ANNUAL REPORT 2003

FINNISH
RAIL
ADMINISTRATION

Finnish Rail Administration Annual Report 2003

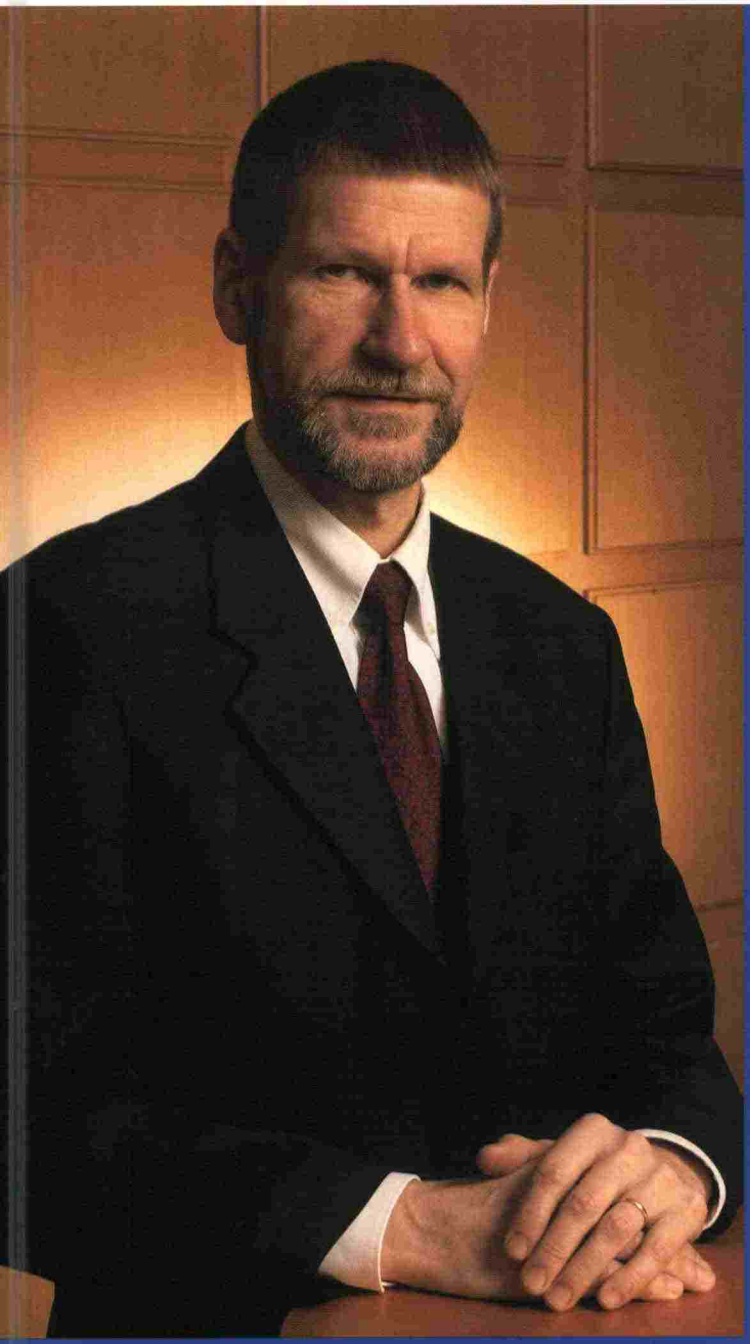
CONTENTS

Mission

The Finnish Rail Administration (RHK) works to improve the operating conditions of rail traffic as an efficient, safe and environmentally friendly part of the domestic and international traffic 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 public transport needs.
- RHK operates in accordance with the principles of sustainable development.
- RHK works actively to influence issues that affect Finland's traffic policy and infrastructure.

Director General's Review



The most significant track renewal project in recent decades, on the Helsinki-Tampere line section, was brought to completion last summer without special fanfare. This project, which lasted over ten years, made it possible to start high-speed services south of Tampere and shortened travel times to other parts of the country as well.

The time required by the project tells its own tale about the environment in which track renewal must be conducted. At a cost of nearly €500 million there was no way to speed up the timetable without disturbing traffic excessively.

When the condition of this line section reached an alarming state in the late 1980s, replacement investments had to be started immediately. The decision to raise the maximum speed to 200 km/h was also a sensible solution. Combining this with track renewal made it possible to carry out work in the most economic way and with the minimum disturbance to traffic. This model should be put to good use in the future as well.

The outlook for the present rail network unfortunately does not warrant such positive comments. Sufficient funds do not appear to be forthcoming to repair old and in some cases outdated line sections, much less raise their operational service level. This being the case the Finnish Rail Administration must look further ahead and consider where development may lead. The alternatives are to lower the level of the rail network or to allow the network to shrink. Both of these are poor options for passengers and industry.

A job satisfaction survey which was conducted at the beginning of 2004 indicated a slight improvement compared with the previous survey. Management interpreted the results to mean that further efforts should be made to improve the working environment.

The most important development objective is to place RHK's operational system in use as soon as possible. During the year this work took concrete shape and confidence in its benefits has grown as work has proceeded. We have come to understand that we are doing this development work for our own good. The job is not yet finished, however. All of us still have plenty to do in the coming year.

One example of positive development is ticket inspections. A job which requires imposing penalties on unticketed passengers cannot be easy. It is essential for the working environment to support personnel as much as possible. Development in this respect has been encouraging.

In personnel matters the most important objective last year was to shift to the state's new pay system by 2004. Matters related to pay are never simple and changing the entire system is a major task. Work has proceeded briskly, however, and I believe that we will stick to the timetable. The next challenge is to get the new system to work as planned so that it provides incentives to every employee.

Last year was also challenging because of changes in the rail sector. EU directives had to be transposed into Finnish legislation. This required RHK to take direct measures and to prepare for longer-term changes. The new legislation implemented the EU's first rail package.

The preparation of European interoperability specifications continued at a rapid pace and kept RHK's personnel busy. The present stage is especially important for Finland since standards are being prepared for the conventional rail network and rolling stock. In practice these standards will apply to our entire rail network and all the trains in it.

Meanwhile progress has been made in Brussels on the second rail package and preparations for this package have begun under the direction of the Ministry of Transport and Communications. Its effects on the rail sector will be even greater than those of the first package, since organizational structures will also have to be changed.

Even this short review shows how RHK's work and operating environment are constantly changing. This places great demands on personnel, who in my opinion have done extremely well under the pressure of growing tasks. In addition to personnel I would like to thank RHK's cooperation partners for the achievements of the past year.

Ossi Niemimuukko



Operating Environment

Infrastructure management based on traffic needs

RHK's task is to create the proper conditions for efficient rail traffic. The point of departure in maintaining and developing the rail network is the transport needs of domestic and international customers. Changes in the operating environment and traffic must be taken into consideration in infrastructure management.

A number of changes took place in rail passenger services last year. The maximum speed on the Helsinki–Tampere line section was raised to 200 km/h, which shortened travel times on many key connections. Pendolino services were expanded to Oulu and from Jyväskylä to Kuopio the year before. In this connection the operator also revised long-distance timetables, making them more regular, reducing times between connecting services and adding new services.

Long-distance journeys on the rise

The number of journeys in long-distance traffic rose by 2% in 2003. After declining for several years the figure reached the same level as in 1998. There was a slight decline in traffic between Finland and Russia last year, with journeys falling by 4%.

The number of passengers rose most on the main line between Helsinki and Tampere. Growth was also recorded on many other line sections in southern and western Finland. Traffic in eastern Finland remained practically unchanged. Traffic in northern Finland declined as a result of cheap flights offered by new airlines.

The next significant improvement in long-distance services will come in 2006 when the direct line between Kerava and Lahti will open. This will make it possible to speed up rail services between Helsinki and eastern Finland and to increase services between Helsinki and Tampere. Long-distance journeys are expected to grow in the coming years as well.

Commuter traffic in the Helsinki region still growing

The number of passengers on commuter services rose by 4% in the Helsinki region but fell by 1% in other parts of the country. Growth in the Helsinki region has been influenced by the intensification of housing along lines as well as new urban lines.

The Helsinki–Leppävaara urban line was in operation for the first full year in 2003. The number of services between Helsinki and Leppävaara nearly doubled when the urban line opened in summer 2002.

Work is now under way on the Tikkurila–Kerava urban line. This line will be completed in 2004, after which train intervals will be shortened and the level of service at stations will improve.

Increase in total journeys

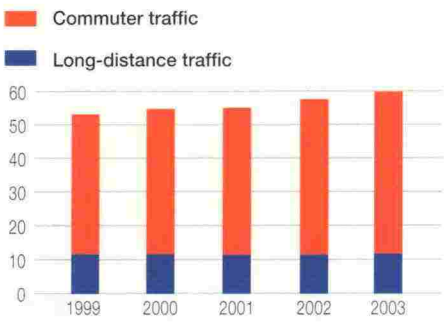
Passenger traffic totalled 59.9 million journeys in 2003. This included 48.0 million in commuter traffic and 11.9 million in long-distance traffic. Traffic between Finland and Russia totalled 256,000 journeys. Passenger traffic rose by 4% compared with the year before.

Railways account for about 5% of passenger traffic in Finland. The average market share in the EU is 6%.

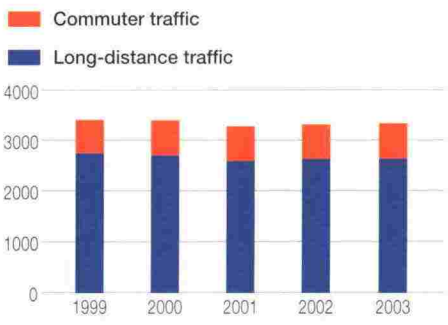
Freight traffic sets new record

The competitiveness of rail freight was improved last year by expanding the 25 tonne axle weight network. Heavy freight traffic was expanded to ore transport between Mäntyluoto and Harjavalta in early 2003. The 25 tonne axle weight was

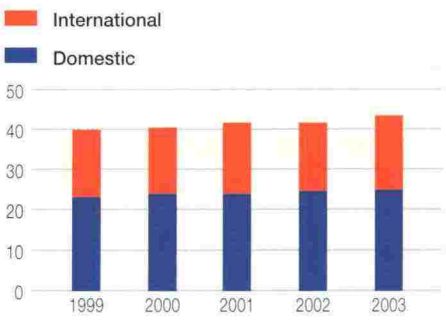
Passenger journeys, million



Passenger-km, million



Freight volume, million tonnes



introduced between Kirkniemi and Hanko the year before. Raising axle weights will improve transport efficiency and reduce the burden on the environment, since the same amount of freight can be transported with fewer wagons and shorter trains.

The volume of rail freight reached a record 43.5 million tonnes in 2003, up 1.8 million tonnes or 4% over the year before. This was the same as the record level in 2002. Domestic freight traffic rose by 1% and international freight traffic by 9%. Traffic between Finland and Russia grew 14% and western traffic 7%, while transit traffic fell by 8%.

With regard to product groups, traffic for the chemical industry rose by 11%, traffic for the metal and engineering industry by 5% and traffic for the forest industry by 2%. With the larger volume of traffic for the chemical industry, transports of hazardous substances increased by one-fourth. The largest growth in traffic was recorded on the line sections between Sköldvik and Vainikkala.

Railways' share of freight traffic in Finland is high by European standards. With a market share of about 26% Finland ranks among the top EU countries. The average in the EU is only 14%.

Changes in administrative operating environment

The organizational structures of Finland's transport administration and railways are being reevaluated. A working group appointed by the Ministry of Transport and Communications has studied the development of administration in the transport sector, while another working group has assessed development needs in the rail administration. Both of these will submit their reports in May 2004.

