

A N N U A L R E P O R T

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THE YEAR 1997 IN BRIEF

Track renewal proceeded according to plans and the weakening of the condition of the rail network was brought to a halt.



Electrification of the Tampere–Rauma line section was completed.



A socio-economic feasibility study indicated that the further electrification of the rail network is feasible.



An electrified double track between Inkeroinen and Juurikorpi was completed, improving industrial services in southeastern Finland.



Development of a quality control system began.



A computer application for real estate management was completed. The system will form the basis for the use of geographical information.



Initial funds for the Helsinki–Huopalahti–Leppävaara urban line were granted in the autumn 1997 supplementary budget. The project is scheduled for 1998–2001.



Development of a safety management system for rail traffic continued.



The automatic train protection system was expanded and additional level crossings were eliminated.



An environmental programme was completed. The programme includes an environmental policy and goals.

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Chief Director's Review



The Finnish Rail Administration (RHK) has now operated for a little over two and a half years. For a young organization half a year can be important for the long term, although members of an organization do not generally consider half a year very significant in their own lives. Here lies the danger that the individual may believe that the organization operates at the same pace as he does. This is not the case in reality. Consequently RHK's past year was characterized by the development of a quality control system. This work has got off to a good start but still requires a great deal of effort before the system becomes part of our everyday activities.

Quality control is part of the work that is done to achieve performance objectives. Discussion regarding RHK's performance objectives is still going on, and only longer-term experience will show whether objectives have been correctly set. In 1997 RHK was not able to achieve all of its objectives, but in the most important area – improving the condition of the rail network – we actually exceeded the performance objective and the weakening of the condition of the rail network was brought to a halt. This is a significant accomplishment, especially since it was thought when RHK went into operation that this stage would only be reached much later, even in the best case. Thanks are due to RHK's entire personnel as well as those cooperation partners who have helped keep financing for infrastructure management at a satisfactory level.

In the same breath, however, it should also be noted that in renewing the rail network we have only succeeded in a delaying action and can only hope to win defensive battles for some time. The race against time continues and requires determination on the part of all those involved.

The past years have shown the effect that the international sector has on RHK's operations. With the EU's activity in rail matters serving as a catalyst, a working group under the direction of the Ministry of Transport and Communications has studied the opening of competition in rail traffic. If rail traffic is opened to competition, RHK's activities will change in one way or another. Another significant sector on the EU front is the development of standardization. It is extremely important to have a say in what types of standards are applied in the rail branch in the future.

Following development in traffic on the other side of our eastern border is just as important as knowing what takes place within the EU. RHK has made – and will make – major investment decisions based on the development outlook for this traffic. A good example of this type of investment is the second track between Inkeroinen and Juurikorpi completed last year on the busy eastern transit route.

Improving the condition of the rail network, important development investments, quality control, questions related to the opening of competition and international connections are key matters which will continue to mark RHK's activities in the future as well. Daily work in these areas will continue and develop. Development means that we will be able to handle some of these matters efficiently on a routine basis. Activities must not be allowed to get into a rut, however. This will be ensured by up-to-date performance objectives and changes in our environment. RHK's operating environment will not be stable or entirely predictable. Consequently it is important to maintain in our daily work values such as determination, flexibility, adaptability, openness to change and appreciation of others' work.

Helsinki, 26 February 1998

A handwritten signature in blue ink, which appears to read "Ossi Niemimuukko".

Ossi Niemimuukko

Performance Objectives 1997

RHK'S PERFORMANCE OBJECTIVES

The Ministry of Transport and Communications set the following performance objectives for the Finnish Rail Administration in 1997:

Scope of the rail network

Changes will not take place in the scope of the rail network. At least 84% of the network will be kept in the condition required for passenger traffic.

Line sections limited to freight traffic and with restricted axle loads (under 20 tonnes) may comprise no more than 16% of the rail network.

Level of service

27 km will be lowered from service class 2 to class 3 and 113 km will be lowered from class 3 to class 4.

Speed restrictions will be increased to a maximum of 90 track-km.

Delays lasting over 5 minutes due to track maintenance will total a maximum of 1,333 hours in passenger traffic.

Improving safety

Deaths in rail passenger traffic accidents will be kept at zero and accidents at level crossings will be reduced. The number of accidents at level crossings will not exceed 40.

The number of accidents due to track maintenance will be reduced and will not exceed four (moving average for the past four years).

Safety regulations will be updated.

Economy of infrastructure management

Unit costs of infrastructure management products will decline by at least 3 percentage points during the year.

Track condition

Indices will be developed to describe track condition.

Environment

An environmental programme will be prepared and measures will be taken to implement it so that the Ministry of Transport and Communications' main environmental objectives for rail traffic will be achievable in 2000.

Achievement of objectives

Scope of the rail network

The objective was achieved. Changes did not take place in the scope of the rail network. 84% of the network was kept in the condition required for passenger traffic.

Level of service

Objectives were achieved in this area.

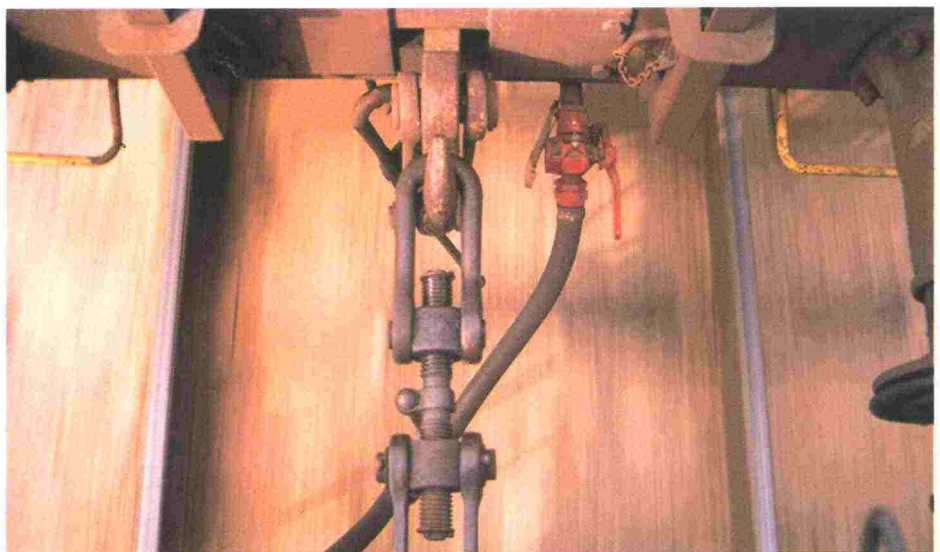
Speed restrictions had to be increased temporarily during the summer because of hot weather. These restrictions lasted a short time. Permanent restrictions were only imposed on an additional 4 track-kilometres. During the latter part of the year it was possible to reduce restrictions as track renewal proceeded. At the end of the year 790 track-kilometres were under restrictions. Since 806 track-kilometres were under restrictions at the beginning of the year and this was expected to be increased by 90 km, the objective was exceeded by a comfortable margin.

Delays lasting over 5 minutes due to track maintenance totalled 1,922 hours, which

was considerably higher than the objective (1,333 hours). The total also increased in comparison with the previous year (1,538 hours). The first four months were well below the figure for the previous year, but in May the number of delays increased after the spring thaw.

The second half of the year began poorly, with numerous delays. The reasons included work projects in different parts of the rail network as well as power surges caused by lightning which damaged newly installed safety equipment.

