

VR Group's Business Review for January-March 2023 – the number of journeys in long-distance traffic has returned to the pre-pandemic level

VR Group's profitability improved as the number of trips in long-distance traffic rose slightly above the pre-pandemic level of 2019, especially thanks to leisure travel. The profitability of city traffic in Finland was weakened by exceptionally high inflation. In freight transport, it has been possible to partially compensate for the shutdown of eastern traffic with domestic transport. As a prerequisite for the growth of environmentally friendly rail traffic, VR proposes investments in the condition and capacity of the state's rail network as entries in the Government Programme.

January-March 2023 (Q1) in brief:

- The Group's net sales increased by 49.9% to EUR 302.9 (202.1) million.
- Comparable net sales without the effects of the business acquisition in Sweden increased by 14.9% to EUR 232.3 million.
- Comparable operating result (EBIT) was EUR -0.2 (-24.9) million or -0.1% (-12.3%) of net sales.
- Operating result (EBIT) was EUR 2.8 (-24.9) million, or 0.9% (-12.3%) of net sales.
- Cash flow from operating activities was EUR 31.2 (3.1) million.
- The number of journeys on long-distance trains increased by 52.6% in January-March, to 3.4 (2.2) million journeys.
- The railway transport volumes of VR Transpoint decreased by -24.2% and amounted to 5.9 (7.8) million tonnes.
- VR invested into procuring new rolling stock for night train traffic from Škoda Transtech Ltd. The value of the equipment acquisition is approximately EUR 50 million.
- VR's business structure was renewed as of 1.1.2023 and now consists of three business segments: VR Long-distance Traffic, VR City Traffic and VR Transpoint.

Key figures	1-3/2023	1-3/2022	1-12/2022
Net sales, M€	302.9	202.1	1,107.0
Comparable EBITDA, MEUR*	48.9	10.6	149.0
<i>% of net sales</i>	16.1	5.2	13.5
Operating result (EBIT), MEUR	2.8	-24.9	-58.4
<i>% of net sales</i>	0.9	-12.3	-5.3
Comparable operating result (EBIT), MEUR*	-0.2	-24.9	6.0
<i>% of net sales</i>	-0.1	-12.3	0.5
Net profit/loss for the period, MEUR	0.6	-14.9	-47.4
Cash flow from operating activities, MEUR	31.2	3.0	179.9

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Investments, MEUR	36.6	30.2	219.8
Capital invested at the end of the period, MEUR	1,826.1	1,578.1	1,862.5
Return on capital employed (ROCE), %	1.1	-3.6	-1.6
Comparable return on capital employed, %	0.4	-3.6	2.0
Return on equity (ROE), %t	0.2	-4.7	-3.7
Net interest-bearing debt at the end of the period, MEUR	391.5	247.1	341.9
Gearing, %	32.1	19.3	27.4
Average number of personnel	7,858	5,623	7,821

* VR Group presents comparable EBITDA and comparable operating result (EBIT) as an alternative performance indicators. The aim of comparable performance indicators is to improve comparability between reporting periods.

Comparable EBITDA uses same definitions of items affecting comparability as comparable EBIT. The calculation formulas for the figures are disclosed in VR Group's Annual Report for 2022.

The figures are unaudited.

The comparative figures in brackets refer to the corresponding time period in the previous year, unless otherwise stated.

CEO Elisa Markula:

In the first quarter, VR's net sales increased by 49.9% to EUR 302.9 (202.1) million, boosted by the increased number of journeys and the acquisition carried out in Sweden. Comparable operating profit (EBIT) was negative, amounting to EUR -0.2 million, or -0.1% of net sales. High energy prices and inflation increased production costs and weakened profitability, as did the industrial action at the end of the quarter.