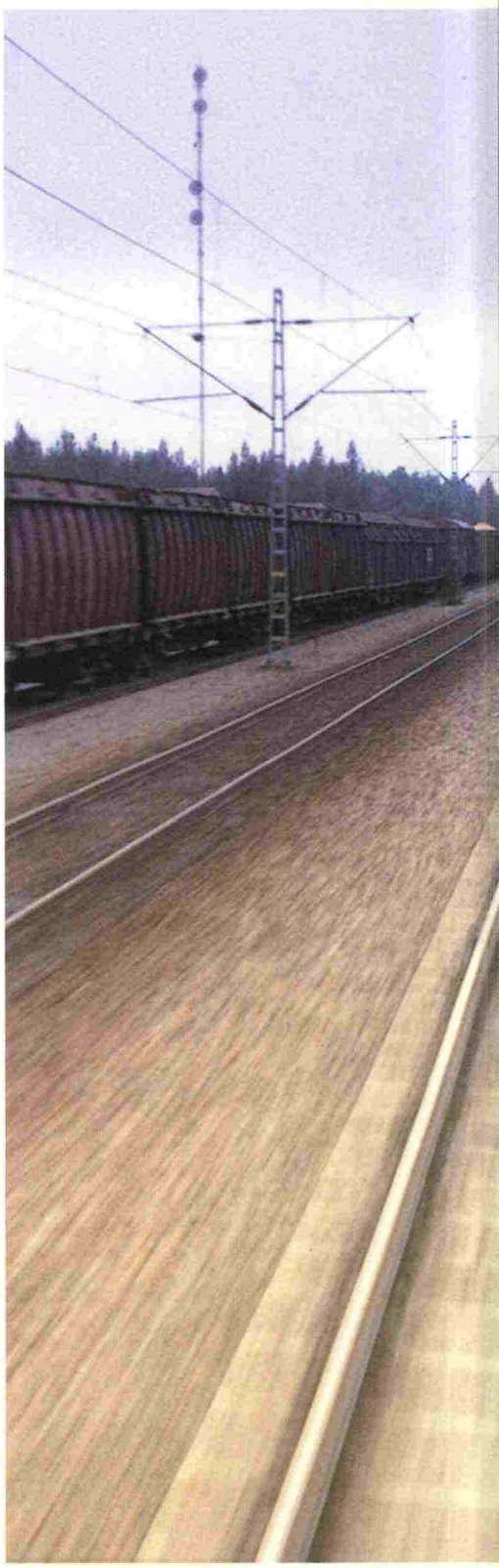
RHK's structures need to be reformed because a new EU directive requires the establishment of an independent safety authority. We must also be prepared for the opening of the rail network to new operators.

Consideration is also being given to the development of administration and tasks in the transport sector as a whole as well as ways to support cooperation among agencies.

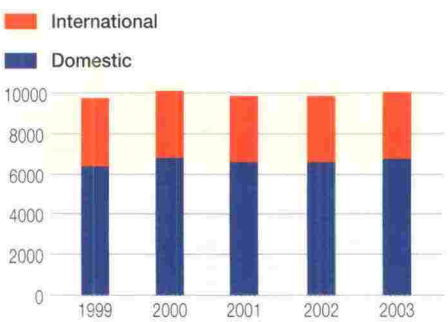
Rail market being monitored by the EU

The enlargement of the European Union and the gradual opening of rail traffic to competition underline the need for reliable and comparable statistics to monitor the rail market. A new EU regulation which came into force last year defines common rules for collecting statistics concerning the European rail market, such as the development of traffic.

At the EU level the development of the rail market is monitored by the Rail Market Monitoring Scheme (RMMS). The International Union of Railways (UIC) also plays a significant role in collecting statistics on rail traffic and rail networks in Europe.



Tonne-km, million

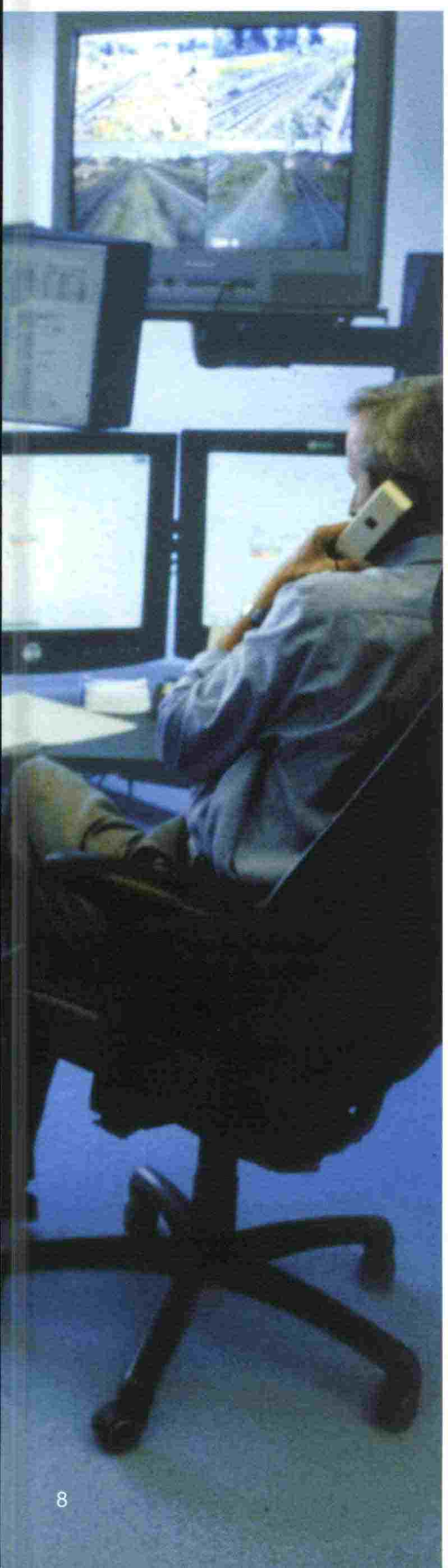


IN BRIEF

- Journeys rose by 2% in long-distance traffic and 4% in commuter traffic in the Helsinki region.
- The volume of rail freight reached a record 43.5 million tonnes.
- Reform of rail administration.
- Developing statistics on rail traffic.

Traffic and Safety

Attention focused on punctuality and safety



Punctuality is an important success factor for rail transport. It depends on the rail authority and operator and is also influenced by weather conditions.

Commuter traffic operated well in spite of its rapid tempo. Intervals between services are short and passenger volumes are large. Long-distance traffic is more sensitive to disturbances. The punctuality index was 98.2% in commuter traffic and 88.6% in long-distance traffic.

Line damage caused by frost disturbed traffic in the spring and thunder storms caused malfunctions in safety equipment in July. Track work, which takes place on lines that are kept open to traffic, went quite well and caused significantly fewer traffic disturbances than in 2002.

Traffic control for northern Finland moved into new facilities in Oulu. It also shifted to a new remote control system which covers the entire region.

Passenger information improved

Passenger information and platform safety have been improved by a new system which warns people of passing trains and displays timetables for arriving trains. The system went into operation between Kerava and Tampere last spring when the maximum speed on the line was raised to 200 km/h.

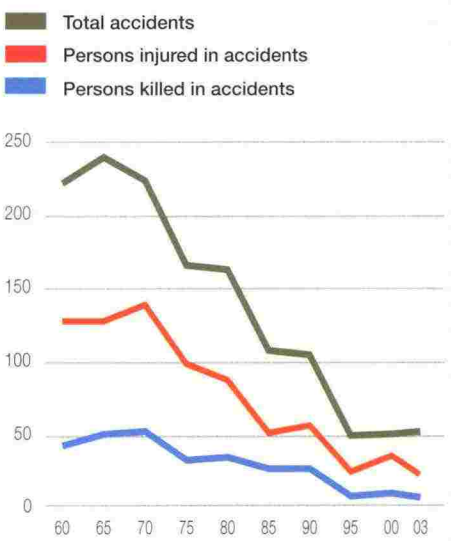
The public address system at the Helsinki railway station was renewed and according to feedback the sound quality inside the building has clearly improved. The public address systems at small stations around the country have also been inspected and are being repaired and upgraded.

Greatest risk at level crossings

In accordance with the safety objective no casualties occurred in passenger traffic. Three derailings took place as a result of track failure. The worst accident in passenger traffic occurred in Karjaa after a long switch malfunctioned. The switch was inadequately repaired and the first four cars of a Pendolino train derailed at low speed. No one was injured but material damage was large.

Last year 53 accidents took place at level crossings. As a result 6 people died and 23 were injured. Accidents in the state rail network totalled 39, while the objective was no more than 30. The number of accidents at level crossings increased by 11 in 2003 but was substantially lower than the figure in 2001 (60). A special feature of accidents at level crossings last year is that seven such accidents occurred in spite of functioning warning equipment.

Development of accidents at level crossings 1960-2003



Technology and regulations

Rail safety has been promoted by increasing automatic train protection. Mistakes made by personnel in safety tasks lead less and less often to accidents. On the other hand additional technology requires more maintenance and increases costs.

A new inspection data system was completed. The system includes all the rolling stock in the state rail network. It makes it possible to monitor the validity of inspections and traffic-worthiness.

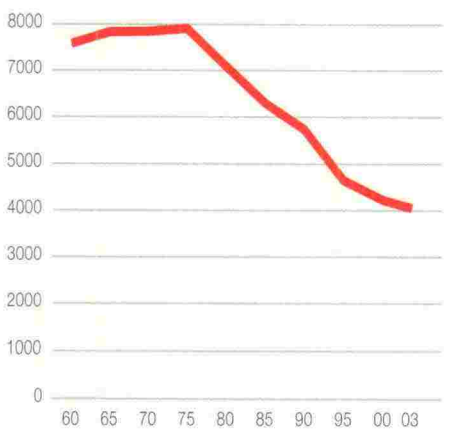
Rail safety regulations have been developed significantly. The updating of regulations has expanded into a total reform which should be ready in spring 2004. New communications guidelines will come into force at the same time.

A new Act containing qualifications for personnel in rail safety tasks has been prepared under the direction of the Ministry of Transport and Communications. This Act will come into force in the latter part of 2004. New health requirements for personnel which were prepared last year by RHK will come into force at the same time.

Improving safety at level crossings

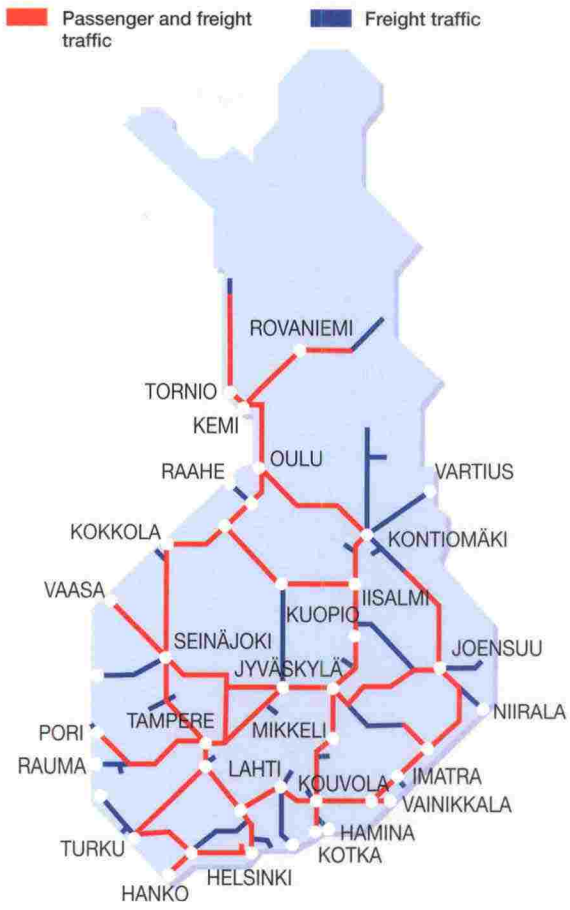
RHK continued activities to improve safety at level crossings which began in 2000. Nearly 500 level crossings were inventoried by the Technical Research Centre of Finland. This brought the total to about 2,000 or nearly half of all level crossings

Number of level crossings on state-owned lines 1960-2003



Rail traffic network

31.12.2003



Safety equipment systems

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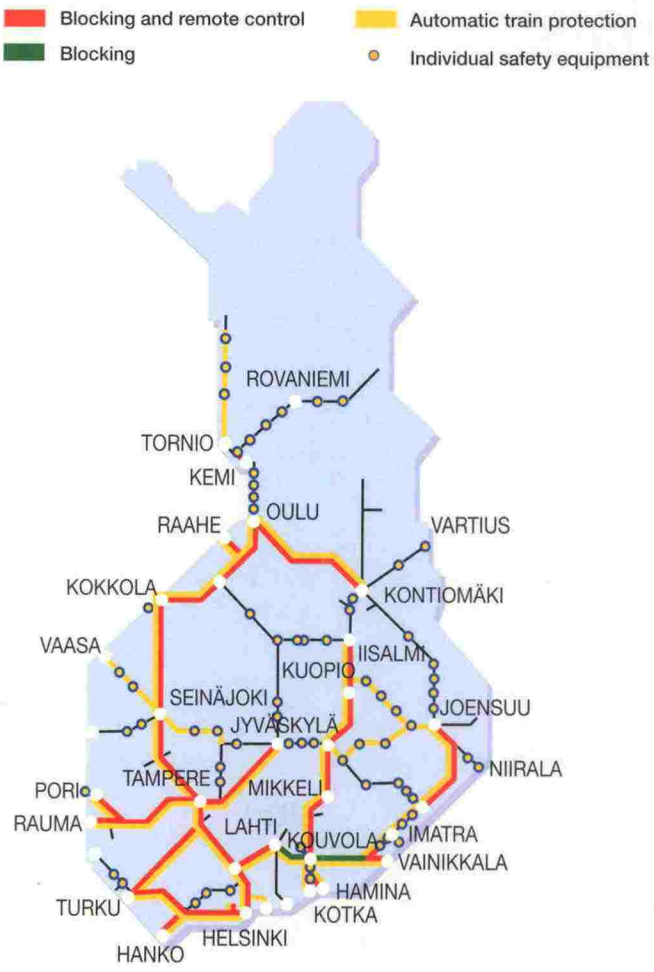


in the state rail network. Information concerning level crossings is posted at www.tasoristeys.fi for anyone to see.