Track work caused two-thirds of the excess delays. Work was conducted on the busy Riihimäki-Tampere and Riihimäki-Lahti line sections. Work was also conducted between Helsinki and Riihimäki, but with careful reductions in traffic it was possible to achieve a reasonable level of service. Extensive track work continued until the end of November, and consequently work caused delays over a longer period than normal.



Improving safety

Deaths in passenger traffic accidents were kept at zero. A total of 52 accidents took place at level crossings. This was 12 more than the maximum of 40 in the objective.

Accidents at level crossings were mainly on infrequently operated line sections in different parts of the country, which makes it difficult for RHK to reduce the number of accidents in the short term. The programme to eliminate level crossings will reduce accidents over the long term.

The number of accidents due to track maintenance was 6, which was also the moving average for the past four years. The objective called for a maximum of 4. Three accidents took place in each half of the year.

Safety regulations were issued in the following areas:

- Inspection regulations for track work were supplemented.
- Regulations for approving lines for traffic after track work were supplemented.
- Regulations for placing safety equipment in use after repair and installation work were supplemented.
- The week warning system will be replaced entirely with a new advance notice system, which will go into operation in late 1998.

Economy of infrastructure management

Infrastructure management products are being developed and product costs are being assessed. Basic information is being collected to enable the calculation of unit costs and the monitoring of annual changes.



Track condition

An index describing the geometric condition of track was developed.

Environment

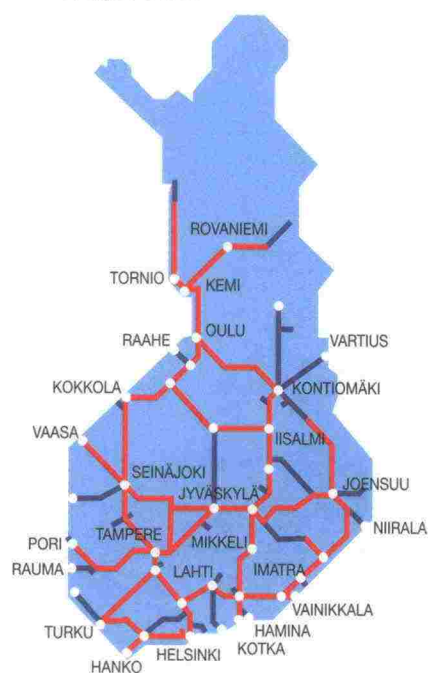
On 5 March 1997 RHK approved an environmental programme which includes an environmental policy and goals. These goals take into account measures outlined by the Ministry of Transport and Communications to reduce environmental problems. A programme covering the period 1998-2001 will be drawn up next. The intention is to approve this programme in 1998.

The following projects have already been started as part of the environmental programme:

- A rail-grinding programme has been implemented to reduce noise.
- Plans are being made to get rid of wooden sleepers.
- Concrete sleepers will be used to replace wooden sleepers.
- In order to reduce noise, jointed rails will increasingly be replaced with long-welded rails.

Traffic on the rail network

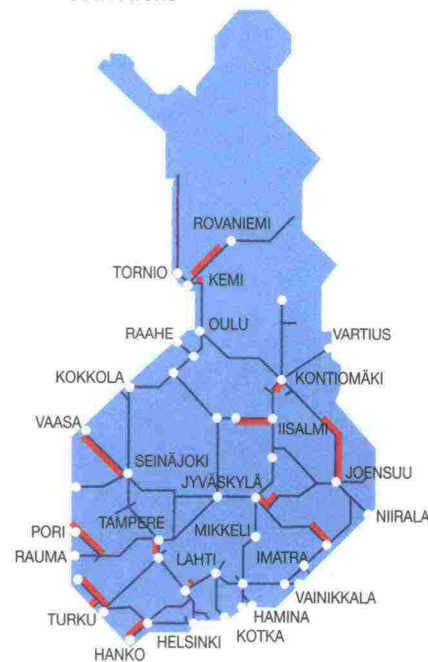
- Passenger and freight traffic
- Freight traffic



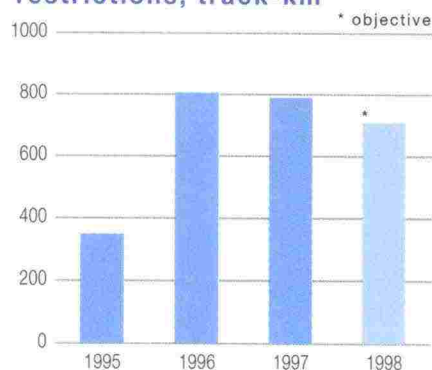
Speed restrictions

31.12.1997

- Line section under speed restrictions



Development of speed restrictions, track-km



Changes in the Operative Environment

The maintenance and development of the rail network is based on national and international traffic needs. Infrastructure management creates the preconditions for efficient and competitive rail services.

In Finland most railway lines are used for both passenger and freight traffic.

Rail traffic was brisk in 1997. Freight traffic reached a record volume of 40.3 million tonnes, up 7% over the previous year. The increase was due particularly to upswings in the paper, pulp and chemical industries.

Passenger traffic also picked up and reached a volume of 50 million journeys. This total includes 12 million journeys in long-distance traffic and 38 million journeys in the Helsinki metropolitan area commuter traffic. Traffic between Finland and Russia also increased by nearly 20%. Traffic between Helsinki and Turku rose by nearly 15%.

Growth in freight traffic

Rail traffic presently accounts for about one-fourth of the nation's total freight traffic. The railways serve as a basic carrier for industry in Finland. The forest, metal and engineering, and chemical industries are the most important customers.

In 1997 the Finnish Rail Administration made a forecast of freight traffic during the period 1997-2020.

The forecast takes into consideration improvements in the rail network. For example the maximum axle load will be raised on main lines from 22.5 tonnes to 25 tonnes by 2010. Electrification of the rail

network will continue and rail safety will be improved with the help of safety equipment, automatic train protection and the elimination of level crossings.

The total freight volume in the rail network is expected to grow at an average rate of 2.1% a year to 50.4 million tonnes by 2010.

Potential in transit traffic

In recent years transit traffic to and from Russia has formed an important part of rail traffic in Finland. Volumes have fluctuated considerably from year to year, however. Transit traffic via Finland's rail network is expected to have a volume of 7-8 million tonnes in 2010. In 1997 the volume of transit traffic was 3.4 million tonnes. Finland has great opportunities to increase transit traffic, for example when the exploitation of raw materials in northern Russia gets under way. Growth will mainly involve the Vainikkala and Vartius border stations.

Trans-European Networks (TEN)

The European Union's goal is to increase the competitiveness of rail traffic by speeding up passenger services and improving freight services. The creation of smooth Trans-European Networks means facilitating border crossings and harmonizing different countries' technical systems. Last year EU Interreg support was granted to facilitate border crossings at Vainikkala.

Plans exist to include the Helsinki-Turku, Helsinki-Seinäjoki and Helsinki-Vainikkala lines, which are important for international passenger traffic, in the Trans-European high-speed rail network. The goal



is to increase speeds to around 200 km/h with the help of tilting-body trains which do not require separate high-speed lines.

Nordic Triangle

The Nordic Triangle is a high-priority EU project which includes the main passenger and freight lines in southern Finland. Key focuses are the railway from Turku via Helsinki to Vainikkala as well as the line sections from Hyvinkää to the port of Hanko and from Kouvola to the ports of Kotka and Hamina. Investments will be made to renew and develop infrastructure. It is especially important to increase line capacity so as to allow additional trains.