In VR Long-distance Traffic, 3.4 million journeys were made in Finland, which translated to a +2% increase from the corresponding period in 2019. Demand was also boosted by the temporary VAT rate reduction for public transport, which VR passed on directly to the prices of train tickets. Leisure travel has increased and now accounts for more than half of all long-distance journeys, and commuting has also recovered to the pre-pandemic level. In long-distance traffic, the customer experience was at an all-time high during the first quarter. The Net Promoter Score (NPS) was as high as 53, compared to 33 in the corresponding period the previous year. Customers were particularly satisfied with punctuality, conductor services and digital services. Punctuality was 86% in the early part of the year, which is a good result in the winter months.

VR City Traffic comprises competitively tendered contract traffic in regional bus and rail transports in Finland and Sweden. As expected, the result for city traffic was negative due to the long-term contracts in Finland, which were concluded before the exceptional changes in the operating environment last year. The accelerated inflation caused by Russia's war of aggression has a significant impact on the cost structure of city transport, and it will take a while for the index-based increases in contracts to affect the profitability of our operations. The industrial action that affected bus and rail traffic in March also had a negative impact on the profitability of city traffic. As expected, VR Sweden's operating result was positive, despite the costs of integration related to the acquisition completed in July. In line with its growth strategy, VR actively participates in regional competitive tendering for contract traffic in Sweden.

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In January–March, VR Transpoint transported 7.0 million tonnes of goods by rail and road. Transport volumes decreased by -22% compared to the same period last year, as VR's Eastern freight traffic was completely discontinued by the end of 2022. However, higher domestic demand and price increases have partly compensated for the loss of Eastern traffic.

Our sustainability efforts were recognised in March when VR was selected as Finland's most sustainable brand in the transport sector in the Sustainable Brand Index survey. Investments in the energy efficiency of train traffic, in accordance with VR's energy saving programme, saved approximately 7% in energy costs during the quarter.

In line with its revised strategy, VR is seeking EUR 250 million profit improvement measures by 2027 that will enable the financing of its billion-euro rolling stock investments and ensure its continued competitiveness. The goal is to identify profit improvement measures through additional sales, the development of commercial models and cost-effectiveness to cover the additional costs arising from inflation and improve the company's profitability. Meanwhile, we will continue our investments in the continuous improvement of customer experience. In the first quarter, VR announced the purchase of nine sleeping cars and eight car-carrier wagons from Škoda Transtech Oy for use on night trains starting in 2025.

VR expects the new government to take measures to reduce the railway network's current maintenance backlog of more than one billion euros and to increase track capacity. As half of the delays are due to the poor condition of the rail infrastructure, properly targeted and adequate infrastructure investments are a prerequisite for increased rail traffic, improved passenger experience, industrial competitiveness, green transition and security of supply. VR is in favour of increasing competition in climate-friendly rail traffic, which would increase the market as a whole. In passenger train services, municipalities and joint municipal authorities should be allowed to organise regional contract traffic in accordance with the Swedish model. A public rolling stock company leasing equipment for publicly funded rail transport could strengthen competition and the supply of contract traffic. Competition in long-distance and freight transport must be further developed on market terms, to avoid using taxpayers' money for rolling stock or transport.

Outlook for the current year

VR expects that the comparable operating profit (EBIT) for 2023 will improve compared to 2022.

The general economic situation in Finland is clouded by high inflation, rising energy prices, higher interest rates and low consumer confidence in the economy. The underlying factors are Russia's invasion of Ukraine and geopolitical uncertainty. The economic situation is significantly reflected in VR's business operations, profitability and near-term outlook. Especially high inflation has a negative impact on VR's profitability.

VR discontinued its Eastern freight traffic completely in 2022 due to Russia's war of aggression, which will reduce total rail logistics volumes this year. VR expects domestic transport volumes to increase, especially in roundwood transports. This will also be affected by the forest industry's new investments, such as the Kemi bioproduct mill that is set to come online. The general economic development affects Finnish industry and, consequently, transport needs and volumes.