Last year 67 level crossings were eliminated. Safety equipment was also developed for unguarded level crossings. A new type of gate with a top bar which also warns motorists of overhead wires was installed at 12 level crossings.

Finland's first full barriers were constructed at Mellilä, between Turku and Toijala. Full barriers close a level crossing completely and are substantially safer than half barriers. The full barriers required a special timing solution. The entire level crossing was upgraded in the same process. Fences were built to improve safety and lines of sight.

A self-closing gate which does not require an outside power source was also built last year. Results with the test model were encouraging. According to international experience, gates which must be opened by motorists are a good solution at level crossings where traffic is light. Failure to close the gate has been a problem, but now this can be resolved quite economically.

The level crossing campaign focused on the Seinäjoki area last year. The purpose of this safety education campaign is to inform people of the risks presented by level crossings. RHK participated in this joint project along with the Ministry of Transport and Communications, the police, VR, the Finnish Road Administration and the Central Organization for Traffic Safety in Finland.

Increasing challenges

EU directives on rail safety are being drafted and these will place new requirements on safety activities. The increase in the number of contractors is quite challenging. New operators will also bring additional challenges in the future.

RHK is represented in all major EU bodies which deal with rail safety. Active participation will ensure that rail safety in Finland remains at the highest EU level.

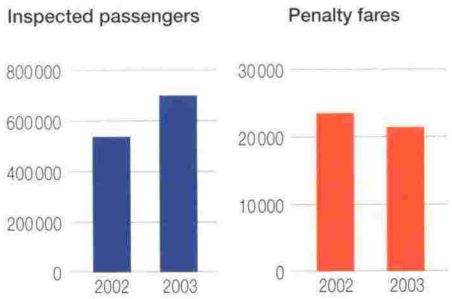
Ticket inspections stepped up

RHK inspects passengers' tickets throughout the rail network. A special focus is commuter traffic in the Helsinki region. The goal of ticket inspections is to keep the number of unticketed passengers as low as possible and thereby increase revenues and keep ticket prices down.

In 2003 RHK employed 31 ticket inspectors plus 6 office staff. A total of 606,000 passengers were inspected in commuter traffic and 105,000 in long-distance traffic. This was an increase of 91,000 passengers in commuter traffic and 15,000 in long-distance traffic compared with the year before. The portion of unticketed passengers was reduced to 3.5% in 2003, compared with 4.6% in 2002. Inspectors issued 21,000 penalty fares and 87% of these were collected.

RHK began cooperation with other ticket inspection organizations in the Helsinki region in order to improve effectiveness through joint campaigns and harmonized procedures.

Ticket inspection



IN BRIEF

- New information system between Kerava and Tampere.
- Ticket inspections were stepped up.
- Safety was improved at level crossings.
- Rail safety regulations were developed.



Environmental Matters

Environmental matters an integral part of activities

RHK together with the Helsinki Metropolitan Area Council and local authorities started implementing a noise control programme for the entire region. The construction of new noise barriers along the main line to the north began in autumn 2003. Noise barriers were built in four areas along the Kerava urban line. Plans call for the construction of about 2.7 km of noise barriers.

RHK has also participated in a national project aimed at preparing a noise strategy for Finland up to 2020.

Impact analyses for new lines

Analyses of the impact of the new railway line for the Vuosaari Harbour on plants and birds were completed according to the agreed monitoring programme. Environmental studies will continue up to 2011.

Both the new railway line for the Vuosaari Harbour and the direct line from Kerava to Lahti require analyses of the impact of projects on birds, groundwater and plants during construction and use. Reports concerning the impact on birds and flying squirrels were supplemented in 2003. Extensive analyses concerning the impact of the proposed airport line were also completed in connection with master planning.

Research and development projects

RHK participated in a study which was arranged by the Ministry of Transport and Communications to investigate costs involved in reducing the environmental impact of transport projects. Selected projects were reviewed to determine the stages in which environmental costs arise and their share of total costs. The environmental costs of the Leppävaara urban line, for example, amounted to 5% of the project's total costs.

Another research project financed mainly by the Ministry of Transport and Communications began in 2003 with the goal of clarifying problems related to the EU nature directives in planning work and to prepare guidelines concerning the conservation of flora and fauna in accordance with these directives in planning land use and projects.

The FIN-MIPS Transport project also got under way, with RHK in charge of the rail sector. The goal is to produce new information on the material flows and land use in different modes of transport.

RHK took part in two traffic vibration studies. One of these concerned the use of asphalt in line structures while the other concerned structural means to reduce vibration. RHK also participated in a project conducted by the Technical Research Centre of Finland to specify upper limits for traffic vibration and to develop evaluation and measuring methods in this area.

Soil and groundwater studies

In 2003 RHK assessed soil and groundwater contamination in connection with the leasing or transfer of a number of properties. The most challenging case involves cleaning up a creosote-contaminated site in Mikkeli. A study of this site began in November 2003.

The biggest project in southern Finland involved cleaning up a maintenance base in Tikkurila. The soil was contaminated by lead originating from a neighbouring battery plant. The project was carried out in cooperation with the City of Vantaa. Soil clean-ups were completed at the locomotive hall in Seinäjoki and an old fueling point in Pori.

New model for cooperation with local authorities

RHK and the City of Tampere conducted a pilot project aimed at evaluating key environmental problems along railways. The project developed a model for cooperation between RHK and local authorities in environmental matters. It included surveys of noise, vibration, contaminated soil and clean-up needs, land use and planning, and visual appearance. A similar project was also started in the Lahti region.

RHK receives Bridge of the Year award

The renewal of the Helsinki-Tampere line section included straightening the line in Lempäälä. The Association of Finnish Civil Engineers presented its Bridge of the Year award to RHK for the bridges and noise barriers which were constructed in this project, citing their scenic and environmental merits.

Preparations for environmental audit

RHK prepared for the audit of environmental systems in the Ministry of Transport and Communications' administrative sector by revising its environmental strategy and programme. RHK's first environmental audit will be conducted in 2004.

IN BRIEF

- Environmental problems studied in cooperation with local authorities.
- The noise control programme got under way in the Helsinki region.



Maintenance

Expansion of tendering for track maintenance work

Tendering is now being expanded to track maintenance. Specific jobs have been open to competition for years. In 2004 RHK will invite tenders for track maintenance in three areas in northern Finland. This will include permanent way, safety equipment, electrification and real estate.

New model

Tendering is also associated with a new regional management model. In spring 2003 JP-Terasto Oy was selected to manage the rail network in northern Finland on the basis of tenders. In June the company began preparing to invite tenders covering the maintenance of tracks, areas and real estate. It assumed full management responsibility on 1 January 2004. The job also includes assisting RHK's personnel in monitoring track maintenance.

A revision of the track maintenance agreement for 2004 was signed with VR-Track Ltd in late 2003. The agreement was revised so that it will end on 31 December 2006. The areas where tenders are being invited in northern Finland will be excluded from the agreement in July 2005, however. A new penalty model for defects in safety equipment and electrified lines which was developed in autumn was added to the agreement.

Support service for safety equipment

RHK signed the first support agreement with a supplier of safety equipment last year. In addition to providing technical support for the contractor, the goal of the agreement is to ensure the reliability, operability and maintainability of equipment supplied to the state rail network.

Study of life cycle costs

Last year RHK conducted a study concerning the life cycle costs of railway infrastructure. It dealt with the expected service life of structures, equipment and systems in the state rail network and life cycle costs during the next 40 years (2004–2043).

The study produced an estimate of the annual financial need for maintenance and replacement investments in the rail network. According to the study the present level of financing is not sufficient. Over the next ten years (2004–2013) the total financing requirement without development investments averages €331 million a year.

New inspection technology

RHK purchases mechanical track inspection services from VR-Track Ltd on a competitive basis. Last year a new track inspection wagon was officially approved, given correlation runs and put into production.

The track inspection wagon measures track geometry and overhead lines. The location of defects takes place with extreme precision using hinged cantilevers. The entire project has been challenging and had a tight timetable, but the result is excellent. In many respects solutions are on the cutting edge.

At the end of 2003 a new track inspection database was placed in trial use. In spring 2004 mechanical measurements will be made with the help of this database. The basic elements of the database, such as length measurements, switches on main lines, geometry reductions and overhead line information, will be in use at this time. Other elements, such as bridges, track geometry and level crossings, will be added to the database later on.

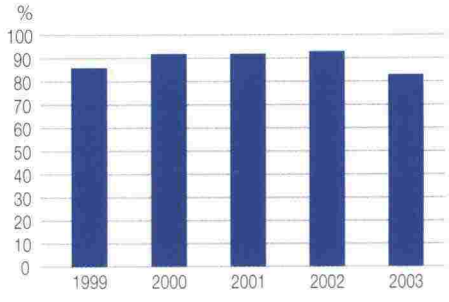
Weather offers difficult challenges

Extremely cold weather in early 2003, hot weather in the summer and a heavy snow storm in December put track maintenance personnel to the test. The hard winter caused plenty of frost damage in the spring. The rail network condition index fell short of the objective for 2000-2003, which was 92%. The actual figure was 90%. In the spring the result was only 83% as a result of frost conditions.

Lightning caused local disturbances in safety equipment but surge protectors have clearly helped reduce damage from lightning. Damage from storms in summer 2003 was minor. Hot weather, on the other hand, required extra inspections in the rail

Rail network condition index

Spring measurement (Geometric condition service level)



The condition index's maximum value is 100%, in which case the rail network has met geometric condition requirements completely.

network, and warping caused two freight trains to derail.

Rail traffic was completely disrupted by a heavy snow storm just before Christmas. The interruption in traffic was the worst in many years. In southern Finland 30–40 centimetres of snow fell during a 24-hour period and strong winds caused severe problems with switches.

IN BRIEF

- Track renewal being opened to competition.
- RHK conducted a study concerning the life cycle costs of railway infrastructure.
- The new track inspection wagon measures track geometry and overhead lines.
- The hard winter, hot summer and December snow storms put track maintenance to the test.

