

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







TRANSFENNICA LTD



Transfennica is a global transport company, shipping in excess of 6 million tonnes of forest industry products and general cargoes to 110 countries. In European trade, some 30 specialized ro-ro vessels handle roughly 70% of the total volume. Transfennica is ISO 9002 certified.



PRESIDENT'S STATEMENT



Global trade has become very volatile and most operators are currently involved in restructuring. Companies are concentrating their efforts in cost cutting in the short term.

Shipping has recently seen a growth in co-operation in the form of quickly-changing alliances and mergers. In this global competition, the main aim has been to achieve a critical mass in operations for the sake of future competitiveness. These trends have clearly affected our trading environment.

Since the start of our company 20 years ago, we are fortunate to have been involved in a process of continuous change. This has forced us to find new solutions in our services, shipping patterns and vessel types. Our working environment has once again totally changed and we are now operating within a new company format with subsidiaries in the main ports abroad. We have enlarged our business area to strengthen future competitiveness and to cater to new forms of service requirements.

Throughout this process, our area of core competence has been in providing a stable, competitive edge for our customers in value-added service and



cost efficiency. This long term partnership has led to a more effective use of information technology including new applications in the administrative area.

TRADING REVIEW

The world economy developed favourably during the year. Low inflation and nominally low interest rates supported growing business confidence. In international shipping, the anticipated overcapacity depressed the level of seafreights. Increased bunker costs and a rising US dollar reduced our results from shipping.

From the previous year, freight rates

generally softened during the year. The ro-ro and container trades experienced a clear-cut short term slackening of demand.

Cost cutting in the shipping industry continued and margins were slashed. Meanwhile, newbuildings will enter the market in the coming years.

During this trading year, traditional trade forecasting and budgeting turned out to be irrelevant in both the forestry products trade and in shipping. It seems that anticipation in a well-informed global market, coupled with even limited new capacity, will destroy a stable market faster than ever before. After a depressing export trade in



forestry products in the beginning of the year, the second half turned out to be a mini-boom, particularly in the paper trade. In spite of this, our total paper volumes were down by 12.9% from the previous year. On the other hand, our imports grew by 84.1%, compensating for some loss of volume.

Our total volumes and turnover were about 5% lower than the previous year.

During this difficult trading year, we decided to maintain a regular shipping service for our customers, irrespectively of a lower utilization rate for the fleet. We saw this as an investment for the future in spite of the adverse effect on

our net results, which were cut to about half.

STRAIGHT AHEAD

In view of an expected improvement in our traditional markets, we see an active period ahead.

The increased volumes of general cargo for the Russian and CIS markets offer us new possibilities in creating partnerships.

Our core competitiveness in sea transportation with new vessels on stream, coupled with a competent staff with the right service spirit, is the basis for a successful development of the business that lies ahead.

We are anxious to create and strengthen partnerships and we greatly appreciate the confidence shown in us by all our customers and specialists in the trade.

Together in a partnership, we share a gratifying future.

Rolf G.W. Eriksson
President



HIGHLIGHTS OF THE YEAR

NEWBUILDINGS

During 20 years of operation, we have been actively involved in designing several generations of vessels for our own use in trade. Our eighteenth newbuilding, Transgard, is the first vessel in Transfennica's fifth generation of six newbuildings. She was taken into service at the end of June. Owned by Bror Husell Chartering Ab Ltd, the Transgard is bigger, faster and more flexible than her predecessors. With a speed of 20 knots, a cargo capacity of 6,500 tonnes and a special design that makes the process of loading and unloading faster and easier, the Transgard provides a competitive, fast connection to Antwerp with a weekly turnaround. The concept of loading and discharging in only one day has been very successful and the feedback has been positive from port operators and crew as well as from customers.



The second contracted newbuilding, owned by Rederi Ab Engship, started in February 1997 and provides weekly express service between Northern Finland and Germany over the weekend. The third newbuilding in the same series has been contracted for delivery in the autumn of 1998.

Three additional 8,800 DWT ro-ro vessels are now under construction. The first of these larger vessels, owned by United Shipping Ltd, Ab is scheduled for August 1997 and the two others for 1998. The new vessels have increased cargo capacity on weather deck to meet the demands of increasing container traffic. In line with previous years, we have continued investments in special containers with an addition of 400 20' pallet wide supercube containers.

NEW OFFICES IN EUROPE

In order to further improve service in our main European markets, three subsidiary companies were established in the autumn and were fully operational by the end of the year. Transfennica (Belgium) B.V.B.A. is situated in Antwerp, Transfennica Deutschland GmbH has offices in Lübeck and Kiel, and Transfennica (UK) Ltd is in London and Blyth. In order to improve our value added service smoothly, these offices are now fully integrated by computer network with our Helsinki office.

SERVICES

During 1996 we developed a new service between Hanko and Antwerp to support larger volumes of export and import via the port of Hanko. The Hanko-Lübeck traffic has also increased from three to six sailings per week.

At the beginning of 1996, a new line of business was developed as we started shipping new cars from Lübeck to Södertälje, Sweden, on a weekly basis. This trade developed very successfully during the year.

