

T R A N S F E N N I C A







We specialize in shipping forestry products and unitized general cargo to and from Finland. Every year, we ship some 7 million tonnes of forest products to some 110 countries. Transfennica operates some 30 specialized vessels in European trade, accounting for 70% of total volume. Service standards are controlled by an automated data network. Transfennica is ISO 9002 certified.



PRESIDENT'S STATEMENT

During Finland's first year as a member of the EU, a modest two-year labour agreement facilitated formulation of a new economic platform.

The Finnish markka continued to regain its previously lost value against all major currencies. Inflation and interest rates are at a record low level. A similar process is also taking place in Sweden. The days of a weak currency have passed and we now have to create new efficiency, based on new transport methods and service standards.

Finnish exports enjoyed a good start at the beginning of the year, but were unfortunately disappointing during the final months. According to the statistics of the Finnish Maritime Administration, overall shipments by sea, both imports and exports, fell by 4%. The only growth was in transit shipments of general cargo to Russia. The route via Finland to Russia has strengthened its position as a reliable transit channel. Extension of the Trans-European network to the Baltic Sea will further increase trade in this area.

Our total shipments failed to reach the budgeted volumes. The total volume was just below 7 million tonnes and 3% less

than in the previous year. The total import volume of general cargo grew by 43%. This was a gratifying result and demonstrated the value of good business partnerships.

Total turnover was FIM 1.7 billion, compared with 1.8 billion the previous year. Profitability improved due to better employment of the contracted fleet during the first six months of the year and particularly to the increased import volumes.

MARKET OVERVIEW

The mood in the shipping world is unmistakably optimistic. Financing of new projects creates new activity in the market. The forthcoming OECD agreement, which will further restrict subsidies for shipyards, fuels expectations of higher newbuilding prices in the future.

Clear confidence in short sea shipping has led to investments in several faster ro-ro carriers; some of these vessels are fitted with passenger accommodation.

Due to a temporary shortage of suitable ro-ro vessels, faster modern vessels have commanded premium rates which are not justifiable in the present market.

Containerized deepsea liner services experienced an active year with increasing cargo flows and regrouping of lines into new stronger global consortia. New shipping capacity was introduced and further investment programmes were announced.

Deregulation of trade lanes continues while long-term partnerships between shippers and operators develop. Lack of shipping space in the short term in some trade lanes created speculative attempts to increase freight levels. Overall, the markets have been more stable than in the previous years despite cost pressures due to the low value of the US dollar.

Generally cargo flows from Europe to overseas markets increased due to faster economic growth outside Europe.

Transfennica's overseas shipments to USA, Japan, Australia and Brazil remained strong.

After years of positive development, the Baltic Sea trading area experienced the first year of no real growth, even though northbound volumes developed satisfactorily. The level of service improved with inauguration of new traffic



arrangements. Shipments to the North Sea area decreased substantially, particularly due to curtailed shipments during the latter part of the year.

Once some of the instability in the European forest products market is gone, we can expect growth in shipments. All other trading areas will also grow.

The mergers within the Finnish forest industry led to a change of ownership in our Company. The major forestry product companies are now direct shareholders in Transfennica. We start a new year with a challenge to provide more value for money to all our customers with tailored service packages.

Thanks to the dedication of our crew we have enjoyed fulfilling and meeting the commitments and opportunities our customers have offered us.

I would like to express my sincere gratitude to all those contributing to the good results for the year.

Rolf G.W. Eriksson
President





HIGHLIGHTS OF THE YEAR

NEWBUILDINGS

In line with our strategy, an additional three faster 8,800 DWT ro-ro vessels were contracted for delivery in 1997-1998. These 20-knot vessels, which are owned by United Shipping Ltd AB, will have a cargo capacity of 5,000 tonnes sto-ro cargo under deck and 2,500 tonnes in containers on the weather deck.

These vessels complement two slightly smaller vessels scheduled for delivery in 1996 and contracted during the previous year.