Track Renewal

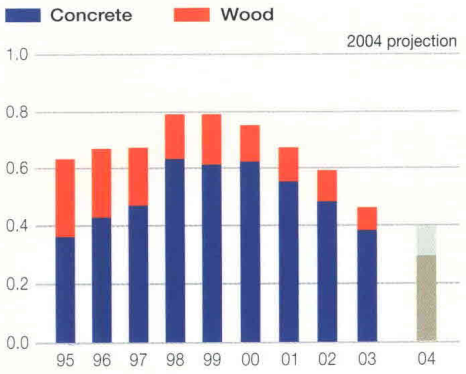
Outdated lines require sizable improvements

The 2003 budget included only €117 million for track renewal, but a €33 million supplementary budget in the summer improved the situation considerably. The €11 million supplementary budget which was approved in the autumn did not have much effect on track work during the year, however.

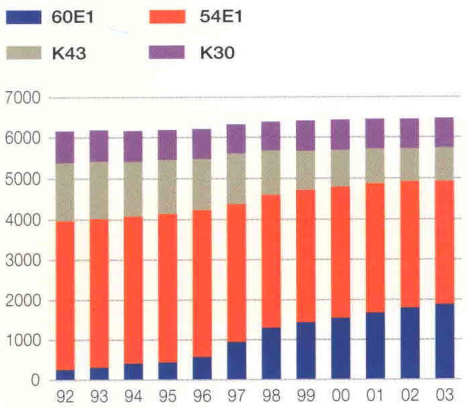
Around 380,000 wooden sleepers were replaced with concrete sleepers in different parts of the country. This corresponds to about 230 kilometres of track. Rails were replaced on 80 kilometres of track and over 90 new switches were installed. Ballast was cleaned on 35 kilometres of track.

Emphasis has systematically been placed on track renewal for several years so that lines can be upgraded to meet the needs of passenger and freight traffic. As a result the length of track under speed restrictions was reduced. At the end of the year there were speed restrictions on 308 kilometres of track. This was 37 kilometres less than the year before. The supplementary budgets received during the year made it possible to prevent an increase in restrictions.

Installed sleepers, million



Types of rail on main lines, track-km



Good planning helps keep traffic flowing

Most track renewal projects are performed on lines that are kept open to traffic. This requires the careful planning and scheduling of work in order to minimize traffic disruptions especially since over 90% of the rail network is single-track. The planning and monitoring of work can substantially influence traffic efficiency and punctuality.

In some cases interruptions in rail services have been arranged and normal rail traffic has been handled by other means. This has made it possible to complete work more quickly and efficiently. Such a procedure was followed on the Luumäki–Joensuu, Oulu–Rovaniemi, Kontiomäki–Oulu and Tampere–Jyväskylä line sections in 2003.

Renewal of superstructures

The most significant track renewal projects in 2001 were on the Seinäjoki–Oulu, Luumäki–Joensuu, Kouvola–Pieksämäki, Pyhäsalmi–Ylivieska and Rovaniemi–Misi line sections. Work focused mainly on the renewal of superstructures, i.e. sleepers, rails and ballast.

The finishing touches were added on the Helsinki–Tampere line section, including changes in the Hyvinkää yard. After the renewal of the Helsinki–Tampere line section, attention is shifting to the Seinäjoki–Oulu line section. Renewing superstructures on this single-track line section while keeping it open to traffic will be one of the most challenging tasks in the near future.

Yards being renewed and upgraded

The renewal of yards is an important part of improving the efficiency of the rail network. The most significant yard renewal project in 2003 was completed in Hyvinkää. Yards were also renewed in Lauritsala, Rauha, Inkeroinen, Kemi, Oulu and Rovaniemi. Four new passing tracks were also built. The ones in Muukko and Myllykangas went into operation last year while those in Torkkeli and Länkipohja will go into operation in 2004.

Increased efficiency through competition

Track work, like projects in process industry, must proceed according to the conditions set by production or in this case rail traffic. This work requires special equipment as well as expertise in track construction.

RHK invites tenders for over half of replacement and development investments.

Work involving special equipment and expertise has been ordered from VR-Track Ltd on the basis of an annual agreement. The goal, however, is to gradually increase competition among contractors in order to develop efficient markets so as to improve efficiency, raise productivity and make better use of funds, according to the performance objectives set for RHK by the Ministry of Transport and Communications.

In many projects RHK makes use of project management consultants. This operating model is now being applied in track renewal between Kouvola and Pieksämäki, line electrification and related track work in northern Finland, superstructure work between Tampere and Jyväskylä, the Kerava–Lahti direct line project, the construction of the Kerava urban line, the renewal of the Karelian line and some maintenance projects.

Development of procurement procedure

RHK has invited tenders for safety equipment and electrification work for many years. RHK also purchases key track materials such as rails, switches, and concrete and wooden sleepers on the basis of tenders. Special track work has been put out to tender mainly in the case of superstructure work and bridges.

Last year new procurement guidelines came into force and the drafting of model documents continued. Procurements have also been made more efficient by preparing a new track nomenclature and related specification guidelines.

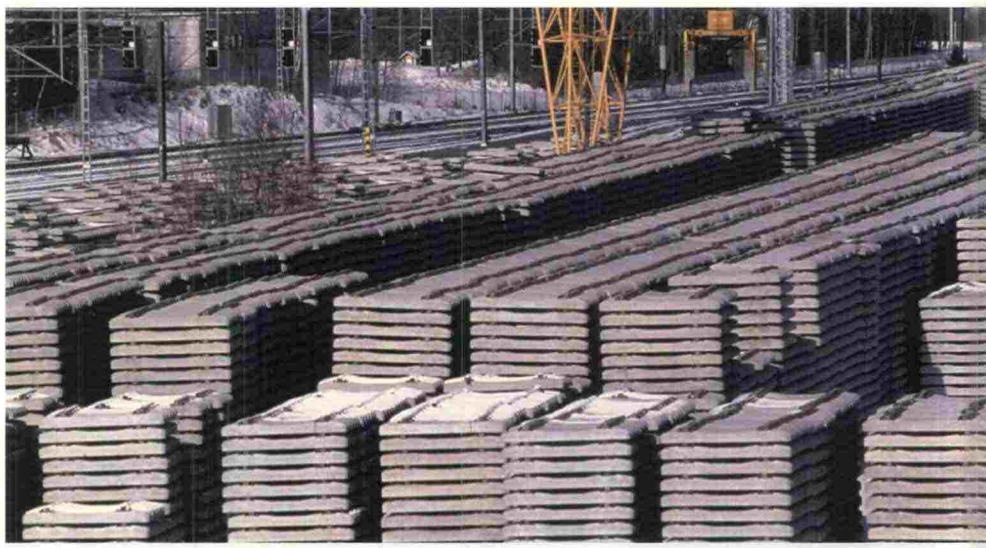
IN BRIEF

- Speed restrictions were reduced.
- Yards were renewed in different parts of the country.
- Over 380,000 wooden sleepers were replaced with concrete sleepers.
- New procurement guidelines in force.

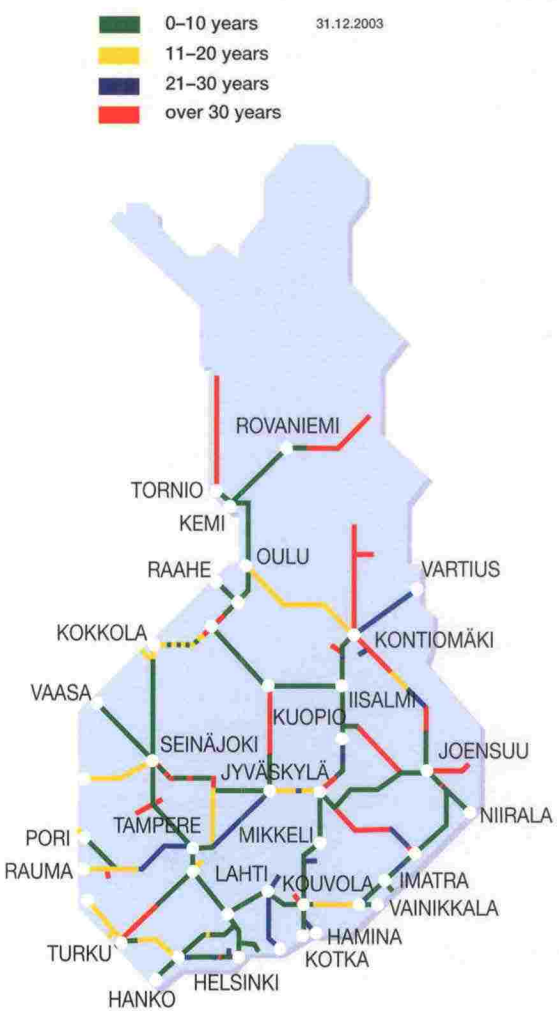
Investments in traffic control centres

A new traffic control centre was completed in Oulu during the year. This offers modern facilities for monitoring the rail network in connection with further electrification and remote control in northern Finland.

The biggest building repair projects focused on facilities which are important for traffic control and track maintenance. The maintenance centre was renewed in Kouvola and the Ilmala electrical centre and traffic control centre were renewed in Helsinki. Part of the architecturally valuable Pasila locomotive hall was leased after renewal.



Age of superstructure in the rail network



Development Projects

Development projects increase competition

Construction of the Kerava urban line and the direct line from Kerava to Lahti proceeded during the year. These projects together with further electrification are of key importance when it comes to improving the competitiveness and operating conditions of rail traffic. The pilot stage of a new line radio system based on the European GSM-R standard also began in 2003.

Kerava urban line nearing completion

New tracks for the Kerava urban line were completed on the Tikkurila–Rekola and Korso–Kerava sections last year. Pile driving and other work continued at stations and bridge sites. The urban line will go into operation in August 2004.

Once the urban line is ready, rail traffic can be increased. The line's two easternmost tracks will be reserved for commuter traffic. The urban line will allow services at 10-minute intervals in the best case.

The extension of the urban line to Kerava is a joint project conducted by RHK and the cities of Vantaa and Kerava which will also promote the development of land use along the line.

Good progress on direct line

Construction of the direct line from Kerava to Lahti continued at a good pace in 2003. Bridge building and earthmoving are under way all along the line, and contracts totalling over €220 million had been signed up to the end of 2003.

RHK has enlisted the assistance of a project management consultant who selects contractors on the basis of tenders. Contractors conclude agreements directly with RHK, however. The project is so large that it is being divided into sub-projects for which tenders are being invited according to EU regulations. Tendering and careful planning have resulted in cost savings and this will make it easier to stay within tight finances.

The construction of the direct line is quite a unique project. The last time such a direct line was built in Finland was in the 1970s, between Jämsänkoski and Jyväskylä.

The direct line from Kerava to Lahti will allow the development of passenger and freight services to eastern Finland and Russia. It will also free capacity on the main line from Helsinki to the north and allow the improvement of services on that line.

The direct line from Kerava to Lahti is intended for high-speed passenger traffic and freight traffic and will be double-track, electrified and equipped with automatic train protection. It will have no level crossings. The direct line will follow the same route as the Lahti motorway for the most part, thus limiting the impact on the environment. The direct line will have a total length of 74 km, including 63 km of new track. Construction is scheduled for completion in autumn 2006.

Further electrification in northern Finland

The focus of electrification is in northern Finland. Electrification proceeded according to plan on the Oulu–Rovaniemi line section and will be completed in late 2004. Work has also started on the Oulu–Kontiomäki–Vartius and Kontiomäki–Iisalmi line sections.

Further electrification of the rail network is socio-economically feasible and will improve preconditions for rail traffic. It is also a significant environmental investment.

In connection with electrification, other work is carried out, such as strengthening superstructures and improving yards.

Helsinki-Tampere line open to high-speed traffic

After successful test runs, high-speed traffic began on schedule between Helsinki and Tampere in June 2003. The line's geometry has been improved to allow a speed of 160 km/h with conventional rolling stock and 200 km/h with tilting-body trains. Freight traffic will also be made more efficient by increasing the maximum axle weight to 25 tonnes in the future.

The service level at the stations on the Helsinki–Tampere line has been upgraded by raising and covering platforms, improving passenger information and developing access arrangements.

Master plans for airport line and Espoo urban line

A master plan for the new airport line running between the Martinlaakso line and the main line to the north was completed at the end of 2003. The total cost of the project, including stations and overpasses, has been estimated at €297 million.

The airport line is one of the most important transport projects in the Helsinki region in the coming years. It also has national and international significance since it will provide a rail connection to the Helsinki airport.

