 2022, VR Group announced its decision to make an orderly exit from Eastern freight traffic. For the time being, Western sanctions do not prevent rail traffic between the EU and Russia. However, VR Group aims to halt Eastern traffic as soon as possible. The freight traffic contracts concluded between VR and its Finnish customers must be carried out in the manner specified in the contracts and negotiated with the customers, and it is estimated that the process will take several months. VR Group strictly adheres to all sanctions, legislation and instructions issued by the authorities in its operations, and if binding sanctions enter into force, it will be possible to stop traffic faster.

VR Group's activities related to Russia

The VR Group has decided to suspend its Russia-related activities as a result of the Russian military aggression against Ukraine and Western sanctions. The Allegro train service between Helsinki and St. Petersburg has been at a standstill since 28 March 2022, and the trains are stationary in Finland. In addition, Eastern freight traffic will be discontinued as announced on 6 April 2022.

In the financial year ended 31 December 2021, approximately EUR 91 million of the Group's net sales (accounting for approximately 11 per cent of the Group's net sales) was generated from operations related to Russia. On 31 December 2021, approximately EUR 55 million of the Group's assets (accounting for approximately three per cent of the Group's assets) related to operations in Russia.

VR Group and Russian Railways (RZD) have jointly operated the Allegro train service between Helsinki and St. Petersburg, and VR FleetCare has provided maintenance and lifecycle services for these trains (VR Passenger Services and VR FleetCare do not operate in Russia). VR Group and RZD have a joint venture, Oy Karelian Trains Ltd, which has been responsible for the ownership and leasing of the Allegro trains.

Overall, approximately one-third of VR Transpoint's rail transport volumes have been Eastern traffic, i.e. export, import and transit transport in Finland. In Russia, VR Transpoint has carried out small-scale logistics activities through the local Group company OOO Finnlog LLC. Finnlog has leased freight wagons to a Finnish customer to cover its logistics needs. Finnlog's operations are suspended for the time being. VR Group is also investigating the disposal of its holdings in both ContainerTrans Scandinavia (CTS) and Freight One Scandinavia (FOS), associated companies involved in eastern freight transport. CTS has offered rail container transport and FOS wagon-load transport.

VR Transpoint, which is responsible for freight traffic, will draw up a plan to halt traffic. The termination of freight transport contracts concluded with Finnish customers will be carried out as specified in the contracts and negotiated with the customers. VR Group's goal is to discontinue Eastern freight traffic as soon as possible, but the process is expected to take several months.

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Outlook for the current year

Russia's invasion of Ukraine and the development of the COVID-19 pandemic have a significant impact on VR Group's business and profitability. There is great uncertainty, for example, as to when and to what extent the global political situation will be reflected in freight transport and how rail travel will continue to recover after the pandemic.

VR Group expects profitability to improve significantly during the rest of 2022 compared to the level of Q1 2022. The comparable operating profit is expected to be close to zero during the rest of the year Q2–Q4 2022.

VR Transpoint's transport volumes in the early part of the year have been negatively impacted by the domestic labour market situation and the decrease in Eastern transport. During the remainder of the year, volumes of Eastern traffic are expected to come to a complete end during the current year. Some of the volume losses in Eastern traffic are expected to be offset by an increase in domestic demand. In early 2022, VR Transpoint's result was negatively impacted by the very high electricity and fuel prices. Through the energy price indices, high electricity and fuel prices mainly shifted to customer prices during April.

The Omicron variant and the increase in the number of infections caused the authorities to tighten the restrictions again at the turn of the year, which affected mobility and reduced travel volumes for VR Passenger Services, especially in January–February. After the gradual lifting of the restrictions, the number of journeys increased strongly in March–April and it is estimated that the number of journeys will continue to grow. The travel volumes of long-distance traffic are expected to reach 2019 levels in 2023.

VR Group has agreed to acquire the Swedish bus and rail operator Arriva Sverige. In accordance with its strategy, the company aims to grow in the Nordic public transport market. The agreed date of completion is 1 July 2022.

Global political uncertainty has caused disruptions in the financial market and increased energy prices. There is a risk that a prolonged war in Ukraine will undermine overall economic growth, accelerate inflation, increase interest rates and make access to funding more difficult.

In the longer term, VR Group's business is supported by megatrends in environmental awareness and urbanisation. At the societal level, the attitude towards rail and public transport is positive and both passenger and freight traffic customers increasingly aim to increase their use of rail traffic. VR Group also increases the share of rail traffic through its own actions and by meeting the expectations of its customers.