Rail investments in the Nordic Triangle project will total FIM 6.9 billion in 1997-2010, of which FIM 0.5 billion was spent in 1997.

Finland has received support from the EU's TEN budget and a loan from the European Investment Bank to plan and implement Finnish rail projects in the Nordic Triangle.

Euro-Arctic Transport Area

In June 1997 the Third Pan-European Transport Conference was held in Helsinki. RHK presented rail links to the east via Finland at the conference, which was attended by high-level officials and experts from all over Europe. The conference approved the inclusion of the Barents Euro-Arctic Transport Area in the Pan-European Transport Development Programme. The development of transport links in northern areas covers all modes of transport and involves cooperation between Finland, Sweden, Norway, Russia and the EU Commission. The goal is to improve rail links between these countries.

Opening of competition

On 1 September 1997 the Ministry of Transport and Communications appointed a working group to study possibilities to open the state's rail network to competition in national and international traffic. The working group's task was to study the preconditions for opening competition in passenger and freight traffic and the effects of competition and to make the necessary proposals for legislative, administrative and organizational changes. The working group will complete its report in spring 1998.

Research and development

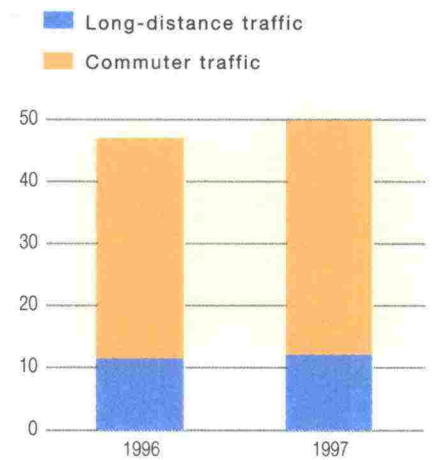
The Finnish Rail Administration's R&D programme was prepared during the year. Attention was focused on four areas: the socio-economic effects of infrastructure management, operational and technical development of the rail network and rail

traffic, traffic safety and the development of environmental management.

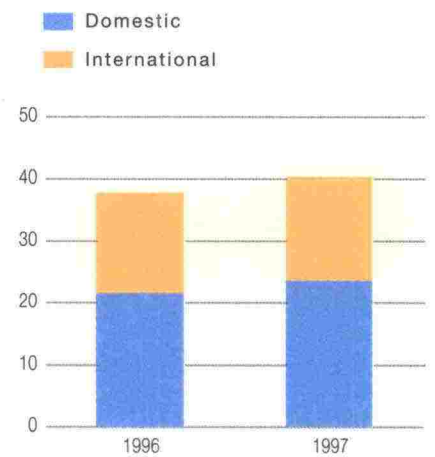
The purpose of R&D is to support RHK's activities and management and to increase information on the operating environment.

The R&D framework is formed by RHK's own studies, around 30 of which were under way during the year. RHK also participates in numerous national and international cooperation projects.

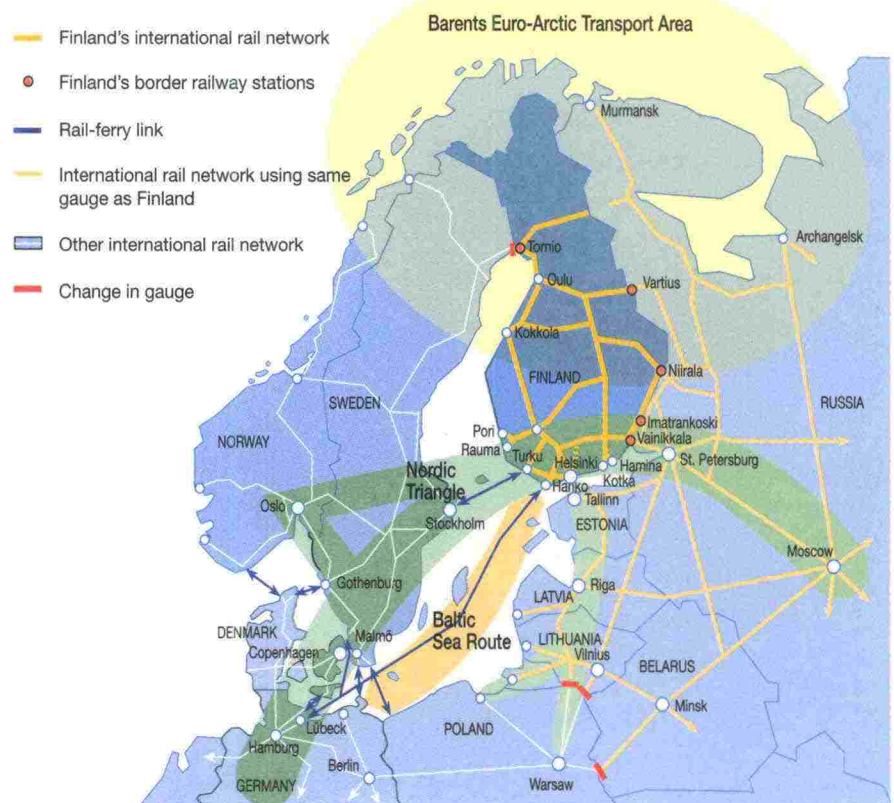
Passenger volume, million journeys



Freight volume, million tonnes



Finland's international railway links



Track Renewal Upgrades Lines

Track renewal proceeded according to plans in 1997. Thanks to this work growth in speed restrictions was brought practically to a halt.

Superstructures were renewed on a number of important line sections during the year. A total of 650,000 sleepers were replaced on some 400 kilometres of track and rails were replaced on over 250 kilometres of track. Over 130 switches were also replaced.

Deliveries of concrete sleepers from Lujabetoni Oy began during the year. Previously sleepers had been supplied by only one company, Parma Betonila Oy. The output of these two suppliers will be sufficient to meet the large demand for replacement sleepers in the coming years.

Renewal work on busy lines

Track renewal is indispensable, since the last time superstructures were extensively renewed was in the 1960s. RHK's primary goal is to upgrade existing lines to meet the needs of passenger and freight traffic.

All renewal projects are performed on lines which are kept open to traffic. This requires the careful planning and scheduling of work in order to minimize traffic disruptions. During the busiest construction period, however, train delays cannot be avoided entirely.

Several major lines being renewed

Track renewal continued on the Helsinki-Tampere line section, which is the busiest in the nation and is part of the planned high-speed network. Renewal of this line section is the biggest track renewal project currently under way and involves significant development investments.

The renewal of superstructures also continued on the Tampere-Seinäjoki, Riihimäki-Lahti-Kouvola, Laurila-Rovaniemi, Kouvola-Pieksämäki, Ylivieska-Iisalmi and Pieksämäki-Varkaus line sections. Renewal work began on the Tuomioja-Raahe and Karjaa-Hanko line sections, which are important for freight traffic.

Railway yards were renewed in Järvenpää, Hämeenlinna, Kouvola and Tampere (Viinikka). New signalling was installed in Lahti and new safety equipment was installed on the Riihimäki-Lahti and Tampere-Rauma line sections.