A master plan for the Espoo urban line was also completed. This involves the extension of the Helsinki-Leppävaara urban line. The cost estimate for the project is €99 million.

Oritkari terminal promotes intermodal transport

Intermodal transport terminals serve as logistic centrals in freight traffic. The Oritkari terminal was completed in Oulu last year. RHK, the City of Oulu and VR Limited participated in this joint project. The terminal officially went into service in January 2004 and now a larger portion of truck traffic can take advantage of environmentally friendly rail transport over long distances.

New line radio system under construction

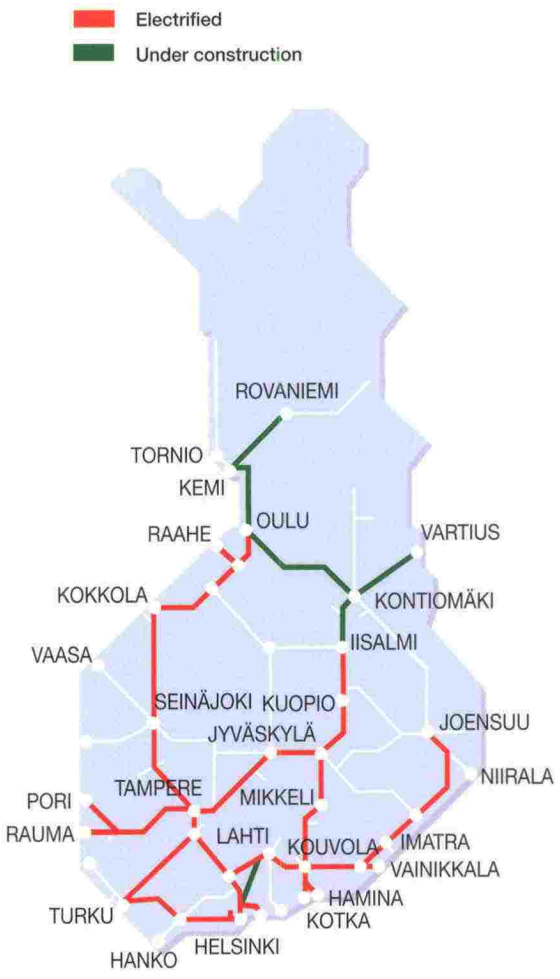
The construction of a new line radio system began last year. The GSM-R network will be used for communication between traffic controllers and train drivers and will ensure safe and efficient traffic. It will also serve people working on lines and in yards and will provide a communications platform in future data applications.

GSM-R technology will replace the old analog systems which are now in use with a comprehensive speech and data infrastructure. RHK has ordered the infrastructure for the GSM-R network from Siemens Oy. The biggest user will be VR. RHK has selected Corenet Oy to operate the GSM-R network.

The GSM-R network will be built in stages and the entire network will be ready by the end of 2006. The contract includes about 5,000 kilometres of tracks and yards. It also includes installation, support and maintenance services for a period of 15 years.

Electrification of the rail network

31.12.2003



IN BRIEF

- Helsinki-Tampere line opened to high-speed traffic.
- Electrification proceeded in northern Finland.
- Work proceeded on the Kerava urban line and Kerava-Lahti direct line.
- The construction of a GSM-R network began.

Research and Development

Future of rail transport requires extensive research

Research and development activities are an important part of RHK's expert tasks. Focuses in the near future revolve around improving the competitiveness of rail services, the condition and development of the rail network, the opening of the rail network to new operators, improving safety and developing a strong transport authority. These focuses include both national and international research.

Last year RHK participated in over a hundred research and development projects which it commissioned on its own or in which it was represented in the research management group along with other organizations. All of RHK's units participated in research projects.

R&D based on strategic lines

The focuses of research and development activities have been derived from strategic lines for infrastructure management. These are influenced by EU transport policy as well as the policies approved by the Ministry of Transport and Communications.

R&D mainly takes place in three types of projects. In key areas RHK commissions and finances its own studies, and reports are generally published in RHK's own publication series.

RHK also participates in joint studies and is for example represented in research management groups in projects which are commissioned and financed by other organizations. Outside research is also monitored through professional publications, the Internet, seminars and other forums.

Joint projects in the infrastructure field include the preparation of nomenclatures and quality requirements, the cost management system and the Nordic infrastructure market.

Broad technical research

Technical research in 2003 focused on the European Rail Traffic Management System and adapting it to Finnish conditions. Together with the corresponding authorities in Sweden and Norway RHK is developing an adaptor which will make it possible to use new automatic train protection equipment for European locomotives in the Finnish rail network.

Other significant areas of research involved expanding the 25 tonne (250 kN) axle weight network, strengthening embankments, reducing vibration and noise and developing diagnostics systems. Diagnostics will be used in the first stage to reduce disturbances in yard switches by improving preventive maintenance.

Last year RHK also began a project aimed at developing its infrastructure management system. This includes a report on necessary registers, ownership databases and control systems. RHK's real estate management system was expanded to cover the entire rail network in 2003.

Anticipating transport needs

Rail investments are long-term and needs must be anticipated decades in advance. Yards are reaching the point where they need to be renewed and improved. The vision and strategy for freight yards in 2025 outlines which yards are important for the transport system and should be improved. The strategy was prepared in cooperation with interested parties, who will submit statements in the first half of 2004. Once a general picture has been obtained we will begin to plan development measures.

Customer satisfaction studied

Anticipating the needs of customers is an important aspect of RHK's work. Freight customers' satisfaction and image of rail transport have been investigated in a number of national and regional surveys.

According to surveys customers are mostly quite satisfied with the rail network. The image of rail transport has improved and customers nowadays regard it more frequently as international, high-standard and safe.

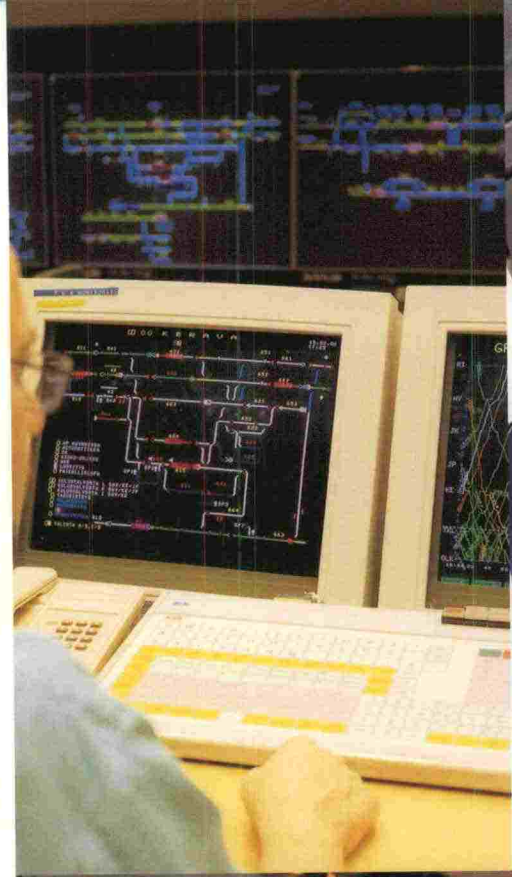
Preparing to open the rail market

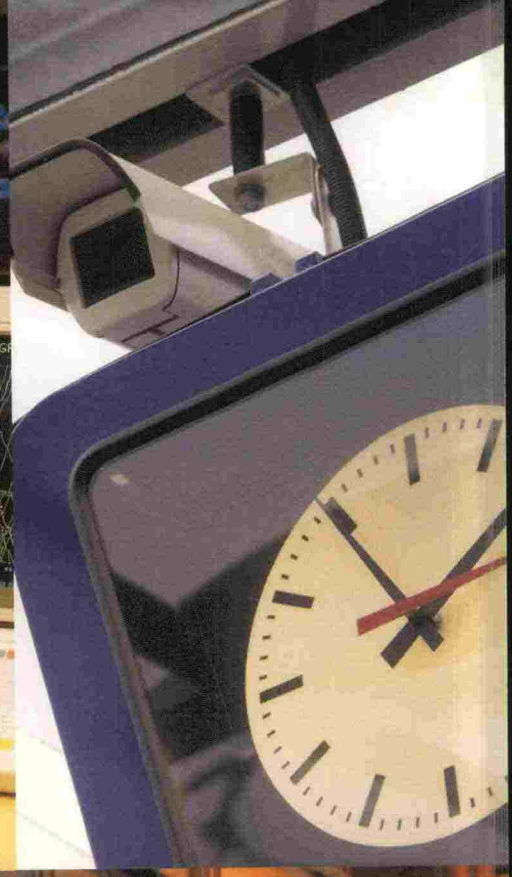
RHK is responsible for allocating Finland's rail capacity. This takes place in cooperation with the operator, since there is no competition. The market will be opened, however, and RHK must have the necessary expertise and information systems to take care of the job.

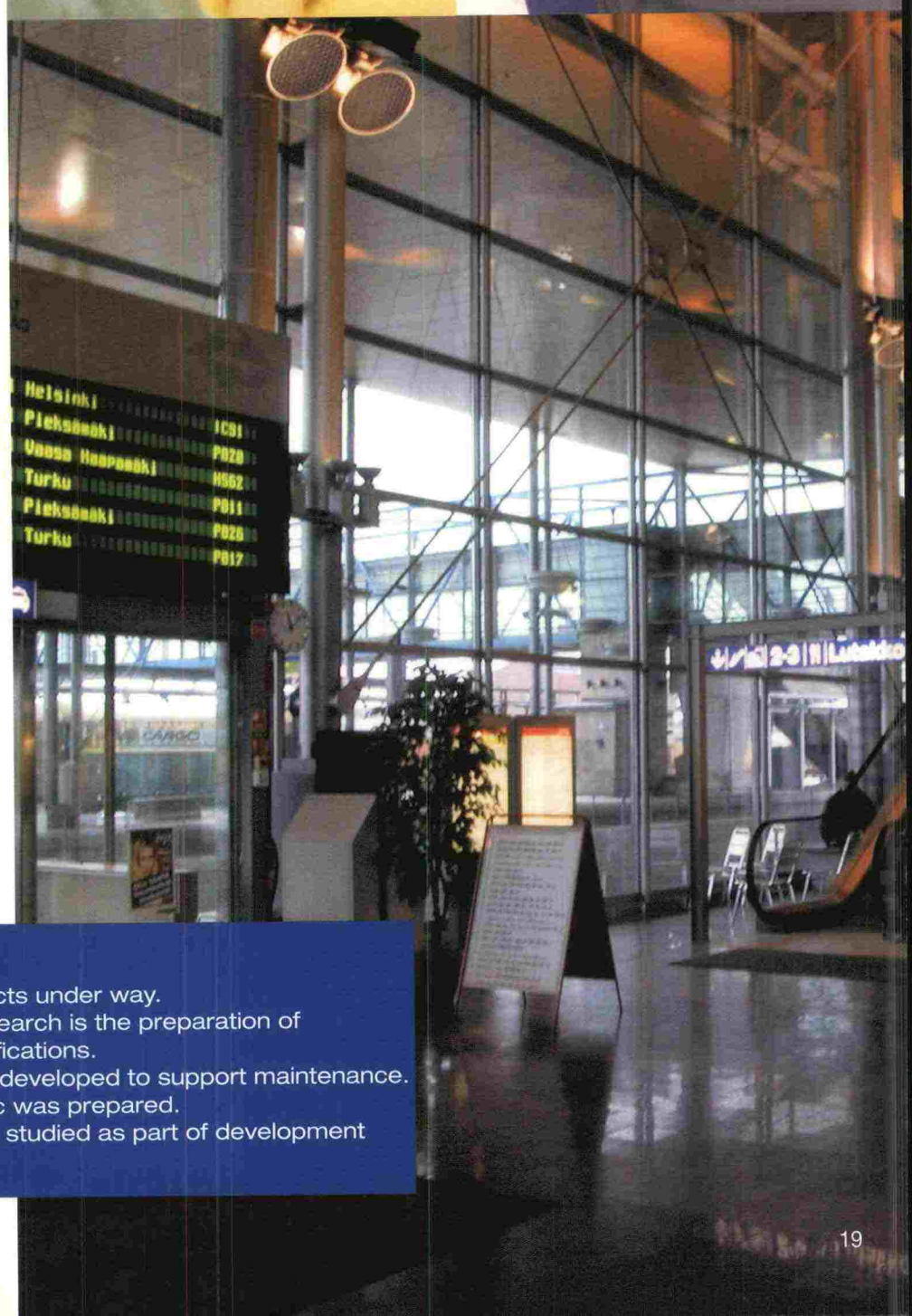
A special project concerns the division of labour between operators and RHK from the viewpoint of processes and information systems. Both sides continue to prepare for the opening of the market together and on their own.