The Group's financial development

Net sales and result development by operation

VR-Group Plc

P.O. Box 488
FI-00101 Helsinki
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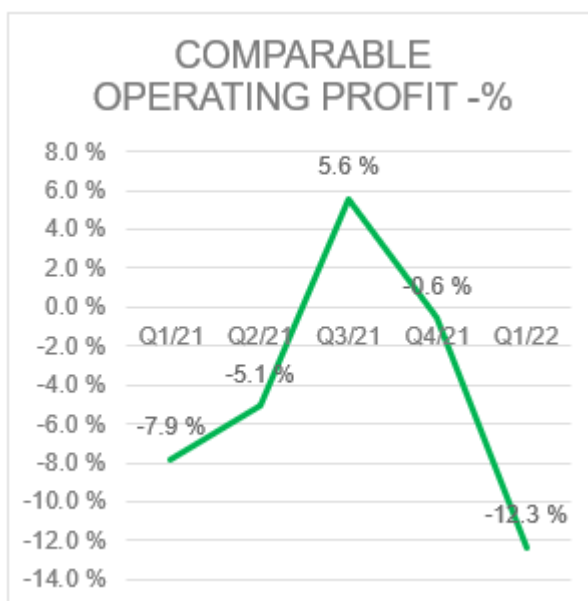
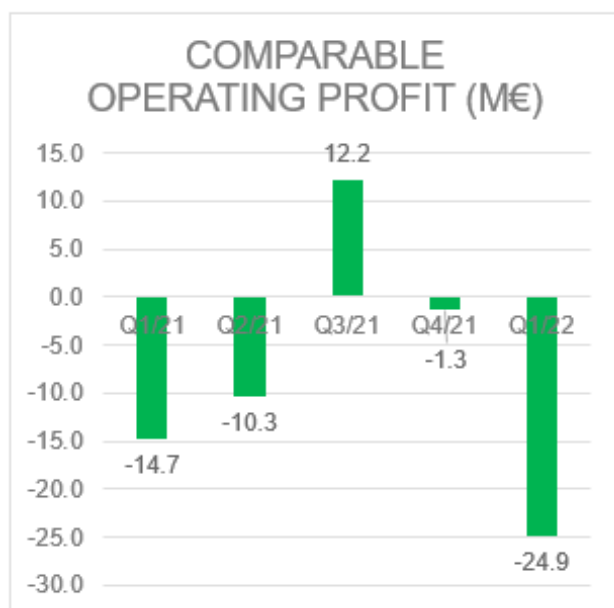
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Net sales, EUR million	1-3/2022	1-3/2021	1-12/2021
VR Passenger Services	109.7	93.8	431.5
VR Transpoint	90.6	91.6	390.1
VR FleetCare	56.0	49.3	203.7
Other operations and eliminations	-54.1	-47.3	-187.1
VR Group in total	202.1	187.5	838.3

Operating profit, EUR million	1-3/2022	1-3/2021	1-12/2021
VR Passenger services	-18.2	-20.6	-50.4
VR Transpoint	-4.5	4.8	23.0
VR FleetCare	0.4	1.1	4.7
Other and eliminations	-2.7	0.0	0.0
VR Group in total	-24.9	-14.7	-22.7



January–March 2022 (Q1)

VR Group's net sales increased by 7.8 per cent compared to January–March 2021 to EUR 202.1 million. The growth in net sales was due to the recovery of travel and lower travel restrictions than in the previous year. VR Passenger Services' net sales increased by 17.0 per cent year-on-year. VR Transpoint's net sales decreased by 1.1 per cent year-on-year. Net sales decreased following industrial action in Finland and a decrease in Eastern traffic. VR FleetCare's net sales increased by 13.5 per cent year-on-year, driven by increasing traffic volumes. VR Group's operating profit (EBIT) for the first quarter of 2022 amounted to EUR -24.9 (-14.7) million and the comparable operating profit for the period was EUR -24.9 (-14.7) million. The high electricity and

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fuel prices and the increased offering of long-distance services compared to the previous year increased costs and had a negative impact on profitability during the first quarter of 2022.

VR Group's balance sheet remained strong. The Group's balance sheet total was EUR 1,917.3 (1,985.3) million at the end of March 2022, net interest-bearing debt amounted to EUR 247.1 (112.8) million and net gearing was 19.3 per cent (9.0%). In January–March 2022, the cash flow from operating activities before investments and financing was EUR 3.1 (7.3) million, and the cash flow from investing activities was EUR -29.7 (-35.3) million.

The Group's total investments in January–March 2022 amounted to EUR 30.2 (42.9) million. During the COVID-19 epidemic, investments have been prioritised to strengthen the Group's cash flow.