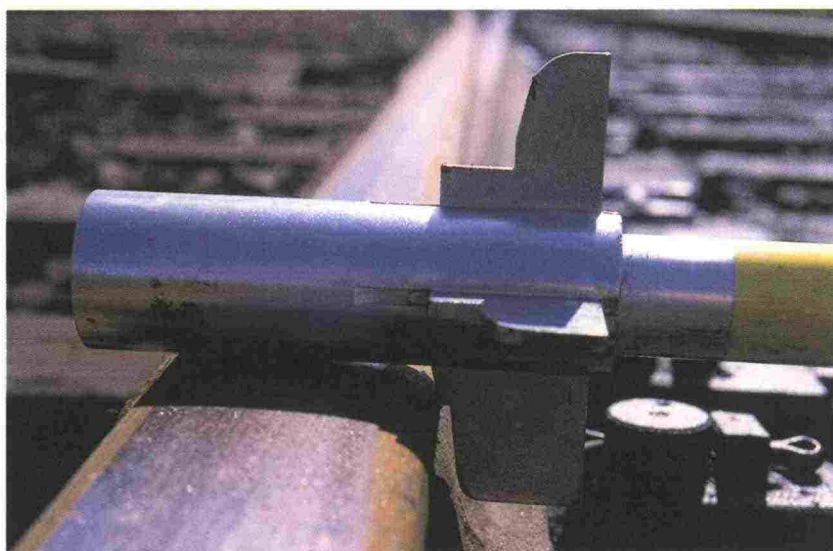


Greater efficiency through competition

Up to now the Finnish Rail Administration has concluded most of its contracting agreements with VR-Track Ltd. The goal is to gradually increase competition among contractors in order to increase efficiency, raise productivity and make better use of funds. EU regulations also require competitive tendering.

Competition has already proceeded considerably further in material purchasing than in contracting. During the year RHK purchased key track materials such as rails, switches and concrete sleepers on the basis of competitive tenders.

RHK's own purchases of materials are aimed at ensuring genuine competition on equal terms. On the basis of SAP's R/3 product RHK has developed a separate data system called Raillog 2000 to manage materials purchasing and related logistics.



In construction work the shift is being made from cost and fee contracting to order-based activities in which jobs are precisely defined and payment is tied to the results of scheduled work. Track maintenance work was ordered on a fixed-price basis, thereby achieving a significant lowering of costs.



Rail-grinding in southern Finland

One important aspect of track maintenance is rail-grinding. Rails were ground over a distance of nearly 200 kilometres of track in southern Finland. This work was ordered from Speno International SA of Switzerland on the basis of international tenders.

Rail-grinding removes wavy edges from rails. This reduces track maintenance costs, improves running characteristics and passenger comfort and reduces traffic noise.

RHK has a three-year rail-grinding agreement with the Swiss company.

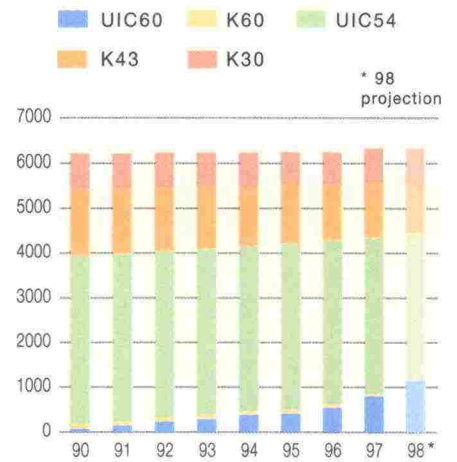
Real estate management

The Finnish Rail Administration has also devoted attention to developing real estate management. In addition to property maintenance and repair building and contracting, the management of RHK's real estate holdings in southern Finland was opened to competition during the year. In this kind of continual commission RHK's goal is to form trusting partnership relations.

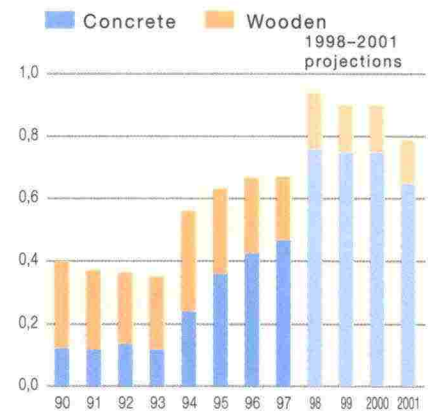
During the year a computer application for real estate management was completed as part of the consistent development of property ownership tasks. The system will form the basis for the use of all geographical information.



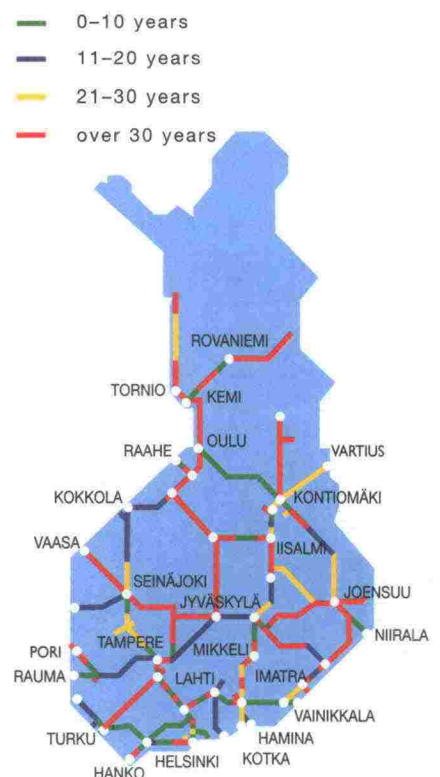
Types of rails on main lines, track-km



Installed sleepers, million



Age of superstructure in the rail network



New Projects Improve Competitiveness

In addition to track renewal various development projects which will improve competitiveness are under way around the rail network. The focus is on increasing rail capacity, expanding electrification and improving safety.

Insufficient rail capacity has been a problem especially in southeastern Finland and the Helsinki region. Bottlenecks have been removed by building additional tracks on the busiest line sections. In October 1997 an additional electrified track between Inkeroinen and Juurikorpi was completed on the Kouvola–Kotka line. This will especially improve industrial services.

Upgrading of the Helsinki–Tampere line

Renewal of the Helsinki–Tampere line section will also make it possible to raise the level of service. For example the line's geometry will be designed for a speed of 160 km/h, allowing tilting-body trains to travel as fast as 200 km/h.

In freight traffic the maximum axle load can be raised to 25 tonnes. Traffic safety will be improved by eliminating level crossings and line capacity will be increased by building a third track between Sääksjärvi and Tampere and a passing track between Rekola and Korso.

The Helsinki–Tampere project is scheduled for completion in 2001.

Work starts on urban line

The Helsinki–Huopalahti–Leppävaara urban line is the same type of development project as the Helsinki–Tikkurila urban line, which went into operation in 1996. The project includes two additional tracks as well as station and street arrangements to accommodate feeder traffic. The new urban line will have separate tracks for long-distance and commuter trains, allowing a substantial increase in the number of services.

Initial funds for the project were granted in the autumn 1997 supplementary budget. Work is scheduled to take place in 1998–2001. With regard to the division of costs, the state (RHK) will be responsible

mainly for building tracks, while the cities of Helsinki and Espoo will pay for station, street, and pedestrian and bicycle way arrangements.

Electrification to Rauma completed

Electrification of the Tampere–Rauma line section was completed towards the end of the year. Electric traffic began on the line section on 12 January 1998. The line section was also renewed and railway yards were extended. These projects together with investments in safety equipment and traffic control which will be made in the near future will increase the Rauma line's capacity and create the proper conditions for substantial growth in traffic volumes.