The three newbuildings are also specially ice-strengthened for severe winters and have an engine output of some 15,000 kw, which is the equivalent of the power of an icebreaker.

The overall service will improve with this fleet of faster vessels. Transport time will decrease and the vessels will provide flexible services. Apart from main cargo in sto-ro form, the vessels can efficiently carry containers, cassettes, trailers and swap bodies.

During the year we invested in 200 new containers to meet the increased demand for container transports.

PORT AND CARGO

HANDLING DEVELOPMENTS

The increased container traffic for palletized goods has led to upgrading of port facilities.

New container cranes will be available at Deptford in the UK and the Finnish ports of Kotka (Kantasatama), Oulu and Kemi.

Due to the concentration of shipments at Deptford in the southern UK, warehousing capacity is also being increased. Three vessels a week with an estimated shipping volume of 700,000 tonnes p.a. will be accommodated by this terminal.

All the major ports used in the North Sea area and Finland have container handling capability, and development work is under way in the Baltic area.

A new 7,000 m² warehouse is under construction in Bilbao to accommodate the increased volumes.

With this overall round of development, better handling efficiency has been achieved with faster turnaround of vessels. Also cargo transport damage levels further declined from the low level of the previous year. Apart from improved cargo handling



Three faster 8,800 DWT ro-ro vessels are contracted for delivery in 1997-1998.



One of the groups that participated in the Quality Education System for individual training during 1995 consisted of Mats Hägerström, Leena Salojärvi, Leena Lindroos, Johanna Varjoranta, Jari Järvi, Raija Lahti, Eeva Kokkonen and Anneli Elo.

standards and less on-board damage, increased use of containers for palletized goods has contributed to this positive trend.

SERVICE AND QUALITY

Our effort to automate daily routines in the service chain took a big step forward by integrating the operating systems of a major customer.

Cargo booking information is automatically transferred in an EDIFACT message

to our booking system on the vessel, which fulfils the service requirements.

This development will improve service to the customer and save a lot of manual work.

CONTINUOUS DEVELOPMENT IN TRANSFENNICA'S SERVICES

Transfennica is working continuously to upgrade its services in co-operation with the customers in identifying new targets for improvement.

Our personnel participated in the Quality Education System for the individual during 1995. The programme included continuous development and cost efficiency. Quality control involves the entire personnel and everyone's work processes.

Our daily work is based on meeting customers' requirements, preventing non-conformities and solving problems.

Left: Port of Deptford









THE BOARD'S ANNUAL REPORT 1995

TRANSFENNICA LTD, OWNERSHIP ON DECEMBER 31, 1995

In September, Finncell sold its shares to the FINNPAP marketing association and the Finnish Board Mills Association - Finnboard. In December, Finnpap and Finnboard sold all the shares of Transfennica Ltd to its members.

The following were owners on December 31:

United Paper Mills Ltd.	43.8%
Metsä-Serla Oy	27.3%
Veitsiluoto Oy	16.6%
Myllykoski Paper Oy	7.5%
Oy Metsä-Botnia Ab	4.8%
	100.0%

The new ownership structure will not cause any immediate changes in the Company's operations, although development will be forthcoming in the long term.

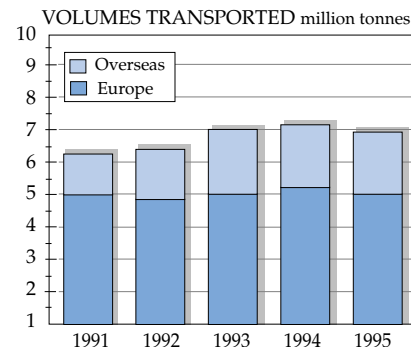
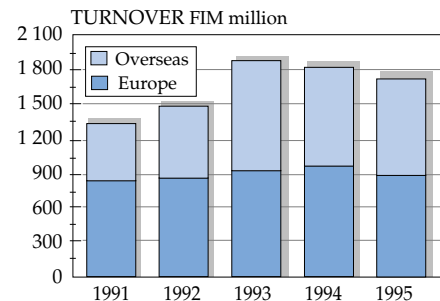
Apart from its shareholders, the Company had 160 other customers.