Train monitoring system to aid controllers

A new train monitoring system has been developed to improve transport services and information for passengers. This will allow traffic controllers all over Finland to see how traffic is moving and developing in the rail network. They can anticipate measures in exceptional circumstances and offer passengers better information concerning such measures. The system is being implemented and will be in operation in the latter half of 2004.







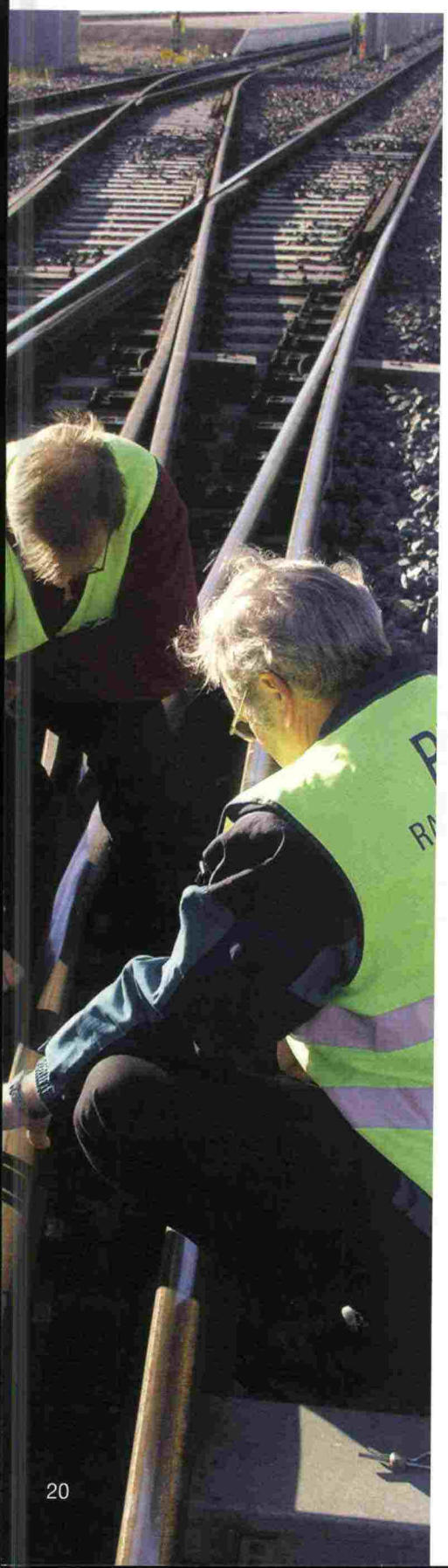
IN BRIEF

- Over a hundred research projects under way.
- A special focus of technical research is the preparation of European interoperability specifications.
- Diagnostics systems are being developed to support maintenance.
- A yard strategy for freight traffic was prepared.
- Freight customers' needs were studied as part of development work.



Personnel

High expertise a major strength



The right number of personnel and high expertise are key success factors in an agency whose activities are based largely on the purchasing of services. RHK's small organization must have a thorough understanding of railway technology, official work and project management as well as inviting tenders and making procurements.

The point of departure is to have strategically important expertise in the organization and to outsource other services. Ticket inspections are the only service which RHK produces itself and its share of personnel is thus significant. Personnel expenses account for only 1.5% of RHK's operational expenses.

RHK recorded 125 person-years of work in 2003.

New tasks require additional personnel

The age structure of RHK's personnel is fairly good compared with the general situation in the public sector, since new employees have been recruited in recent years. The average age of personnel at the end of the year was 47.0 years in actual activities and 40.5 among ticket inspectors. With the expansion of RHK's tasks the number of personnel will also grow in the coming years. New personnel should also be recruited in good time to replace those who will be retiring.

Developing personnel and expertise is mainly the responsibility of RHK's units and individuals. In developing personnel and activities, having a small personnel is a risk, since day-to-day work tends to steal time from building the future. All the same, major development projects were conducted last year with the entire personnel. This included developing the operational system and evaluating the new pay system.

Job satisfaction and work atmosphere monitored

A job satisfaction survey was conducted at the beginning of 2004. This was the third measurement using the same method and can be regarded as showing how job satisfaction has developed with a good degree of reliability. In general job satisfaction has increased in all areas. Among those involved in actual activities the best development and feedback was measured in the Traffic System Department. Positive development among ticket inspectors has been very strong, although the starting situation in 2002 was admittedly poor.

Indicators related to work content received the highest score in the survey. There was also cause for concern, however, since the mental load imposed by work is growing. Results for management and the work community improved. The biggest problems in this area involve pay and fair treatment in the organization. The physical framework offered by the new facilities in Kaivokatu naturally received high marks, while feedback from those involved in ticket inspection work on trains is more critical.

Similar results were obtained in an occupational health survey which focused on burn-out. Compared with the reference group the situation at RHK is good and in ticket inspection activities it is excellent. Still, 15% of respondents were potential burn-outs. Indicators related to the quantitative load imposed by work have the highest correlation to burn-out.

Cooperation with occupational health care was intensified last year, particularly in the case of ticket inspectors. Results

and feedback have been good, and this has also been reflected in a decrease in absences due to illness. Ergonomics has received special attention in both office work and ticket inspection activities.

Changes in facilities

RHK moved from the 4th and 5th floors at Kaivokatu 6 to larger and refurbished facilities on the 7th and 8th floors. The move caused a lot of extra work, as did the refurbishing of the 8th floor in the case of the Safety Department. RHK also received a modern IT network to make up for the extra work.

Lobby services were purchased to increase safety in the new facilities. Surprisingly the number of visitors reached as high as 600 a month.

Additional facilities for meetings were also acquired for the ticket inspection office. The construction of long-awaited break facilities for ticket inspectors at the Helsinki railway station continued and work will be completed in 2004.

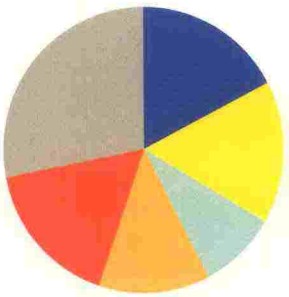
New pay system being developed

A new pay system will be introduced in most parts of state administration in the coming years. This requires preparatory work in agencies and good cooperation with employees and their representatives. The goal is a customized, competitive and fair pay system which is based on job demands and personal performance.

Last year RHK developed its evaluation system and conducted development discussions with all personnel. Final preparations for the new pay system will continue in 2004.

In order to improve cooperation a new cooperation agreement was worked out with employees' representatives. This also covers labour protection. Practical implementation of the agreement will begin in 2004.

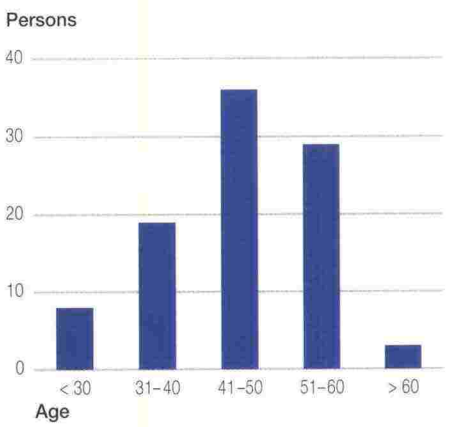
Person-years by type of activity 2003



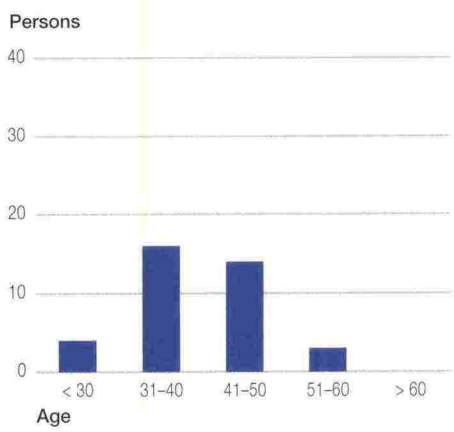
- Project Management Department 17%, 23 persons
- Safety Department 13%, 17 persons
- Maintenance Department 16%, 21 person
- Administration Department and staff 17%, 22 persons
- Traffic System Department 9%, 12 persons
- Ticket inspection activities 28%, 37 persons

Age breakdown of employees

Employees in actual activities



Employees in ticket inspection activities



IN BRIEF

- RHK's operational system is being developed as a joint effort.
- Job satisfaction improved.
- Concern over growth in mental work load.
- Preparations for the new pay system proceeded.
- A cooperation agreement was signed.
- Facilities were improved.

Performance Objectives in 2003

The performance objectives which the Ministry of Transport and Communications set for the Finnish Rail Administration in 2003 were achieved as follows (objective in italics):

SCOPE OF THE RAIL NETWORK AND LEVEL OF SERVICE

No changes will be made in the scope of the rail network.

No changes were made in the scope of the rail network.

The level of service was improved beyond the objective. In passenger traffic the Jämsänkoski-Jyväskylä line section was shifted from service class H2 to class H1 and in freight traffic the Ylivieska-Iisalmi line section was shifted from service class T3 to class T2. Other service classes were in line with the objective.

Rail network service classes

Passenger traffic				Freight traffic			
		Track-kilometres				Track-kilometres	
Service class	Maximum speed	Objective	2003	Service class	Maximum axle weight and speed	Objective	2003
H1	Over 140 km/h	477	530	T1	25 t and 60–100 km/h	115	115
H2	130–140 km/h	1,349	1,296	T2	22.2 t and 100 km/h	3,812	3,839
H3	110–120 km/h	1,565	1,565	T3	22.5 t and 50–80 km/h	1,078	1,051
H4	100 km/h or under	593	593	T4	20 t and 40 km/h	638	638
H5	No regular passenger traffic	1,659	1,659				
Total		5,643	5,643			5,643	5,643

Traffic delays

Delays lasting over 5 minutes due to track maintenance will not exceed 6% of passenger trains.

Delays affected 5.05% of passenger trains. During the first half of the year the figure was 6.06%. Particularly in March-May frost damage caused numerous speed restrictions in different parts of the rail network. During the second half of the year few disturbances were due to track maintenance factors (permanent way, safety equipment and electrical equipment). The largest number of delays were caused by malfunctions in safety equipment as a result of thunder storms in July. Track work caused fewer disturbances than the year before and than projected.

Traffic restrictions

Axle weights according to service classes will not be restricted. A maximum of 331 track-kilometres (5% of track-kilometres) will be under speed restrictions.

Axle weights were not restricted. At the end of the year 308 track-kilometres were under speed restrictions.

Rail network condition index

The rail network condition index is calculated on the basis of the geometric condition level in relation to track-kilometres according to service class. The condition index's maximum value is 100. The condition index is calculated as a four-year sliding average. The objective for 2000–2003 is 92%.

In spring 2003 the rail network condition index was 83%. The four-year sliding average of spring measurements was 90%. The result in spring 2003 was decisively influenced by the difficult frost conditions in the preceding winter, particularly in southern Finland.

IMPROVING SAFETY

Accident fatalities

No fatalities will occur in passenger traffic accidents.

No passengers were killed in passenger traffic accidents. The objective was achieved for the sixth consecutive year.

Accidents at level crossings

The number of accidents at level crossings will not exceed 40, including a maximum of 30 in the state rail network and 10 on private lines. Accidents at level crossings will be reduced with the help of different safety measures so that the number of accidents in 2010 will not exceed 30.

The objective was not achieved. Last year 53 accidents took place at level crossings, including 39 in the state rail network and 14 on private lines. As a result 6 people died and 23 were injured.