Investments, EUR million	1-3/2022	1-3/2021	1-12/2021
VR Passenger services	-7.3	-15.5	-59.8
VR Transpoint	-6.9	-11.8	-39.6
VR FleetCare	-0.9	-1.3	-6.0
Other	-15.0	-14.3	-63.4
Total	-30.2	-42.9	-168.8

Average number of employees	1-3/2022	1-3/2021	1-12/2021
VR Passenger Services	2 461	2 435	2 454
VR Transpoint	983	1 104	1 038
VR FleetCare	984	908	926
Other	1 197	1 208	1 202
VR Group total	5 626	5 655	5 620

VR Passenger Services	1-3/2022	1-3/2021	1-12/2021
Net sales, M€	109.7	93.8	431.5
Operating profit (EBIT), M€	-18.2	-20.6	-50.4
% of net sales	-16.6 %	-21.9 %	-11.7 %
Investments, M€	7.3	15.5	59.8
VR journeys (million)	15.1	10.6	55.0
long-distance traffic	2.2	1.3	8.5
commuter traffic	12.9	9.3	46.5
bus services	8.0	7.0	28.9
Passenger-kilometres in train traffic (million)	810.8	475.0	2 903.1
Punctuality			
long-distance traffic	80.8	83.8	86.9
commuter traffic	93.7	92.7	92.6

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VR Transport	1-3/2022	1-3/2021	1-12/2021
Net sales, M€	90.6	91.6	390.1
Operating profit (EBIT), M€	-4.5	4.8	23.0
% of net sales	-4.9 %	5.2 %	5.9 %
Investments, M€	6.9	11.8	39.6
Total transport volumes, million tonnes	9.0	10.0	42.7
railway transports	7.8	8.9	37.4
road transports	1.3	1.2	5.3
Punctuality	85.6	80.9	87.1
VR FleetCare	1-3/2022	1-3/2021	1-12/2021
Net sales, M€	56.0	49.3	203.7
Operating profit (EBIT), M€	0.4	1.1	4.7
% of net sales	0.8 %	2.2 %	2.3 %
Investments, M€	0.9	1.3	6.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - unaudited

EUR million	1-3/2022	1-3/2021	1-12/2021
Net sales	202.1	187.5	838.3
Other operating income	10.3	10.0	45.3
Materials and services	-74.4	-64.3	-272.0
Production for own use	17.5	16.8	47.8
Personnel expenses	-98.1	-91.5	-360.0
Depreciation and amortisation	-35.6	-33.3	-151.9
Other operating expenses	-46.9	-39.9	-170.2
Operating profit (EBIT)	-24.9	-14.7	-22.7
Net financial items	6.7	1.8	2.8
Share of result of associated companies	0.0	0.1	0.5
Profit before tax	-18.2	-12.8	-19.5
Income taxes	3.3	1.6	5.8
Profit for the period	-14.9	-11.2	-13.7
Attributable to			
Equity holders of the parent	-14.9	-11.2	-13.7
Non-controlling interest	0.0	0.0	0.0

OTHER COMPREHENSIVE INCOME - unaudited

EUR million	1-3/2022	1-3/2021	1-12/2021
Net profit for the period	-14.9	-11.2	-13.7
Items that may be reclassified subsequently to profit or loss			
Currency translation differences	1.1	-0.1	-0.2
Cash flow hedges	19.0	2.1	16.6
Taxes on items that may be reclassified subsequently to profit or loss	-3.8	-0.4	-3.3
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of defined benefit plans	1.6	0.0	14.9
Financial assets at fair value through other comprehensive income	-5.0	-17.4	-8.2
Taxes on items that will not be reclassified subsequently to profit or loss	0.7	3.5	-1.4
Total other comprehensive income for the period net of taxes	13.6	-12.3	18.5
Total comprehensive income for the period	-1.3	-23.5	4.8
Comprehensive income for the period attributable to			
Equity holders of the parent company	-1.3	-23.5	4.8
Non-controlling interests	0.0	0.0	0.0

CONSOLIDATED STATEMENT OF FINANCIAL POSITION unaudited

EUR million	31.3.2022	31.3.2021	1-12/2021
ASSETS			
Non-current assets			
Intangible assets	37.8	36.3	40.2
Goodwill	7.5	4.9	7.5
Property, plant and equipment	1 205.7	1 201.2	1 203.4
Right-of-use assets	276.9	263.1	281.2
Investment properties	12.9	12.0	13.1
Holdings in associates and joint ventures	2.0	1.7	2.0
Investments	27.3	23.2	32.4
Other receivables	82.9	69.9	95.1
Non-current assets, total	1 653.1	1 612.3	1 674.8
Current assets			
Inventories	76.7	75.9	77.8
Accounts receivables and other receivables	85.8	55.6	71.8
Prepaid expenses and accrued income	48.6	66.2	47.5
Financial securities	0	73.83	0.0
Cash and cash equivalents	53.2	101.43	65.8
Current assets, total	264.3	373.0	263.0
Assets, total	1 917.4	1 985.3	1 937.8