Finland now has 2,197 km of electrified lines. This is 37% of the total rail network. Currently about 70% of rail traffic is electrified. Electrification is under way on the Kokemäki–Pori and Toijala–Turku line sections. Electric traffic is scheduled to begin on 1 June 1999 on the Pori line and on 1 June 2000 between Toijala and Turku.



No decisions have been made concerning the further electrification of the rail network, but a socio-economic feasibility study conducted by RHK indicates that this is feasible. Further electrification of the rail network will improve conditions for freight and passenger traffic.

In RHK's view electrification should continue immediately after the completion of current projects, starting with the Tuomi-oja-Raahe, Oulu-Rovaniemi, Oulu-Iisalmi and Kontiomäki-Vartius line sections.

Automatic train protection expanded

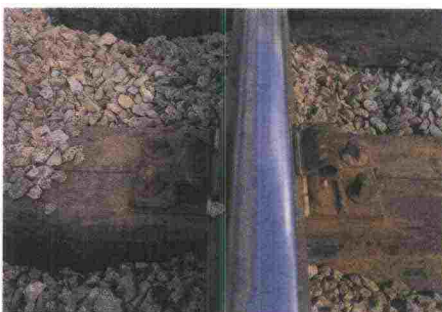
The Finnish Rail Administration's objective is to equip the nation's main lines with automatic train protection by 2001. At the end of the year the system covered the Helsinki-Turku, Tampere-Seinäjoki and Riihimäki-Lappeenranta line sections.

Level crossings are being eliminated or protected in a systematic manner by line section. For example, by 2002 all level crossings will be eliminated from the Kouvola-Vainikkala and Kouvola-Kotka/Hamina line sections, which carry a lot of transit traffic.

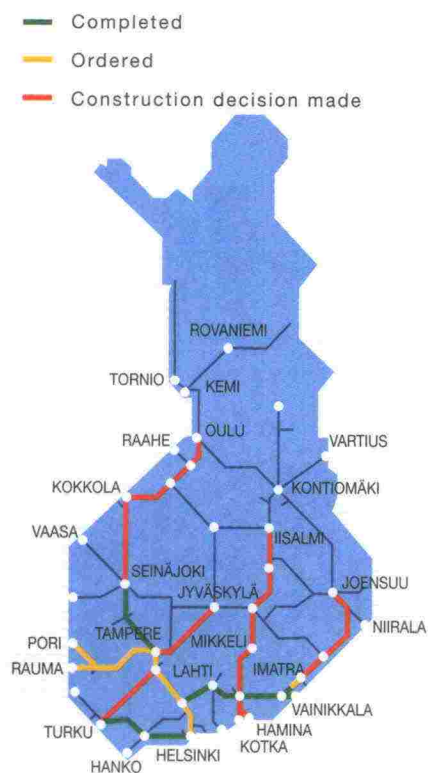
General plan for direct line to Lahti

During the year RHK continued general planning for a direct line from Kerava to Lahti on the basis of a line option following the Lahti motorway. The direct line will provide additional capacity for eastern traffic and shorten the journey from Helsinki to Lahti by 26 km. It will also reduce the load on the main line leading from Helsinki to the north.

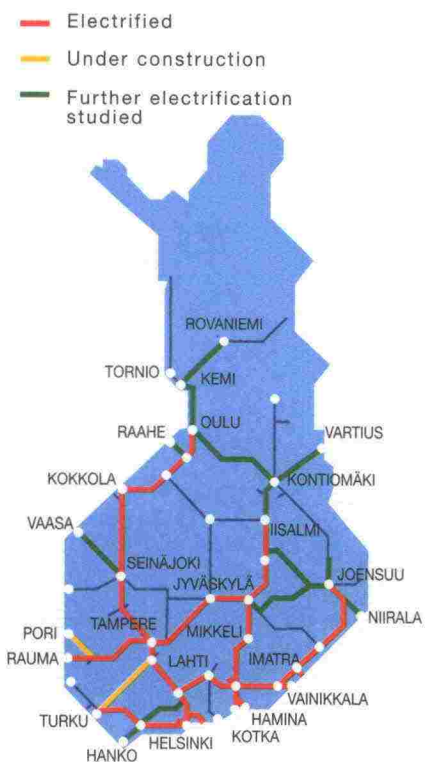
A general plan for the direct line was completed at the beginning of 1998.



Construction of automatic train protection equipment



Electrification of the rail network



Safety Work Proceeds Systematically

The systematic improvement of rail safety continued last year. The key focus was the creation of a safety management system based on quality control. The system will cover all aspects of rail traffic, including such important areas as railway yard operations and fleet maintenance, together with RHK's activities as the authority in charge of monitoring safety.

RHK is developing the safety management system in cooperation with Norske Veritas, which has experience of this type of work in Britain, for example. The system should be ready in 1998, and then the task of applying it to practical work in different areas of railway operations will begin. VR is also participating in the development of the system.

New information system

Other important projects include the expansion of automatic train protection and the development of a new train information system, which began in the early part of the year. The intention is to introduce the new system in autumn 1998.

The new computer-based system (ENNI) is designed to provide advance information on changes influencing rail traffic to train drivers, among others.

Research and information

RHK continued a study of rail safety in cooperation with the Technical Research Centre of Finland. The first part of the study, concerning the state of rail safety, was completed in 1996. The second stage of the study, which was completed in 1997, concentrated on safety technology, planning and human factors.

An information campaign aimed at educating school pupils and other people on rules regarding access to railways was

continued during the year. This time the focus was on the Helsinki-Tampere line section and the Kouvolaa region.

Importance of technology

Technical type approvals and standards are another aspect of rail safety. During the year RHK issued 10 type approvals for track, electrical and safety equipment and 16 type approvals for rolling stock. The most important of these concerned the Sr2 electric locomotive. The updating of technical standards continued. The goal is to complete the bulk of this work by the end of 1999.

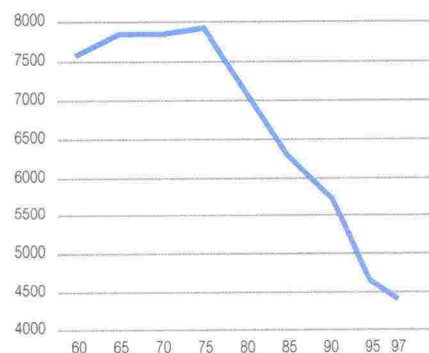
Elimination of level crossings

No serious accidents occurred in actual rail traffic during the year and no passengers died in accidents. A total of 52 accidents occurred at level crossings, however, and 13 people died as a result. All of these were in road vehicles.

Special attention has been paid to improving safety at level crossings, which are being systematically eliminated by line section. A total of 112 level crossings were eliminated in 1997.