The number of accidents at level crossings increased in 2003.

A special feature of accidents last year is that seven occurred when motorists crashed through booms. All in all 180 booms were broken, mostly by motorists.

Accidents due to permanent way

The number of accidents due to permanent way will not exceed five.

Three derailings occurred in 2003. The worst of these was in Karjaa, where a Pendolino train derailed at low speed after a switch malfunctioned. Other derailings were due to warping in the summer.

ECONOMY OF INFRASTRUCTURE MANAGEMENT

Preconditions for tendering will be improved.

Regional management has been put out to tender in northern Finland. Preparations have been made to expand tendering to track maintenance. Tenders concerning track maintenance in northern Finland will be invited in summer 2004.

Unit costs in maintenance will decline by 2%.

Unit costs in the maintenance contract declined by 2%.

Planning will be developed so that cost estimates for investments are reliable and projects stay on schedule.

Planning for replacement investments has been developed. The use of supplementary budgets continued to hamper the planning of replacement investments at the annual level. Supplementary budget funds made it possible to avoid additional restrictions in the rail network. Since traffic interruptions were agreed a year in advance, funds could not be used in the optimal way for the rail network and projects.

REAL ESTATE

Income from real estate activities will exceed annual expenses for maintenance by at least 30%.

The profitability objective for real estate was not achieved. Income exceeded expenses by 22% last year.

OTHER PERFORMANCE OBJECTIVES

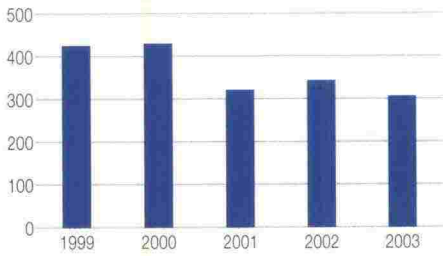
RHK will prepare for the new official tasks assigned to it in new legislation and for the gradual and controlled opening of rail traffic to competition in cooperation with the Ministry of Transport and Communications.

This matter is being studied by a Ministry of Transport and Communications working group, after which decisions will be made on measures and additional resources.

RHK will develop new objectives for environmental matters and for the service level at stations and terminals. Information concerning accessibility at passenger stations will be analysed in 2003.

RHK developed its environmental system as part of its operational system work. In the same connection an environmental survey was conducted in the organization and key environmental viewpoints were identified. On the basis of this work preparations were made for a new environmental vision, strategy and programme giving concrete form to environmental objectives. The new environmental programme is intended to cover the period 2004–2007.

Speed restrictions, track-km



RHK developed audited and analysed results concerning accessibility at 175 passenger stations. Station managers had already surveyed the situation in summer 2002. Background materials containing basic information on accessibility were prepared to help those conducting the survey and will be used as a planning tool in the future as well. Collected information has been recorded in a special database. On the basis of the survey, accessibility at stations was analysed from the viewpoint of level differences. A report on the subject was completed in September 2003.

The information in RHK's accessibility database will be used in planning and construction as well as station maintenance. The results of the survey will be distributed and necessary repairs will be planned in cooperation with other parties.

Annual Report of the Rail Administration Board

The Rail Administration Board directs and supervises RHK's activities according to the Decree on the Finnish Rail Administration.

The Board met ten times during the year. In addition it held a seminar together with RHK's Management Group to discuss changes in the operating environment and their effects on the competitiveness of rail transport and RHK's activities. The Board also inspected work related to the Vuosaari project, the Kerava urban line and the direct line from Kerava to Lahti.

The Board discussed the financing of infrastructure management on a number of occasions and made decisions concerning the budget proposal and the operational and financial plan.

Improving lines in eastern Finland and Ostrobothnia

The budget proposal for 2004 drew attention to the weakening condition of the rail network as a result of insufficient funds for infrastructure management and to the need to prioritize projects. The proposal included two new projects which are designed to improve the Lahti–Luumäki and Seinäjoki–Oulu line sections.

The Board believes it is important to raise the level of the Lahti–Luumäki line section in order to improve connections to eastern Finland and St. Petersburg. This is needed to handle the large traffic flows in southeastern Finland and to take advantage of the direct line from Kerava to Lahti, which will be completed in 2006.

Tight finances require the setting of priorities

On the basis of the operational and financial plan for 2005-2008, the outlook is alarming, since financing for track renewal will apparently remain insufficient. The operational and financial plan contains two levels of financing: a framework plan with €310 million a year for track renewal and a development plan with about €360 million a year for this purpose.

The Board believes that with framework financing the present rail network cannot be kept in effective and safe condition and that over the long term nearly a third of it will have to be shut down in order to focus resources on busier line sections. Nor is the level of financing in the development plan sufficient to ensure the objectives set by a working group which the Ministry of Transport and Communications appointed to study the basic service level. The Board wants more money for infrastructure management and emphasizes the importance of improving rail transport's competitiveness and market share.

Ilmala yard renewal important for all passenger traffic

The Board considers the renewal of the Ilmala yard in Helsinki a particularly important question since the yard does not even meet present service level requirements, much less future needs. Efficient yard operations are of key importance for passenger traffic.

Renewing infrastructure which has reached the end of its service life is likewise indispensable. The Board also regards further electrification and the expansion of automatic train protection as necessary and important.

Special features of infrastructure management

Last year the Board took a position on a proposal submitted by a Ministry of Transport and Communications working group concerning the reform of transport administration. The Board emphasized that the development of administration must take into account the special features of infrastructure management in the rail sector and RHK's role as a small expert and managing agency. In the Board's opinion agencies in the transport sector should develop cooperation models instead of being consolidated.

The Board considers it important to open and increase competition in infrastructure management. With regard to RHK's agreement and order procedure the Board focused special attention on impartiality and emphasizes strict neutrality when tenders are invited.

Lines supporting core network should also be developed

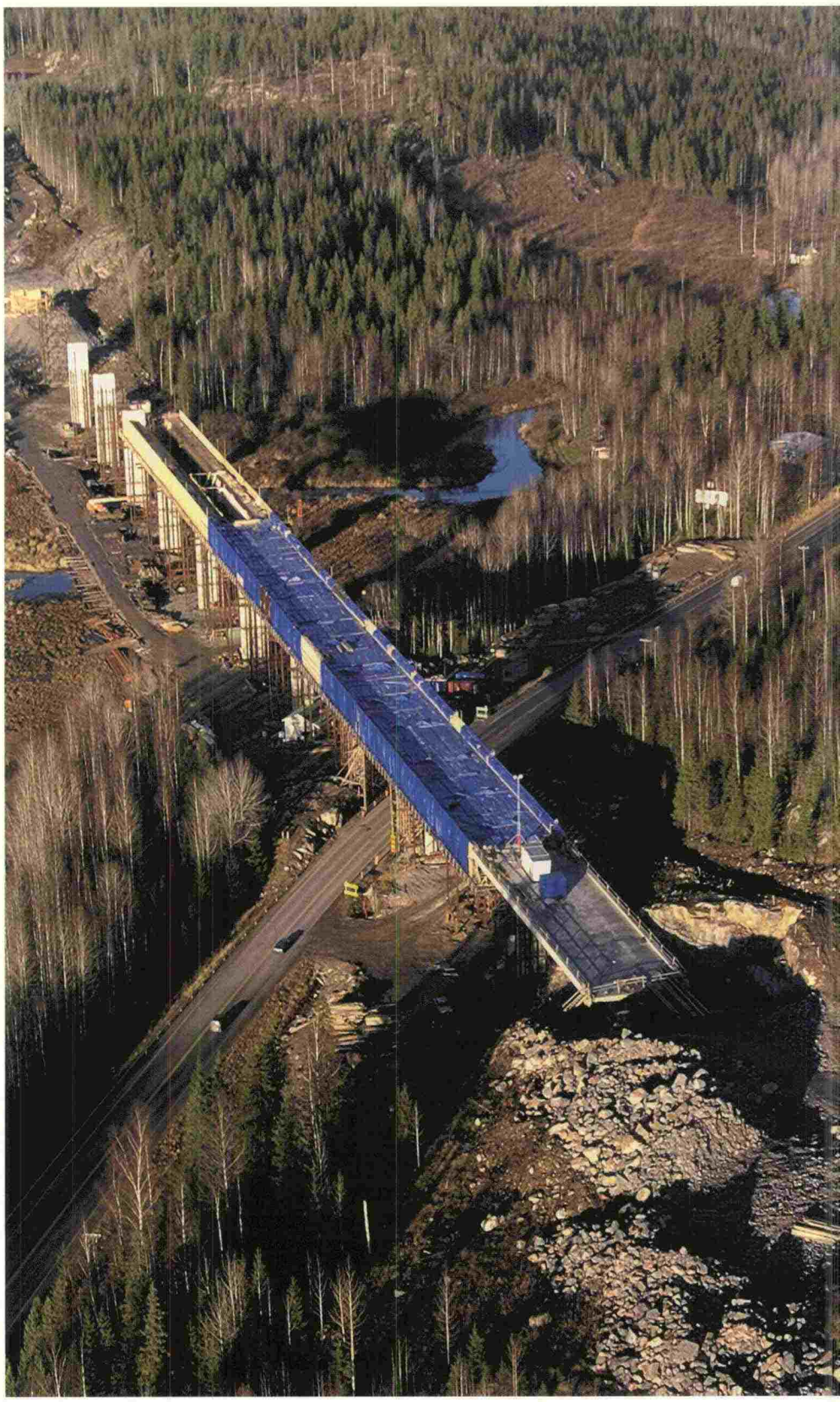
The Board also discussed another Ministry of Transport and Communications working group's report on nationally significant transport networks and terminals. Core networks were a special theme. The Board believes that lines supporting the core network should also be developed in both passenger and freight traffic. The

Rail Administration Board:
Ms Hannele Luukkainen,
Mr Timo Poranen, Mr Markku Pyy,
Ms Kaisa Leena Välipirtti,
Mr Veikko Vaikkinen.

report notes that total traffic volumes on highways will grow sharply in the coming decades. In the Board's opinion the pressure created by this growth should be reduced by developing rail transport in a sustainable way.

Changes in operations require new personnel policies

Another subject of discussion was the adequacy of RHK's resources in view of changes in its tasks and operating environment, particularly as a result of EU activities and legislation (including the opening of the rail network to new operators and the establishment of a safety authority). This is a key issue when it comes to developing activities and the intention is to adopt new personnel policies at the beginning of the Board's next term.



Financial Review

Funds

Last year €465 million in net budget funds was available, including 80% (€372 million) in the regular budget, 12% (€57 million) in a supplementary budget and 8% (€36 million) in funds carried over from the previous year. The corresponding amount in 2002 was €398 million, which means that net budget funds increased by €67 million in 2003.

RHK's operational expenses item (basic infrastructure management) is a net budgeted item which was expected to bring in €58.3 million in income. Actual income was €7.2 million higher than the budgeted amount. Income totalled €65.5 million. This was broken down as follows:

- fees: €57.0 million,
- outside financing (EU): €5.6 million,
- other income: €2.9 million.

Taking income into account a total of €530.6 million was available for gross expenses, and 89% of this was actually used last year.

Unused funds included €1.9 million in appropriations for a structural fund project. This money will be rebudgeted in 2004.

RHK received permission to exceed the budgeted amount for land purchasing and compensation. An appropriation was used to make purchases along the direct line from Kerava to Lahti.

Expenses in 2003

RHK's expenses in 2003 totalled €471.2 million. This was €53.4 million or 13% more than the previous year.

Administrative costs accounted for about 2% of total expenses. Personnel expenses made up 64% and rents 9% of administrative costs .

Statement of Income and Expenses

Operational income totalled €69.5 million. Income from fees and rents and part of other operational income was used to cover operational expenses. A total of €5.1 million in other operational income was credited to the state and was not used for infrastructure management. Of this amount €5.0 million was compensation for investment costs received from the EU (direct TEN support).

The reduction in income from paid activities was due to a change in legislation regarding track fees, as a result of which some track fees were replaced by a track tax. RHK collects the track tax from the operator and credits it to the Ministry of Finance. Track tax amounted to €12.6 million in 2003 and is included in income from taxes and compulsory charges.