Train travel has recovered after the COVID-19 pandemic eased. Nevertheless, the pandemic has changed the way people work and, as a result, their mobility patterns. Remote work has become

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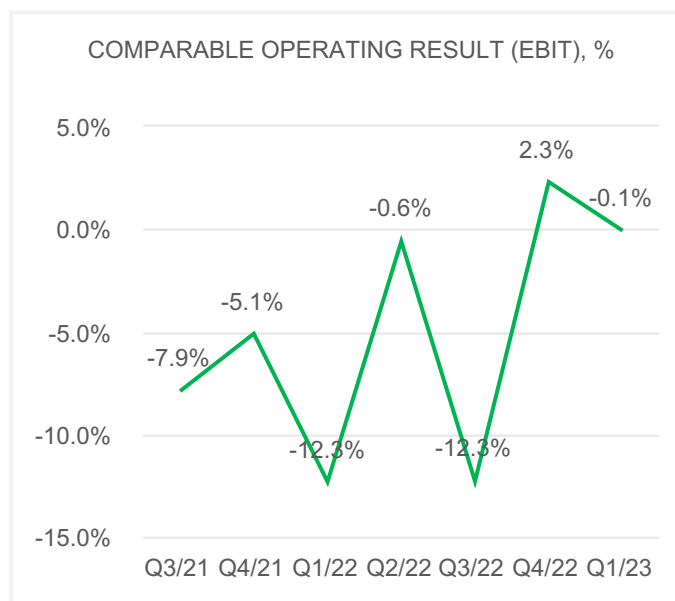
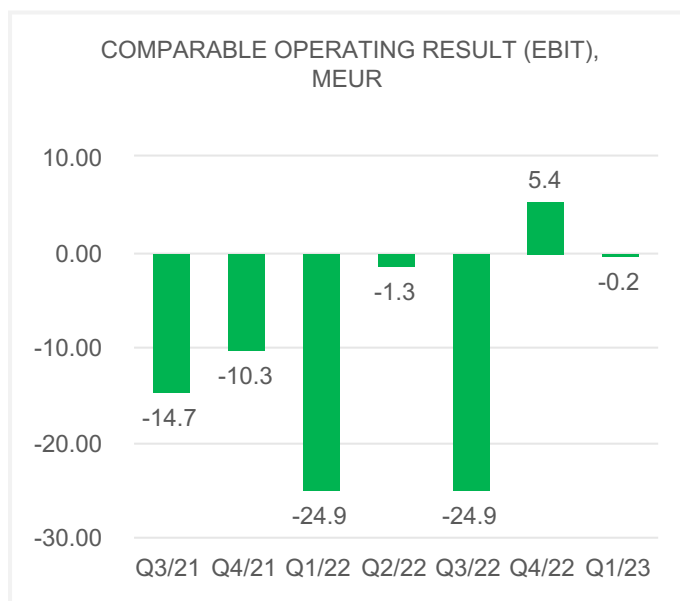
increasingly common, and travel demand has been driven by leisure travel. The total number of long-distance journeys is expected to increase from the previous year. This increase will mainly take place in the early part of the year, as the pandemic reduced travel volumes particularly in early 2022. The temporary VAT rate reduction for public transport, effective in the first four months of the year, has been fully passed on to ticket prices by VR. In city traffic in Sweden, net sales and profitability will decline compared to 2022 due to some of the existing agreements expiring and the new agreements not starting until late 2023.