Because of the concentration of volumes in woodpulp shipments from Finland, we have been able to offer better frequencies of transport and an



improvement in overall service.

Our new unit tracking system, Unibox, has been designed to support the operation of the increasing amount of unitized cargo. It is now in use in all ports and has given us a valuable tool to further improve our services.

The measurement of our performance standards is accomplished on a weekly basis. A quarterly reporting system to the mills has also been developed. All this leads to better value added service for our customers.

NEW PARTNERSHIPS

Two major partnerships were established during 1996. Together with Bruhn Spedition in Germany, we started collaborating on a direct transport route from Europe via northern Finland to Murmansk in Russia. This traffic will be developed

even further during the coming years.

A very important partnership was established with ASG European Road Transport Oy at the end of 1996. Transfennica will ship the main part of their trailer traffic in the Baltic between Hanko and Lübeck. Participation in trailer traffic is part of our long-term strategy, improving overall service standards to all customers while increasing efficiency.

PORT AND CARGO HANDLING DEVELOPMENT

Increased container traffic has led to an upgrading of container handling facilities in our ports. Hanko received a mobile crane in December and all our main ports now have efficient container handling equipment. With the increase of trade to Lübeck, a new terminal area on Konstinkai was

reserved. The first stage of development has taken place.

Two new warehouses in Rauma and one in Hanko have been taken into use to accommodate the increased volumes from the Kaipola and Kirkniemi mills. In the spring of 1997 a new terminal will also be opened in Oulu.

TRAINING

Continuous development of services through training and education is a key issue for Transfennica. In line with this strategy, we started a new education project for entire crews onboard the vessels. The two-day education package contains information on Transfennica and the business partnership as well as educational visits to mills and ports. As the project has been met with enthusiasm, it will continue during 1997.

DEVELOPMENT PROJECTS

In 1996 we started a quality self-assessment program according to the Malcolm Baldrige criteria. We have further attached environmental issues to the self-assessment in line with the decision to build an environmental program according to ISO 14001 standards.

The new Transfennica Award was launched in 1996 to spur and motivate personnel to take extra interest in developing the business. The award was presented four times.



THE TRANSFENNICA TEAM



Rolf Eriksson
President



Arto Jantunen
Director Europe



Harri Mäkitie
*Director Marketing
& IT*



Holger Stubb
Director Overseas



Jorma Purhonen
Financial Manager



Anssi Mattila
*Administrative &
Quality Manager*



Torsten Grandell
Technical Manager



Kimmo Kari
Department Manager



Airi Laurila
Department Manager



Hugo Van de Vondel
*Director Transfennica
(Belgium) B.V.B.A*



Waltraud Herrlich
*Director Transfennica
Deutschland
GmbH*



James E Deeprise
*Director Transfennica
(UK) Ltd*



Petri Kylläinen
*Branch Office
Manager
UK Blyth*



Hans Forsberg
Account Manager



Eeva Kokkonen
Account Manager



Timo Kuusipalo
Account Manager



Olli Lehtovirta
Account Manager



Marjatta Wagello
Account Manager





THE BOARD'S ANNUAL REPORT 1996

BUILDING UP THE TRANSFENNICA GROUP

The Transfennica service chain was enhanced through the establishment of new subsidiaries in Germany, Belgium and Britain.

An integral part of the Transfennica operations, the subsidiaries are responsible for the quality of the transports to Europe, and they work as intermediaries and arrange the transports to Finland. The German subsidiary Transfennica Deutschland GmbH and the British subsidiary Transfennica (UK) Ltd started to operate in September while the Belgian subsidiary Transfennica (Belgium) B.V.B.A. was launched in December.

The incorporation of the subsidiaries as a comprehensive part of the Transfennica service is based on a uniform quality system, made possible by an on-line information system which all Group companies have access to and which is used for the planning and implementation of the transports. At the beginning of 1997, the subsidiaries will also assume the responsibility for the port-based ship agency operations for the vessels sailing for Transfennica.

The parent company President, Mr. Rolf G.W. Eriksson, is also President of the Transfennica subsidiaries.

SHAREHOLDERS

Through the increase of share capital, the Oy Transfennica Ab nominal capital was increased from five million to ten million Finnish markka. The price in excess of the nominal value paid for the shares was entered in the reserve fund.

Shareholders on December 31

UPM-Kymmene Oy	43.8%
Metsä-Serla Oy	27.3%
Enso Oy	16.6%
Mylykoski Paper Oy	7.5%
Oy Metsä-Botnia Ab	4.8%
	100.0%

PROFIT FOR THE YEAR

The Group profit before appropriations and taxes amounted to 10.9 million Finnish markka, whereas the corresponding parent company profit, or 11.1 million, was half of that in 1995 (22.4 million). The profit showed a decrease on the previous year due to the freight volumes that fell short of the budgeted figures in the first part of the year.

The Group profit for the year was 8.8 million and the parent company profit 8.3 million markka (16.5 million markka in 1995).