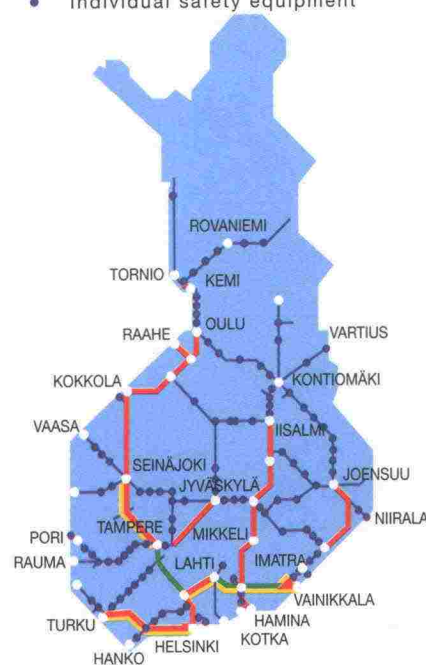


Total number of level crossings 1960-1997



Safety equipment systems

- Blocking and remote control
- Blocking
- Automatic train protection
- Individual safety equipment



Environmental Matters Highlighted

Environmental matters play a key role in the Finnish Rail Administration's activities. During the year, in accordance with its performance objectives, RHK prepared an environmental programme which includes an environmental policy and goals.

RHK operates according to the principles of sustainable development and is responsible for the environmental impact of its activities. Key goals in RHK's environmental activities are to prevent new environmental problems, to reduce the existing environmental load and to eliminate environmental damage which may have been caused by previous activities.

Defining of goals

RHK's environmental policy comprises the operating guidelines needed to direct infrastructure management in an environmentally friendly way and to reduce the environmental impact of traffic.

Environmental goals cover such subjects as reducing emissions, material use and recycling, noise and land use. These goals will be defined in greater detail in an action plan which will be prepared in 1998.

New calculation system

In 1997 RHK participated in developing a system for calculating traffic emissions under the direction of the Ministry of Transport and Communications. The Lipasto 96 system covers all modes of transport, with separate models for each mode. The calculation system for rail traffic is called Raili 96.

The Lipasto 96 system allows emissions and energy consumption to be calculated on a similar basis for all modes of transport. This makes it possible to determine the different modes' share of total emis-

sions. The system will be used to plan measures aimed at reducing emissions.

Electrification important

The environmentally friendly nature of rail traffic has been enhanced particularly by electrification. The expansion of electric traffic reduces energy consumption, emissions and noise.

During the year electrification of the Tampere–Rauma line section was completed. Electrification is under way on the Kokemäki–Pori and Toijala–Turku line sections. According to a socio-economic feasibility study conducted by RHK, the further electrification of the rail network is feasible and will also be a significant environmental investment.

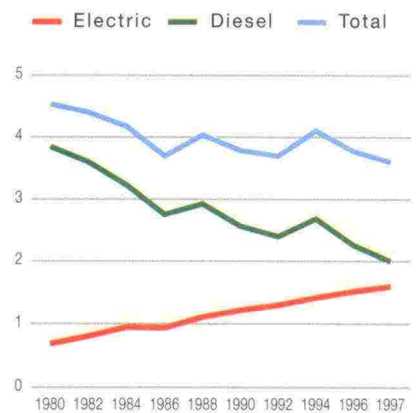
Wooden sleepers recycled

One specific environmental matter is the recycling of wooden sleepers. Each year around 500,000 wooden sleepers which have been treated with creosote are taken out of service in different parts of the rail network in connection with track renewal. Most of these are replaced with concrete sleepers.

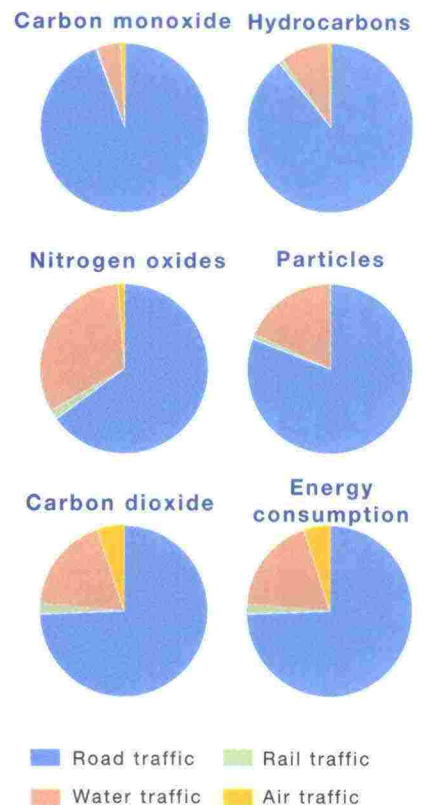
RHK is developing a recycling system in which wooden sleepers are chipped and used as fuel in energy plants, avoiding damage to the environment at all stages of the process. The intention is to concentrate recycling at two or three sites which are conveniently located and generally well suited for this purpose.



Development of energy consumption in Finnish rail traffic, petajoules



Breakdown of traffic emissions and energy consumption in Finland by mode of transport



Source: Lipasto 96

Finance in 1997

The Finnish Rail Administration has constantly developed its operations. The expansion of tasks has required the hiring of additional personnel for contracting and planning tasks and financial administration. During the year RHK had an average of 58 employees in actual operations plus 36 employees inspecting tickets in rail traffic.

Use of funds

In 1997 RHK had a record amount of available funds, taking into consideration the autumn supplementary budget. A total of FIM 2,721 million was available for gross expenses. FIM 377 million in operational income was also budgeted. The difference between gross expenses and income, FIM 2,344 million, is financed out of the state budget.

Gross expenses totalled FIM 2,314 million and income for operational items FIM 402 million, which means that FIM 1,911 million in budget funds was spent. FIM 433 million was left unused, and of this total FIM 427 million was carried forward to the following year. Land purchasing required nearly FIM 5 million less than budgeted. The unused amount of funds appropriated for land purchasing was not carried forward to the following year. FIM 15 million was paid in advance on purchases.

The amount carried forward to the following year included FIM 268 million which was appropriated in the autumn supplementary budget. Most of this was for basic infrastructure management and the construction of the Helsinki-Leppävaara urban line. FIM 160 million appropriated in the regular budget was carried forward to the following year. This included FIM 76 million for infrastructure management and FIM 26 million in the form of increased income. FIM 55 million was carried forward from development projects and FIM 3 million from the EU's national contribution because the start of projects had to be postponed owing to a decision on the fi-

nancing of the EU's contribution. Roughly 3% of regular budget appropriations for basic infrastructure management were left unused and 21% of appropriations for development projects were left unused, partly because work had already been done the year before. In addition to this the scope of some projects was changed and savings were achieved in construction.

Use of funds

A total of FIM 2,314 million was spent on infrastructure management in 1997, compared with FIM 2,081 million in 1996. FIM 200 million was spent on development, mainly to complete the fourth track between Helsinki and Tikkurila, to electrify the Tampere-Pori/Rauma and Toijala-Turku line sections, to install automatic train protection equipment, to construct a second track between Inkeroinen and Juurikorpi and to improve arrangements at level crossings. Supplementary budget funds were used to plan the Helsinki-Lepävaara urban line. The emphasis in infrastructure management was on basic maintenance and especially replacement investments. Replacement investments cost about FIM 800 million in 1996, combining different sources of funding, and FIM 1,130 million in 1997. FIM 698 million was spent on track maintenance, use, research and planning in 1997. The corresponding figure in 1996 was FIM 679 million.

Assets

RHK had assets worth FIM 14,532 million at the end of 1997, compared with FIM 14,461 million the previous year. Fixed assets make up the bulk of the total. Increases in fixed assets during the year amounted to FIM 1,270 million while decreases amounted to FIM 2 million. Depreciation according to plan totalled FIM 1,171 million, so the net increase was FIM 97 million.

The minimum annual investment requirement for current assets is around FIM 1,200 million. This amount must be available each year for replacement investments in order to maintain the service level of the rail network. Development investments are designed to improve the level of service.