The Group's financial development

Net sales and result development by operation

SEGMENTS

Net sales, EUR million	1-3/2023	1-3/2022	1-12/2022
VR Long distance traffic	92.0	61.9	352.4
VR City traffic	118.5	47.8	358.5
VR Transpoint	89.2	90.6	386.2
Other and eliminations	3.2	1.9	10.0
VR group in total	302.9	202.1	1,107.0
Comparable EBITDA, EUR million	1-3/2023	1-3/2022	1-12/2022
VR Long distance traffic	27.8	6.2	111.1
VR City traffic	7.8	-0.8	17.7
VR Transpoint	7.0	6.4	42.0
Other and eliminations	3.3	-1.2	-1.6
VR group in total	45.9	10.7	169.2
Comparable operating result, EUR million	1-3/2023	1-3/2022	1-12/2022
VR Long distance traffic	12.3	-9.2	46.5
VR City traffic	-7.9	-6.8	-26.2
VR Transpoint	-4.3	-4.4	-3.0
Other and eliminations	-0.3	-4.5	-11.4
VR group in total	-0.2	-24.9	6.0
Operating result, EUR million	1-3/2023	1-3/2022	1-12/2022
VR Long distance traffic	15.3	-9.2	3.6
VR City traffic	-7.9	-6.8	-42.1
VR Transpoint	-4.3	-4.4	-5.9
Other and eliminations	-0.3	-4.5	-14.1
VR group in total	2.8	-24.9	-58.4



January–March 2023 (Q1)

VR's net sales increased by 49.9% compared to July–September 2022 and amounted to 302.9 (202.1) million. The growth in net sales was supported especially by the good development in the number of long-distance journeys, price increases and changes in operating models, as well as VR's expansion into Sweden as a result of its acquisition. The Group's comparable net sales, excluding the impact of the acquisition in Sweden, increased by 14.9% to EUR 232.3 million. Turnover was negatively affected by the discontinuation of Eastern traffic and by industrial action.

The net sales of VR Long-distance Traffic increased by 48.8% in Q1, as the pandemic significantly affected the number of journeys in the corresponding period the year before. During the review period, VR transported 3.4 (2.2) million passengers in long-distance traffic, and the turnover of VR Long-distance Traffic was EUR 92.0 (61.9) million.

The net sales of VR City Traffic increased year-on-year due to the acquisition in Sweden and amounted to EUR 118.5 (47.8) million.

VR Transpoint's net sales decreased by -1.6% year-on-year due to the discontinuation of Eastern traffic, which has had a significant impact on transport volumes and net sales. Part of the lost volume has been compensated for by growth in domestic demand and changes in pricing. VR Transpoint's first-quarter net sales were EUR 89.2 (90.6) million. The total volume of freight transported by rail and road was 7.0 (9.0) million tonnes, representing a year-on-year decrease of -22.3%.

VR's operating result (EBIT) for the first quarter of 2023 came to EUR 2.8 (-24.9) million, and the comparable operating result (EBIT) for the period was EUR -0.2 (-24.9) million. Comparability was affected by a valuation update related to the assets of our Eastern traffic.

The Group's balance sheet total at the end of March 2023 was EUR 2,270.9 (1,917.4) million, interest-bearing net debt amounted to EUR 391.5 (247.1) million and gearing was 32.1% (19.3%). In January–March 2023, cash flow from operating activities before investments and financing was EUR 31.2 (3.0) million, and cash flow from investing activities EUR -28.8 (-9.8) million.

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The Group's total investments in January–March 2023 amounted to EUR 36.6 (30.2) million.

Investments, EUR million	1-3/2023	1-3/2022	1-12/2022
Rolling stock	31.4	22.6	145.3
Transportation equipment (cars)	0.3	1.3	44.1
Real estate	0.9	4.1	11.4
ICT-investments	2.1	1.5	11.9
Other	2.0	0.7	7.1
VR group in total	36.6	30.2	219.8

Average number of employees	1-3/2023	1-3/2022	1-12/2022
VR Long distance traffic	1,583	1,491	1,575
VR City traffic	4,125	1,916	4,060
VR Transpoint	1,835	1,939	1,923
Other	316	278	264
VR group in total	7,858	5,623	7,821

Reporting of the number of personnel has been updated so that the average number of personnel is the average number of personnel of the last month of the reporting period and not the average number of personnel of the entire reporting period as before.