TURNOVER

Turnover for the year under review was down 6 per cent on the previous year.

Transport to the European area accounted for 53 per cent (49%) of turnover.

The volumes transported declined by 2.8



per cent on the previous year. Transport to Europe declined by 4.1% and overseas transport increased by 0.5%. European transport accounted for 72 per cent (73%) of the total volume.

PERFORMANCE

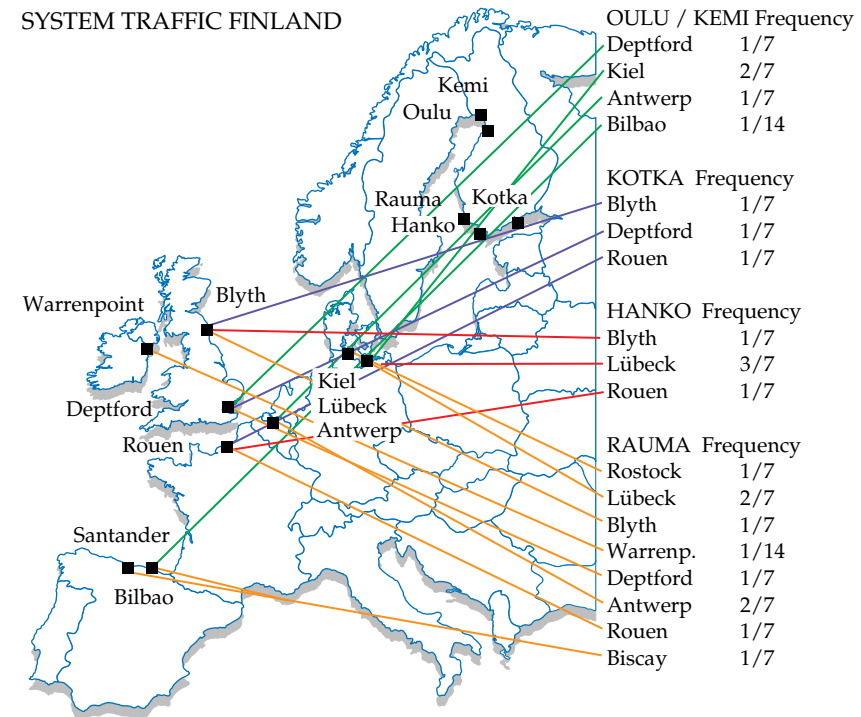
The operating profit was FIM 22.4 million, which represented an increase of FIM 18.4 million over 1994. Factors improving

performance were the high capacity utilization rate for ships and more import cargoes in particular.

Net interest income totalled FIM 1.7 million. In 1994 FIM 0.3 million in net interest expenses were recorded, and there was an improvement of FIM 2 million in financial performance.

The profit for the financial year was FIM 16.5 million.

SYSTEM TRAFFIC FINLAND



INVESTMENT

Investment in cargo transport units totalled FIM 6.8 million and investment in computer hardware and software FIM 1.3 million. Long-term chartering contracts for three newbuildings were concluded during the year under review.

RESEARCH AND DEVELOPMENT

Development of ship types with new technologies was completed. The basic



conditions for container handling in both Finnish ports and those of our principal markets were improved.

Linking with customers and the office system were priorities in the development of information systems.

Quality management training was used to facilitate continuous improvement in service quality and cost effectiveness. The entire staff attended.