Among operational expenses the largest items were purchased services and depreciation. Purchased services include track maintenance and traffic control services, real estate maintenance services and expert and research services.

Extraordinary income was exceptionally large as a result of property transfers between the City of Espoo and RHK. The transfer from the City of Espoo was valued at €11 million. Other extraordinary items included the costs of unexpected delays resulting from track damage and track work and related compensation.

According to the Statement of Income and Expenses, operational income covered 16% of operational expenses.

Balance Sheet

The capital value of fixed assets amounted to €2,622 million at the end of the year. The net increase in assets was €290 million and depreciation totalled €234 million.

Rail structures form the bulk of fixed assets. Investments in rail structures totalled €271 million, of which development investments amounted to €135 million and replacement investments €136 million. Depreciation on the rail network totalled €229 million or €93 million more than replacement investments. Annual replacement investments should be at least as large as depreciation so that the value of fixed assets will not decline.

A new fixed asset system was placed in use in 2003. In this connection the inventory of assets was revised and the book value of fixed assets was adjusted with extraordinary depreciation amounting to €1.8 million.

Current receivables and liabilities increased in 2003. Receivables totalled €15 million (€6 million in 2002). The biggest items were track tax, track fees and TEN support which was received from the EU in 2004. Current liabilities totalled €68 million (€55 million in 2002). These consisted mostly of bills which were paid in early January 2004.

In addition to payment traffic, equity transfers included a €4.8 million transfer from the Finnish Road Administration to RHK of its share of the Vuosaari Harbour project.

Paid activities

In paid activities the largest item was track fees, which RHK collects from the operator on the basis of a special Act. Statutory and commercial performances under this Act are specified in a Decree issued by the Ministry of Transport and Communications. Statutory performances include ticket inspection and the issuing of different kinds of licences, decisions and technical specifications and inspections. Commercial performances include real estate services and the issuing of crossing permits.

The income from statutory performances roughly covered costs.

RHK's real estate activities are the most significant function subject to charges and based on commercial principles. Rent income totalled €10.1 million, up 4%. Other income from real estate amounted to €0.1 million. Separate expenses from real estate activities totalled €8.3 million. The biggest item, maintenance and repairs, totalled €7.3 million.

Income from real estate activities did not cover expenses. The operational surplus after separate expenses was €1.9 million (€2.3 million in 2002) and the operational deficit after depreciation was €3.9 million (€3.8 million in 2002).

Costs by task

RHK's tasks have been divided into network management and paid activities. Paid activities account for about 3% of total costs.

Traffic control, which ensures safe operations on the rail network, is mostly outsourced. The main task in network management is track maintenance and operation, which includes maintaining track and equipment, operating costs such as electricity for lighting and switch heating, and track facility costs. Planning and research includes strategic plans, project plans, technical research and technical specifications.

Use of funds in 2003, € million

Gross expenses	471.2
Carried over to 2004	56.9
– basic infrastructure management	(25.7)
– development of radio network	(29.4)
– development of rail network	(1.8)
Unused budget funds	0.6
Cancellation of old appropriations	2.1
Budget overruns	- 0.2
Available funds, total	**530.6**

Expenses in 2001-2003, € million

	2001	2002	2003
Administration	7.2	8.6	10.0
Traffic control	37.2	37.8	38.8
Real estate activities	10.4	11.7	10.6
Track maintenance and use	120.8	129.6	130.6
Planning and research	4.0	5.2	6.4
Replacement investments	142.5	134.9	136.0
Investments	59.4	87.1	131.5
Radio network	0.3	0.6	3.3
Land areas	1.5	2.3	3.4
EU structural funds	0.0	0.0	0.6
Total	**383.3**	**417.8**	**471.2**

Administrative costs in 2001-2003, € thousand

	2001	2002	2003
Materials and supplies	130	264	258
Personnel expenses	4,758	5,455	6,245
Rents	564	733	891
Purchased services	667	884	1,105
Other expenses	904	1,128	1,204
Depreciation and interest costs	34	34	75
Total	**7,057**	**8,498**	**9,778**
Change %		20 %	15 %

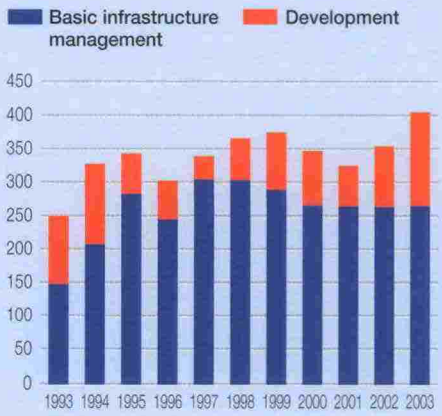
Income from paid activities in 2003, € million

	Income	Expenses	Result
Track fees	45.0		
Statutory performances	1.7	1.7	– 0.0
Commercial performances	10.3	14.2	– 3.9
Total	**57.0**		

Project costs in 2003, € million

	Expenses	Budget
Helsinki–Tampere	14.7	15.1
Tampere–Orivesi–Jyväskylä	9.5	19.0
Kouvola–Pieksämäki	11.1	13.0
Seinäjoki–Oulu	11.7	19.0
Luumäki–Joensuu / Lappeenranta–Parikkala	20.8	14.0
Oulu–Rovaniemi	11.7	14.5

Expenditure on the rail network 1993-2003, € milllion



Investments in the rail network 1963-2003, € milllion

(At fixed 2003 prices)

Costs by task in 2001-2003, € million

	Operating costs				Total costs			
	2001	2002	2003	Change 2002–03 %	2001	2002	2003	Change 2002–03 %
Network management	166.5	178.3	183.7	3.0	510.5	525.5	518.2	-1.4
Traffic control	37.3	38.1	39.2	2.7	38.5	39.3	40.3	2.5
Track maintenance and operation	123.7	133.7	135.6	1.4	466.5	479.7	469.0	-2.2
Planning and research	5.4	6.5	8.9	36.7	5.4	6.5	8.9	36.7
Administrative costs of investments	1.9	2.5	2.5	0.0	1.9	2.5	2.1	-16.3
Paid activities	9.1	9.7	10.5	8.2	15.2	15.6	15.9	2.2
Total costs	**177.6**	**190.5**	**196.6**	**3.2**	**527.6**	**543.5**	**536.2**	**-1.4**

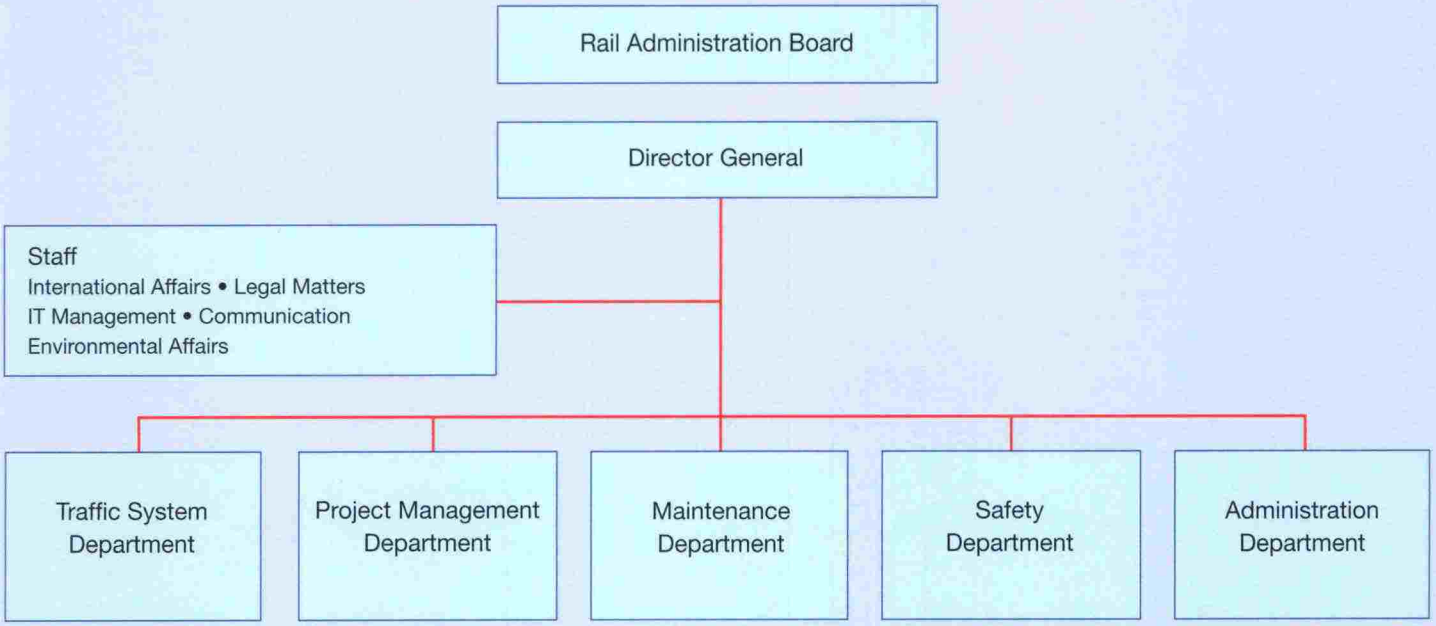
Statement of Income and Expenses

€1,000		1.1.–31.12.2003		1.1.–31.12.2002
OPERATIONAL INCOME				
Fees	46,974		55,004	
Rents and user charges	10,060		9,851	
Other operational income	12,468	69,502	8,299	73,154
OPERATIONAL EXPENSES				
Materials, supplies and goods	258		267	
Personnel expenses	6,225		5,599	
Rents	1,128		968	
Purchased services	182,448		178,532	
Other expenses	1,698		1,708	
Depreciation	234,323	426,080	227,279	414,353
DEFICIT I		**- 356,578**		- 341,199
FINANCIAL INCOME AND EXPENSES				
Financial income	23		49	
Financial expenses	- 31	- 8	- 65	- 15
EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income	12,035		778	
Extraordinary expenses	- 3,364	8,671	- 3,447	- 2,669
DEFICIT II		**- 347,915**		- 343,883
INCOME FROM TAXES AND OTHER COMPULSORY CHARGES				
Taxes and compulsory charges	12,583			
VAT received	3,292		1,517	
VAT paid	- 100,346	- 84,471	- 88,947	- 87,430
DEFICIT FOR THE YEAR		**- 432,386**		- 431,313

Balance Sheet

€1,000		2003		2002
ASSETS				
FIXED ASSETS				
Intangible assets				
Intangible rights		**211**		215
Tangible assets				
Land and water areas	4,432		4,432	
Building land and water areas	81,584		80,388	
Buildings	41,656		40,761	
Structures	2,176,431		2,239,056	
Machinery and equipment	6,768		6,440	
Furnishings	3		5	
Advances and projects in progress	310,942	**2,621,816**	195,424	2,566,506
Fixed assets		**2,622,027**		2,566,721
INVENTORIES AND FINANCIAL ASSETS				
Current receivables				
Accounts receivable	13,579		5,385	
Other current receivables	1,856		817	
Advance payments	4	**15,439**	0	6,202
Cash, bank and other				
Cash account		0		1
Inventories and financial assets		15,439		6,203
TOTAL ASSETS		**2,637,466**		2,572,924
EQUITY AND LIABILITIES				
EQUITY				
State's equity				
State's equity at 1.1.1998	2,371,022		2,371,022	
Change in equity in previous years	146,488		156,926	
Equity transfers	484,399		420,875	
Deficit for the year	- 432,386	2,569,523	- 431,313	2,517,510
LIABILITIES				
Current liabilities				
Advance payments	53		50	
Accounts payable	64,910		54,256	
Inter-agency transfers	148		139	
Payable items	99		91	
Accrued expenses	838		878	
Other current liabilities	1,895	67,943	0	55,414
TOTAL EQUITY AND LIABILITIES		**2,637,466**		2,572,924

Organization



RAIL ADMINISTRATION BOARD

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Ms Hannele Luukkainen, Chairman, Finnish Traffic Association
Mr Markku Pyy, Planning Manager, Finnish Rail Administration
Mr Veikko Vaikkinen, CFO, VR-Group Ltd
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