EUR million	31.3.2022	31.3.2021	31.12.2021
EQUITY AND LIABILITIES			
Equity			
Equity attributable to owners of the parent			
Share capital	370.0	370.0	370.0
Fair value reserve	-26.8	-57.0	-38.0
Invested non-restricted equity reserve	376.2	376.2	376.2
Retained earnings	573.4	572.7	584.6
Net profit for the financial year	-14.9	-11.2	-13.7
Equity attributable to owners of the parent company, total	1 277.8	1 250.7	1 279.2
Non-controlling interests	0.0	0.0	0.0
Equity, total	1 277.8	1 250.7	1 279.2
Non-current liabilities			
Provisions	47.6	49.3	47.8
Financial liabilities	29.1	31.5	29.0
Lease liabilities	243.3	229.1	246.7
Derivative liabilities	18.5	41.8	29.0
Accounts payable and other liabilities	3.3	3.8	3.3
Deferred tax liabilities	82.6	83.7	82.8
Non-current liabilities, total	424.4	439.2	438.4
Current liabilities			
Financial liabilities	3.9	2.9	4.3
Lease liabilities	24.0	24.5	24.0
Derivative liabilities	0.0	0.2	0.0
Advances received	13.5	5.4	11.8
Accounts payable and other liabilities	57.1	145.9	61.5
Accrued expenses and prepaid income	116.6	116.4	118.5
Current liabilities, total	215.1	295.4	220.2
Liabilities, total	639.5	734.5	658.6
Equity and liabilities, total	1 917.4	1 985.3	1 937.8

CONSOLIDATED STATEMENT OF CASH FLOWS - unaudited

EUR million	1-3/2022	1-3/2021	1-12/2021
Cash flow from operating activities			
Profit before tax	-18.2	-12.8	-19.5
Adjustments:			
Depreciation and amortisation	29.6	27.3	128.8
Amortisation right-of-use assets	6.0	5.9	23.2
Profit and loss from sale of tangible and intangible assets and other adjustments	-5.9	1.7	12.1
Cash flow from operating activities before changes in working capital	11.4	22.2	144.6
Change in working capital	-5.3	-7.4	6.0
Net financial expenses	-2.2	-2.1	-8.8
Income taxes paid	-0.8	-5.4	-3.7
Cash flows from financial items and taxes	-3.0	-7.5	-12.5
Cash flow from operating activities (A), total	3.1	7.3	138.1
Cash flow from investing activities			
Tangible and intangible assets purchases	-30.2	-36.0	-152.2
Tangible and intangible assets sales	0.4	0.7	5.3
Shares and holdings acquired	0.0	0.0	-3.9
Shares and holdings sold	0.0	0.0	0.6
Cash flow from investing activities (B), total	-29.7	-35.3	-150.2
Cash flow before financing activities (A)+(B)	-26.6	-28.0	-12.1
Cash flow from financing activities			
Dividends paid	0.0	0.0	-100.0
Change in non-current receivables	19.9	10.0	7.9
Change in current interest bearing receivables	0.0	0.0	-0.4
Change in non-current liabilities	0.1	0.0	-3.0
Repayments of lease liabilities	-5.7	-5.6	-27.4
Change in current interest bearing liabilities	-0.4	0.0	2.0
Cash flows from financing activities (C),total	14.0	4.5	-120.9
Change in cash flows (a)+(B)+(C)	-12.6	-23.5	-133.0
Cash and cash equivalents 1 Jan.	65.8	198.8	198.8
Change in cash and cash equivalents	-12.6	-23.5	-133.0
Cash and cash equivalents 31 Mar.	53.2	175.3	65.8

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SEGMENTS

Net sales, EUR million	1-3/2022	1-3/2021	1-12/2021
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VR Transpoint	90.6	91.6	390.1
VR FleetCare	56.0	49.3	203.7
Other operations and eliminations	-54.1	-47.3	-187.1
VR Group in total	202.1	187.5	838.3

Net sales based on services, EUR million	1-3/2022	1-3/2021	1-12/2021
Rail services	147.2	139.6	612.8
VR Passenger services	76.7	64.3	302.2
VR Transpoint	70.5	75.3	310.6
Road services (car or bus)	47.6	43.2	188.8
VR Passenger services	27.5	26.9	109.4
VR Transpoint	20.1	16.3	79.5
Catering and restaurant services	5.4	2.6	19.9
VR Passenger services	5.4	2.6	19.9
Other and eliminations	1.9	2.0	16.6
VR FleetCare	56.0	49.3	203.7
Other operations and eliminations	-54.1	-47.3	-187.1
VR Group in total	202.1	187.5	838.3

Net sales by geographical area, EUR million	1-3/2022	1-3/2021	1-12/2021
Finland	200.7	185.8	831.7
Rest of Europe	1.4	1.7	6.5
VR Group in total	202.1	187.5	838.3

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