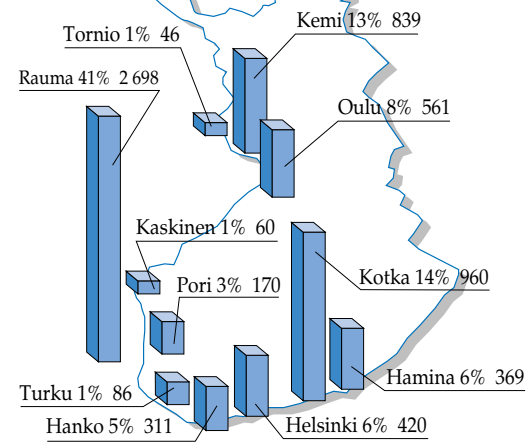
FREIGHTS

Despite pressure for increases due to exchange rate fluctuations, the average sea freight remained rather stable.

PORTS OF DEPARTURE AND DESTINATIONS FOR EXPORT CARGOES

The principal port was Rauma, where 41% (36%) of the volumes were loaded. The next in line were Kotka and Kemi. The EU countries were the main destinations for

EXPORT QUANTITIES PER PORT OF DEPARTURE/ BORDER STATIONS 1995 (1,000 tonnes)



cargoes and accounted for 68.8% (70.2%) of the volumes.

Cargoes were shipped to 113 countries, if all modes of transport are included. Sea freight served 93 destinations and 241 ports.

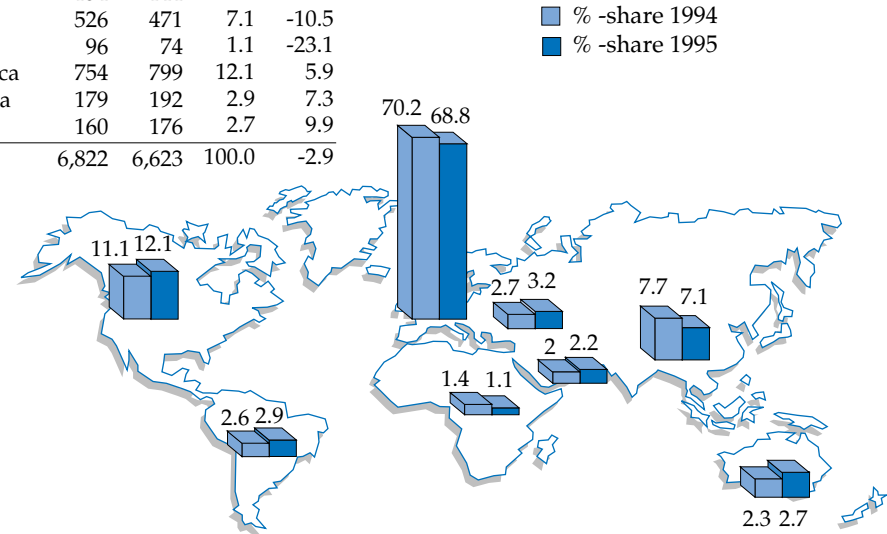
PERSONNEL AND ORDERS

During the financial year the Company employed an average of 81 (86) persons. Personnel numbered 79 (79) at the end of the year.

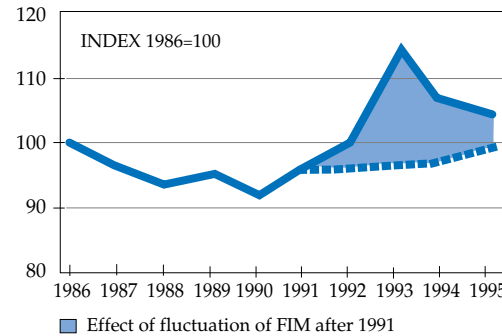
The average order size was 51 tonnes, which was also the average for the previous years. Nearly 600 orders were processed per working day.