VR Long distance traffic	1-3/2023	1-3/2022	1-12/2022
Net sales, M€	92.0	61.9	352.4
Comparable (EBITDA), M€	27.8	6.2	111.1
<i>% of net sales</i>	30.2	10.0	31.5
Comparable operating result (EBIT), M€	12.3	-9.2	46.5
<i>% of net sales</i>	13.4	-14.9	13.2
Operating result (EBIT), M€	15.3	-9.2	3.6
<i>% of net sales</i>	16.7	-14.9	1.0
Capital employed at end of the period, M€	745.1	815.6	736.1
Comparable return on capital employed, (ROCE) %	6.6	-4.5	6.1
Investments, M€	20.5	10.4	42.8
Number of employees	1,583	1,491	1,575
Long distance journeys (million)	3.4	2.2	13.2
Punctuality	85.9	88.8	82.6

VR City traffic	1-3/2023	1-3/2022	1-12/2022
Net sales, M€	118.5	47.8	358.5
Comparable (EBITDA), M€	7.8	-0.8	17.7
% of net sales	6.6	-1.6	4.9
Comparable operating result (EBIT), M€	-7.9	-6.8	-26.2
% of net sales	-6.7	-14.3	-7.3
Operating result (EBIT), M€	-7.9	-6.8	-42.1
% of net sales	-6.7	-14.3	-11.7
Capital employed at end of the period, M€	428.6	220.0	300.8
Comparable return on capital employed, (ROCE) %	-7.4	-10.0	-7.8
Investments, M€	2.2	2.1	95.7
Number of employees	4,125	1,916	4,060

VR Transpoint	1-3/2023	1-3/2022	1-12/2022
Net sales, M€	89.2	90.6	386.2
Comparable (EBITDA), M€	7.0	6.4	42.0
% of net sales	7.9	7.1	10.9
Comparable operating result (EBIT), M€	-4.3	-4.4	-3.0
% of net sales	-4.8	-4.8	-0.8
Operating result (EBIT), M€	-4.3	-4.4	-5.9
% of net sales	-4.8	-4.8	-1.5
Capital employed at end of the period, M€	502.6	461.9	494.0
Comparable return on capital employed, (ROCE) %	-3.4	-3.8	-0.6
Investments, M€	10.5	12.7	27.2
Number of employees	1,835	1,939	1,923
Total transport volumes, million tonnes	7.0	9.0	42.7
railway transports	5.9	7.8	29.7
road transports	1.1	1.3	4.7

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME - unaudited

EUR million	1-3/2023	1-3/2022	1-12/2022
Net sales	302.9	202.1	1,107.0
Other operating income	12.3	10.3	58.6
Materials and services	-91.0	-74.4	-385.6
Production for own use	12.8	17.5	64.1
Personnel expenses	-129.5	-98.1	-470.5
Depreciation and amortisation	-46.1	-35.6	-207.4
Other operating expenses	-58.5	-46.9	-224.7
Operating result (EBIT)	2.8	-24.9	-58.4
Net financial items	-2.8	6.7	11.9
Share of result of associated companies	0.0	0.0	0.1
Profit before tax	-0.1	-18.2	-46.4
Income taxes	0.7	3.3	-1.0
Profit for the period	0.6	-14.9	-47.4
Attributable to			
Equity holders of the parent	0.6	-14.9	-47.4
Non-controlling interests	0.0	0.0	0.0

OTHER COMPREHENSIVE INCOME - unaudited

EUR million	1-3/2023	1-3/2022	1-12/2022
Net profit for the period	0.6	-14.9	-47.4
Items that may be reclassified subsequently to profit or loss			
Currency translation differences	-0.3	1.1	0.3
Cash flow hedges	-31.1	19.0	37.1
Taxes on items that may be reclassified subsequently to profit or loss	8.0	-3.8	-7.4
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	1.9	1.6	62.6
Financial assets at fair value through other comprehensive income	-4.7	-5.0	-13.8
Taxes on items that will not be reclassified subsequently to profit or loss	-0.4	0.7	-24.3
Total other comprehensive income for the period net of taxes	-26.6	13.6	54.4
Total comprehensive income for the period	-26.0	-1.3	7.0
Total comprehensive income for the period attributable to			
Equity holders of the parent company	-26.0	-1.3	7.0
Non-controlling interests	0.0	0.0	0.0