Cost covering

RHK's main task is to maintain and develop the rail network which is under its control. The next largest sector is real estate management. The Ministry of Transport and Communications has placed RHK in charge of certain real estate operations, ticket inspection activities and the issuing of certain licences and technical specifications. Last year FIM 53 million in state budget funds was spent on these paid activities. This is 2% of RHK's gross expenses. Income from paid activities totalled FIM 78 million. The profit was FIM 25 million or 1% of gross expenses for infrastructure management.

The profit for paid activities comes almost entirely from real estate management. The cost covering account, which includes a share of joint costs and capital costs as well as direct costs, shows a deficit for paid activities. RHK has FIM 520 million worth of real estate which produces income. If maintenance and joint costs are subtracted from annual income, the return on invested capital was 3.4% last year.

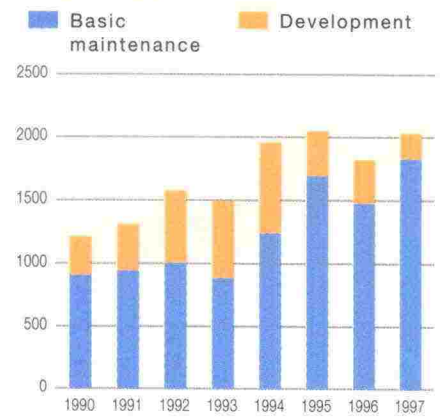
Income from real estate operations also covers depreciation on buildings. If depreciation is subtracted from income, the return on invested capital was 1.5% last year. According to state guidelines the yield requirement is a 5.4% return on invested capital. The average yield in the real estate field is currently about 2.8%. RHK's real estate operations fall short of both these goals. Last year the amount of annual repairs was above average, reducing the profit from real estate operations.

PROJECT COSTS FOR TRACK BUILDING AND MAINTENANCE IN 1995-1997

FIM 1,000

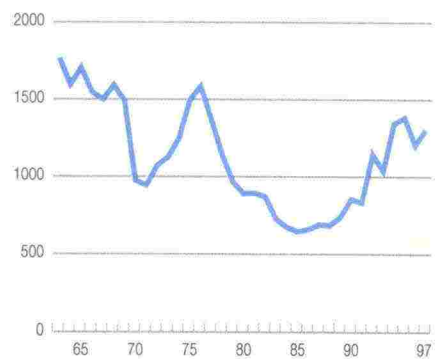
	1995	1996	1997
Helsinki-Tampere, upgrading	15,131	68,330	36,259
Helsinki-Turku, upgrading	71,158	29,971	
Helsinki-Tikkurila	71,094	16,482	2,189
Tampere-Seinäjoki	73,201	48,629	
Tampere-Pieksämäki, electrification	26,373		
Kirkkonummi-Turku, electrification	1,277		
Tampere-Pori/Rauma, electrification	43,468	85,460	59,455
Toijala-Turku, electrification	9,933	6,490	31,048
Automatic train protection equipment	29,853	38,575	30,525
Arrangements at level crossings		36,831	6,969
Other development and planning	13,248		
Inkeroinen-Juurikorpi, additional track		8,961	35,331
Helsinki-Leppävaara, urban line			1,938
Development of the network	354,736	339,729	203,714
Buildings, repairs		729	5,272
Land purchasing	5,496	2,405	753
EU's regional development fund		1,440	965
EU's national contribution		1,787	867
Replacement investments	981,545	782,426	1,115,771
Track maintenance and use	706,189	678,801	698,074
Basic track maintenance	1,687,734	1,461,227	1,813,845
Traffic control and administration	112,359	221,877	230,515
Real estate	20,002	40,207	45,355
Other operations	132,361	262,084	275,870
Employment funds		11,980	12,220
TOTAL EXPENSES	2,180,327	2,081,381	2,313,506
Income, track fees	- 90,000	- 200,000	- 300,000
Income, real estate	- 38,988	- 69,550	- 70,278
Income, other	- 41,093	- 32,356	- 32,203
TOTAL INCOME	- 170,081	- 301,906	- 402,481
NET EXPENSES	2,139,234	1,779,475	1,911,025

Expenditure on the rail networks 1990-1997, FIM million

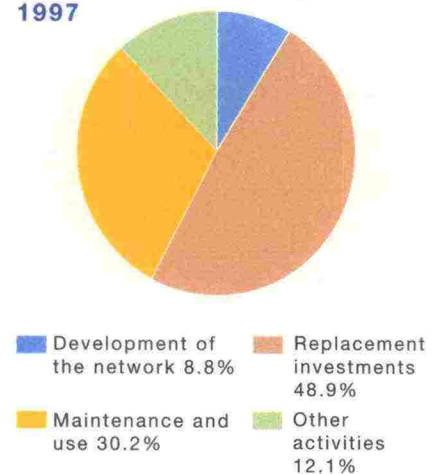


Investments in the rail network 1963-97, FIM million

(At fixed 1997 prices)



Breakdown of expenditure on infrastructure management in 1997



STATEMENT OF ACTUAL SPENDING 1997

FIM	Allocated funds			Used Accumulated	Carried forward to next year	Comparison with budget
	Transfer from the previous year	1997	Available			
INCOME						
VAT				2,168,862		
EU sales, VAT				27,364,731		
Income from infrastructure management		1,000,000		2,709,825		1,709,825
Total income				32,243,418		
EXPENSES						
VAT costs				470,199,243		
EU purchases, VAT				27,364,731		
Total VAT				497,563,974		
Early rehabilitation				5,230		
University, salaries				50,076		
Planning of Vuosaari port line	3,044,813	3,044,813	3,044,813	0		
Total, other				3,100,119		
INFRASTRUCTURE MANAGEMENT, EXPENSES						
EU's regional development fund		1,000,000	1,000,000	964,792	35,208	
EU's national contribution		4,000,000	4,000,000	867,479	3,132,521	
RHK and other basic management	339,853,698	1,624,000,000	1,963,835,698	1,687,233,116	276,602,582	
Gross expenses	339,853,698	2,001,000,000	2,340,835,698	2,089,714,180	251,121,518	
Finnish Rail Adm.		207,000,000	207,000,000	230,514,704	- 23,514,704	
Basic maintenance	339,835,698	1,748,000,000	2,087,835,698	1,813,844,940	273,990,758	
Real estate operations		46,000,000	46,000,000	45,354,536	645,464	
Gross income		- 377,000,000	- 377,000,000	- 402,481,064	25,481,064	
Track fees		- 300,000,000	- 300,000,000	- 300,000,000	0	
Income from real estate operations		- 55,000,000	- 55,000,000	- 70,278,454	15,278,454	
Sales income		- 22,000,000	- 22,000,000	- 32,202,610	10,202,610	
Track development	53,870,557	218,000,000	271,870,557	207,048,266	64,822,291	
Helsinki-Leppävaara		85,000,000	85,000,000	1,938,445	83,061,555	
Rail network land area		6,000,000	6,000,000	753,154	0	5,246,846
Employment funds	12,220,069	0	12,220,069	12,220,069	0	
RAIL INFRASTRUCTURE MANAGEMENT						
TOTAL EXPENSES	405,926,324	1,938,000,000	2,343,926,324	1,911,025,321	427,654,157	

BALANCE SHEET 31.12.1997

ASSETS (FIM)