	1994 TN	1995 TN	share %	95/94 %
EU	4,791	4,559	68.8	-4.9
Other Europe	182	209	3.2	14.9
Middle East	134	144	2.2	7.7
Rest of Asia	526	471	7.1	-10.5
Africa	96	74	1.1	-23.1
North America	754	799	12.1	5.9
Latin America	179	192	2.9	7.3
Oceania	160	176	2.7	9.9
Total	6,822	6,623	100.0	-2.9

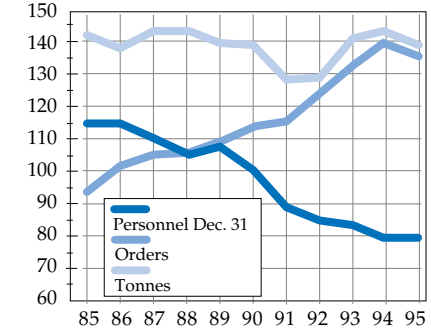
GEOGRAPHICAL DISTRIBUTION OF EXPORT VOLUMES 1994, 1995 (1 000 tonnes)



TREND IN SEAFREIGHT 1986 - 1995



ORDERS (1 000) PERSONNEL MILLION TONNES





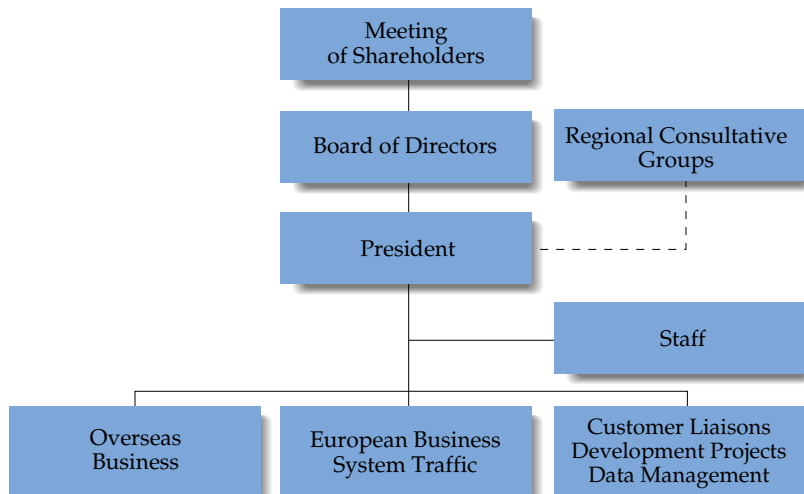
BUSINESS OUTLOOK

The transport target for 1996 will not be reached if the shortage of cargoes caused by the downturn in orders that began at the end of 1995 continues for an extended period. Although a profit is expected for 1996, there will be a decline on the year under review.



Transfennica's Board of Directors. Standing: Jouko Jaakkola, Markku Halonen, Rolf Eriksson. Sitting: Jorma Sahlstedt, Berndt Brunov, Mainio Vainio, Raimo Mansukoski.

ADMINISTRATIVE ORGANIZATION



Directors of Transfennica: Holger Stubb, Rolf G.W. Eriksson, President, Arto Jantunen and Harri Mäkitie.



BOARD OF DIRECTORS

Berndt Brunow	Finnpap, chairman
Mainio Vainio	United Paper Mills Ltd., deputy chairman
Markku Halonen	Veitsiluoto Oy
Jouko Jaakkola	Myllykoski Paper Oy
Raimo Mansukoski	Metsä-Serla Oy
Jorma Sahlstedt	Finnboard

Torsten Nykopp, member of the Board, resigned on May 5 to take up employment with Kymmene Oy.

AUDITORS

Oy Joe Sundholm & Co Ab, authorized public accountants, served as auditors.

REGIONAL CONSULTATIVE GROUPS

The regional consultative groups convened eight times. The persons mentioned below took part in the work of the groups.

EASTERN CONSULTATIVE GROUP

Hans Roos	Metsä-Serla Paper and Board Ltd., chairman
Erik Ahlström	Finnboard
Tapio Kilpi	Kaukas Oy
Lauri Kosunen	Finnpap
Tuula Marno	Finncell
Sverre Norrgård	Myllykoski Paper Oy
Nils-Eric Wikman	Myllykoski Paper Oy
Olli Rinne	United Paper Mills Ltd.