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION unaudited

EUR million	31.3.2023	31.3.2022	31.12.2022
ASSETS			
Non-current assets			
Intangible assets	54.3	37.8	59.1
Goodwill	10.8	7.5	10.9
Property, plant and equipment	1,308.6	1,205.7	1,302.5
Right-of-use assets	287.6	276.9	299.0
Investment properties	11.9	12.9	12.1
Investments	15.7	29.3	20.5
Other receivables	143.0	82.9	143.7
Non-current assets, total	1,831.9	1,653.1	1,847.6
Current assets			
Inventories	80.9	76.7	75.1
Accounts receivable and other receivables	100.9	85.8	117.0
Prepaid expenses and accrued income	42.9	48.6	51.1
Other financial assets			50.0
Cash and cash equivalents	214.4	53.2	224.4
Current assets, total	439.0	264.3	516.5
Assets, total	2,270.9	1,917.4	2,365.3
EUR million			
EQUITY AND LIABILITIES			
Equity			
Equity attributable to holders of the parent company, total	1,220.2	1,277.8	1,246.2
Non-controlling interest	0.0	0.0	0.0
Equity, total	1,220.2	1,277.8	1,246.2
Non-current liabilities			
Provisions	78.8	47.6	78.2
Financial liabilities	325.3	29.1	325.1
Lease liabilities	232.9	243.3	243.6
Accounts payable and other liabilities	6.7	21.9	3.4
Deferred tax liabilities	109.1	82.6	117.4
Non-current liabilities, total	752.8	424.4	767.7
Current liabilities			
Lease liabilities	44.8	24.0	44.7
Advances received	23.0	13.5	18.3
Accounts payable and other liabilities	73.0	57.1	94.6
Accrued expenses and prepaid income	151.6	116.6	190.1
Current liabilities, total	298.0	215.1	351.4
Liabilities, total	1,050.7	639.5	1,119.1
Equity and liabilities, total	2,270.9	1,917.4	2,365.3

CONSOLIDATED STATEMENT OF CASH FLOWS - unaudited

EUR million	1-3/2023	1-3/2022	1-12/2022
Cash flow from operating activities			
Profit before taxes	-0.1	-18.2	-46.4
Depreciation and amortisation	46.1	35.6	207.4
Profit and loss from sale of tangible and Intangible assets and other adjustments	-0.1	-6.0	-2.9
Cash flow from operating activities before change in working capital	46.0	11.3	158.0
Change in working capital	-18.1	-5.3	15.5
Net financial expenses	0.2	-2.2	0.5
Income taxes paid	3.2	-0.8	5.9
Cash flow from operating activities (A), total	31.2	3.0	179.9
Cash flow from investing activities			
Tangible and intangible assets purchases	-78.9	-30.2	-167.2
Tangible and intangible assets sales	0.3	0.4	16.9
Shares and holdings acquired			-69.7
Shares and holdings sold			0.0
Change in investment receivables	49.7	19.9	-21.2
Cash flow from investing activities (B), total	-28.8	-9.8	-241.3
Cash flow before financing (A)+(B)	2.4	-6.8	-61.4
Cash flow from financing activities			
Dividends paid and returns of capital to owners of parent company			-40.0
Change in bond liability			298.5
Change in non-current liabilities	0.2	0.1	-3.1
Repayments of lease liabilities	-9.6	-5.6	-34.1
Change in current interest-bearing liabilities		-0.4	-1.4
Cash flow from financing activities (C), total	-9.4	-5.8	219.9
Change in cash flows (A)+(B)+(C)	-7.0	-12.6	158.6
Cash and cash equivalents 1 Jan.	224.4	65.8	65.8
Cash and cash equivalents 31 Mar.	217.4	53.2	224.4