FIXED ASSETS AND OTHER LONG-TERM EXPENDITURE

INTANGIBLE ASSETS

INTANGIBLE RIGHTS

Purchased computer programmes	1,313,000	1,313,000	
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TANGIBLE ASSETS

LAND AND WATER AREAS

Gravel and other aggregate areas	30,000,000	30,000,000	
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BUILDING LAND

Building land	363,231,000		
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Railway beds	202,558,000	565,789,000	
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BUILDINGS

Housing	42,582,000		
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Other buildings	232,182,000	274,764,000	
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STRUCTURES

Railway structures	12,996,126,000	12,996,126,000	
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MACHINERY AND EQUIPMENT

Computer hardware	209,000		
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Office machines	87,000		
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Communications equipment	6,166,000	6,462,000	
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FURNISHING

Office furnishing	1,149,000	1,149,000	
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ADVANCES AND PROJECTS IN PROGRESS

Advances on land and water structures	15,669,520		
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Unfinished railway structures	622,092,000	637,761,520	14,513,364,520
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INVENTORIES AND FINANCIAL ASSETS

CURRENT RECEIVABLES

ACCOUNTS RECEIVABLE

Accounts receivable	18,907,681	18,907,681	
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OTHER CURRENT RECEIVABLES

Other current receivables	12,742	12,742	
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ADVANCE PAYMENTS

Advance funds supplied	2,965	2,965	18,923,388
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TOTAL ASSETS

14,532,287,908

CAPITAL (FIM)

EQUITY

State's equity	14,097,454,391	14,097,454,391	14,097,454,391
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LIABILITIES

CURRENT LIABILITIES

ADVANCES RECEIVED

Other advances received	124,967	124,967	
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ACCOUNTS PAYABLE

Accounts payable	430,154,585	430,154,585	
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INTER-AGENCY

Withheld taxes	436,773		
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Social insurance premiums	96,416		
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Accident insurance premiums	8,793	541,982	
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PAYABLE ITEMS

Pension payments (employer)	267,573		
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Pension payments (employee)	63,372		
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Dues	36,483		
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Distraints	60		
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Unemployment insurance premiums	44,477		
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Wage subaccount		411,965	
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ACCRUED EXPENSES

Holiday pay liabilities	3,348,502	3,348,502	
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OTHER CURRENT LIABILITIES

Non-budget funds monitored in balance sheet	251,516	251,516	434,833,517
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TOTAL CAPITAL

14,532,287,908

BUSINESS IDEA

The Finnish Rail Administration (RHK) works to improve the operating conditions of rail traffic, enabling it to be an efficient, safe and environmentally friendly mode of transport, both in Finland and as part of the international transport system.

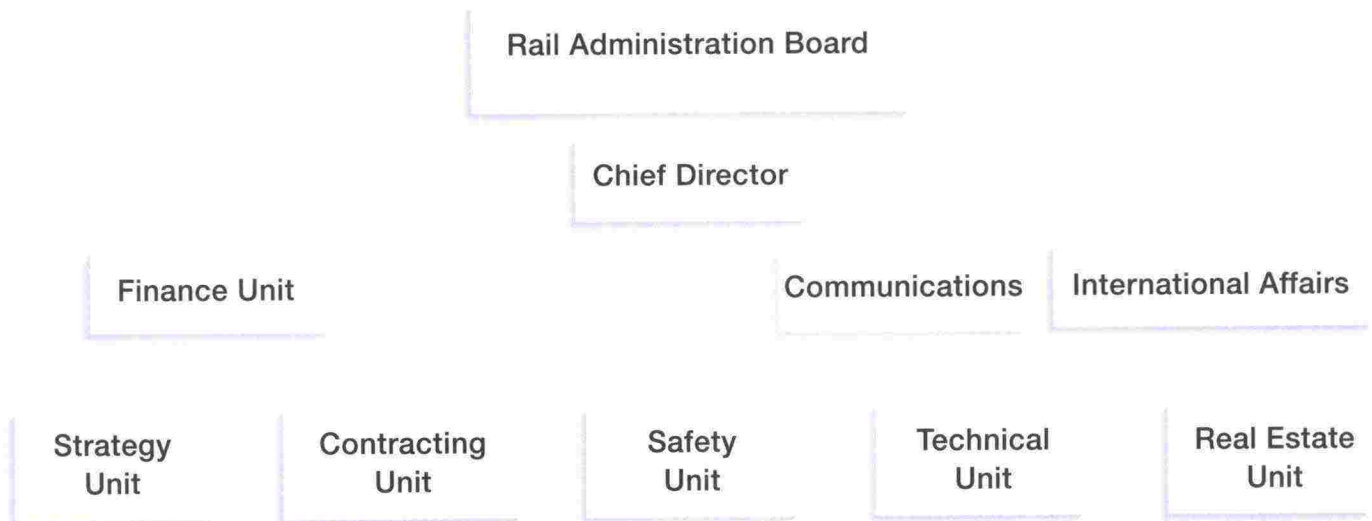
RHK is in charge of maintaining and developing the rail network, is responsible for the safety of rail traffic and provides a competitive transport network for use by railway companies.

RHK takes into account the transport needs of industry and commerce as well

as the need for public transport and operates in accordance with the principles of sustainable development. It is developing Finland's rail network for international traffic as a key link between East and West.

RHK works actively to influence issues that affect Finland's transport policy and transport infrastructure.

ORGANIZATION



RAIL ADMINISTRATION BOARD

1995–1997

Chairman Mr Ossi Niemimuukko, Chief Director, Finnish Rail Administration

Ms Rita Piirainen, Chief Engineer, Ministry of Transport and Communications

Mr Henri Kuitunen, President & CEO, VR-Group Ltd (up to 10 April 1997)

Mr Veikko Vaikkinen, CFO, Finance and Economy, VR-Group Ltd (from 10 April 1997)

Ms Marjatta Kukkamäki, Materials Manager, Kemira Fibres Oy

Mr Tapio Peltohaka, Track Engineer, Finnish Rail Administration

1998–2000

Chairman Mr Ossi Niemimuukko, Chief Director, Finnish Rail Administration

Ms Rita Piirainen, Chief Engineer, Ministry of Transport and Communications

Mr Veikko Vaikkinen, CFO, Finance and Economy, VR-Group Ltd

Ms Maire Kaartama, Transport Economy Agent, Confederation of Finnish Industry and Employers

Mr Harri Ajomaa, Traffic League

Ms Arja-Hannele Lilja, Chief Inspector, Finnish Rail Administration

At 1 January 1998

First railway line: Helsinki–Hämeenlinna, 1862

Gauge: 1,524 mm

Total length of railway lines: 5,865 km

Total track length including sidings: 8,730 km

Lines with two or more tracks: 507 km

Tracks with concrete sleepers: 1,867 km

Sleepers/km: 1,640

Long-welded tracks: 3,848 km

Type of new rails on main lines: UIC60 (weight 60 kg/m)

Electrified line: 2,197 km (includes Tampere–Rauma)

Electrification system: 25 kV 50 Hz

Block-protected line: 1,805 km

Centrally controlled line: 1,629 km

Number of tunnels: 42

Total length of tunnels: 25,284 m

Number of railway bridges: 2,032

Number of bridges over railway lines: 783

Number of level crossings: 4,405, including 3,684 on main lines

Land owned by the Finnish Rail Administration: 28,800 ha,
of which 21,200 ha in line use

Number of buildings owned by the Finnish Rail Administration: 4,115,
with a total volume of 1.9 million m³

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