WESTERN CONSULTATIVE GROUP

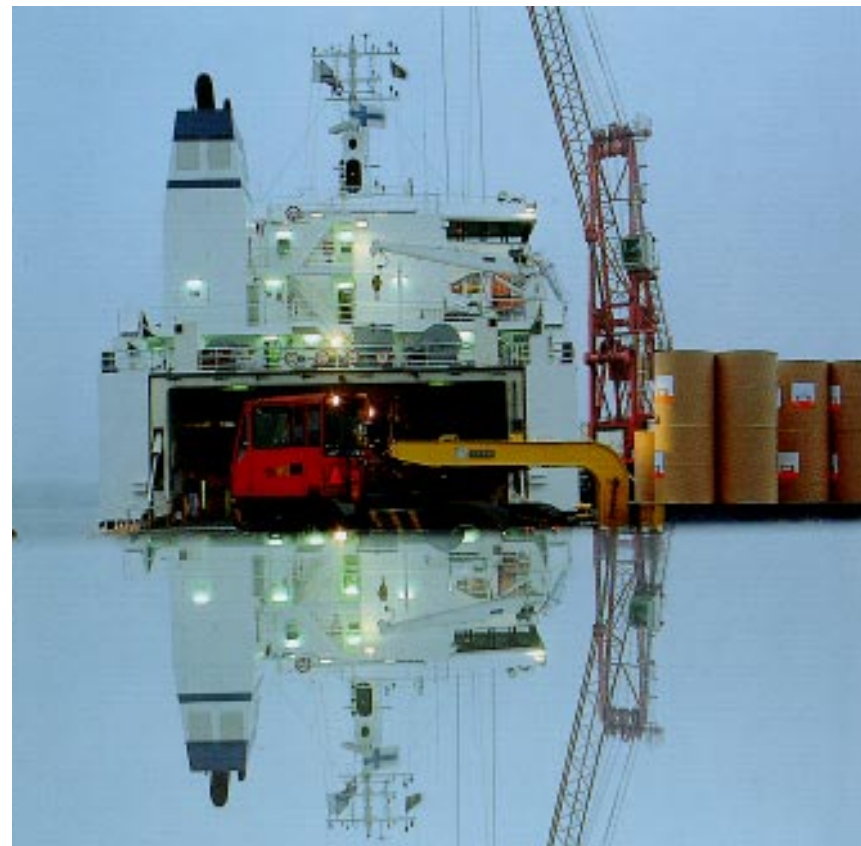
Leena Östring	Metsä-Serla Paper and Board Ltd., chairwoman
Sven-Olof Granqvist	Metsä-Serla Paper and Board Ltd.
Matti Karjalainen	Metsä-Serla Paper and Board Ltd.
Olof Grönroos	Nokian Paperi Oy
Peter Karell	Finnboard
Lauri Kosunen	Finnpap
Markus Kuusela	United Paper Mills Ltd.

NORTHERN CONSULTATIVE GROUP

Jorma Ranki	Oy Metsä-Botnia Ab, chairman
Henrik Aminoff	Finnpap
Pauli Hänninen	United Paper Mills Ltd.
Matti Larkomaa	Veitsiluoto Oy
Harry Lönnqvist	Finncell
Rauno Palo	Wisaforest Oy Ab
Pertti Pallasvirta	Finnboard

DIRECTORS

Rolf G W Eriksson	president
Arto Jantunen	director
Harri Mäkitie	director
Holger Stubb	director



PROPOSAL BY THE BOARD OF DIRECTORS FOR THE DISTRIBUTION OF PROFITS

The Board of Directors proposes that the profit for the financial year of FIM 16,547,634.35 be disposed of as follows:

- paid out as a dividend of FIM 320 on FIM 16,000,000
- the remainder retained in the profit and loss account.

Only the principal parts of the financial statements are published in printed form. The official statements are available from the Trade Register Department of the National Board of Patents and Registration, Albertinkatu 25 B, FIN-00180 HELSINKI



PROFIT AND LOSS ACCOUNT

January 1 - December 31, 1995

	FIM 1,000 Jan. 1 - Dec. 31, 1995	FIM 1,000 Jan.1 - Dec. 31, 1994
Net turnover	1,697,660	1,806,273
Costs		
Freight costs	1,637,791	1,766,720
Staff costs	21,103	19,329
Rents	2,218	2,235
Other fixed costs	11,850	12,579
	<u>1,672,962</u>	<u>1,800,863</u>
Profit from operations before depreciation	24,698	5,410
Depreciation on fixed assets and other capitalized expenditures	<u>-2,263</u>	<u>-1,371</u>
Operating profit	22,435	4,039
Financial income and expenses		
Interest income from non-current investments	83	93
Other interest income	2,704	894
Interest expenses	<u>-1,079</u>	<u>-1,265</u>
	1,708	-278
Profit before extraordinary items, voluntary provisions and income taxes	24,143	3,761
Increase in accelerated depreciations	-1,751	-1,014
Income taxes	<u>-5,844</u>	<u>-1,763</u>
Profit for the period	<u><u>16,548</u></u>	<u><u>984</u></u>





BALANCE SHEET

December 31, 1995

	FIM 1,000 Dec. 31, 1995	FIM 1,000 Dec. 31, 1994
Assets		
Fixed assets and other non-current investments		
Tangible assets		
Machinery and equipment	12,790	7,076
Financial assets		
Bonds and shares	422	422
Loan receivables	1,278	1,550
	<u>1,700</u>	<u>1,972</u>
	14,490	9,048
Current assets		
Receivables		
Trade receivables	83,952	64,744
Prepaid expenses and accrued income	1,750	7,467
	<u>85,702</u>	<u>72,211</u>
Cash in hand and at banks	46,690	24,101
	<u>146,882</u>	<u>105,360</u>
Liabilities		
Capital and reserves		
Restricted shareholder's equity		
Subscribed capital	5,000	5,000
Other equity	2,596	2,596
	<u>7,596</u>	<u>7,596</u>
Unrestricted shareholder's equity		
Retained earnings	984	
Profit for the period	16,548	984
	<u>17,532</u>	<u>984</u>
	25,128	8,580
Provisions		
Accelerated depreciation	3,336	1,585
Voluntary provisions	4,340	4,340
Creditors		
Non-current		
Pension loans	101	11,611
Current		
Loans from credit institutions	0	6,497
Pension loans	8	874
Trade payables	77,929	65,325
Accrued liabilities and deferred income	36,040	6,548
	<u>113,977</u>	<u>79,244</u>
	<u>146,882</u>	<u>105,360</u>





SOURCES AND APPLICATIONS OF FUNDS

	FIM 1,000 1995	FIM 1,000 1994
Sources of funds		
From operations		
Net profit	16,548	984
Depreciation	2,263	1,371
Change in reserves	1,751	1,104
Total from operations	<u>20,562</u>	<u>3,369</u>
Decrease in financial assets	273	0
Sales of fixed assets	3	113
Increase in long-term liabilities	0	1,182
	<u>20,838</u>	<u>4,66</u>
Applications of funds		
Long-term current assets	0	61
Investments		
- containers and cassettes	6,832	4,059
- other	1,149	1,196
Reduction in long-term liabilities	11,510	849
	<u>19,491</u>	<u>6,165</u>
Change in net working capital	1,347	-1,501
	<u>20,838</u>	<u>4,664</u>
Change in net working capital		
Cash and bank	22,589	-456
Short-term current assets	13,491	-7,999
Short-term liabilities	-34,733	6,954
	<u>1,347</u>	<u>-1,501</u>
Net working capital, Jan. 1	17,068	18,569
Net working capital, Dec. 31	<u>18,415</u>	<u>17,068</u>









TRANSFENNICA

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