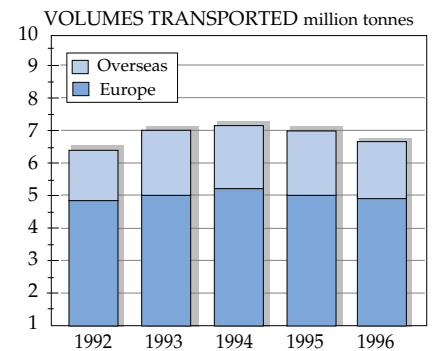
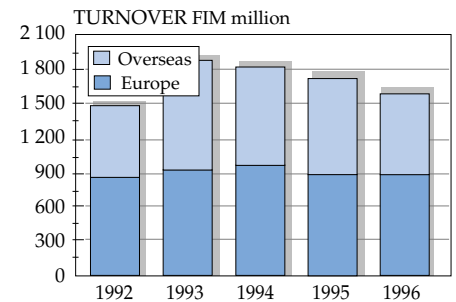
TURNOVER

Both the Group and the parent company turnover totalled about 1,612 million markka, a 5% decrease from the previous year (1,698 million). European transports accounted for 53% of the turnover (49% in 1995).

The total freights carried, or 6.6 million tonnes, showed a 5.5% decrease from 1995 (6.9 million tonnes). Overseas freights amounted to 1.7 million tonnes, or 14.8% less, whereas the volume of European freights remained practically unchanged. European freights accounted for 75% of the total (72% in 1995).

INVESTMENTS

The Group investments were 9.9 million markka (parent company 8.0



million in 1995). The acquisitions of containers accounted for 7.4 million, and the remaining 1.2 million was invested in computer hardware and software.

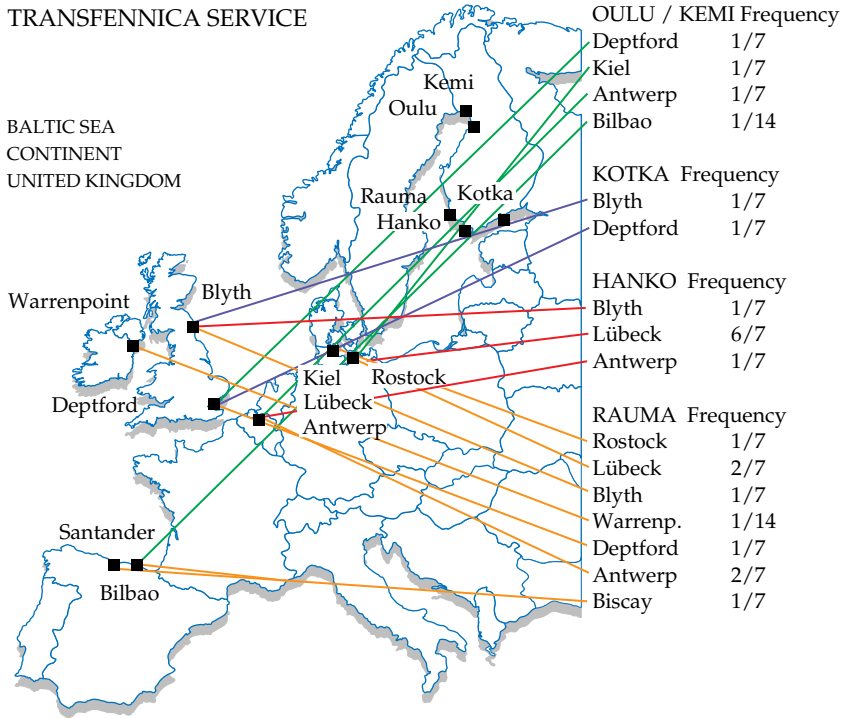
TRANSPORT ARRANGEMENTS AND FREIGHTS

Transfennica charters the fleet for the production of transport services. During the financial year, the mv Transgard, contracted on a long-term charter, entered the traffic between Rauma and Antwerp. With a high-speed and efficient cargo handling design, this vessel is the first of a series of six ships. The experience gained with this vessel is very positive.

Despite the modest volume of freight carried during the first half of the year, the average sea freight level remained stable.

The European ports were served with the following frequency:

TRANSFENNICA SERVICE



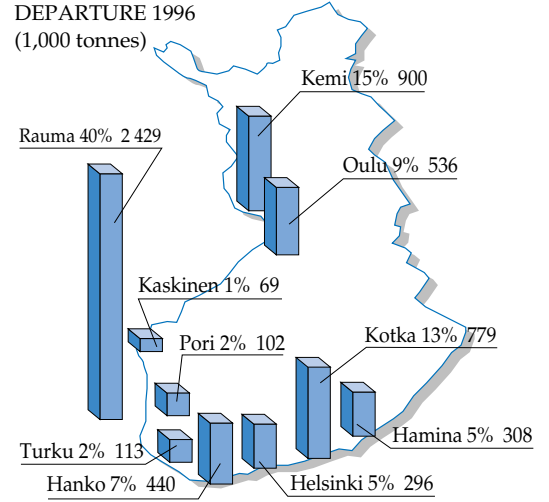
OULU / KEMI Frequency	
Deptford	1/7
Kiel	1/7
Antwerp	1/7
Bilbao	1/14

KOTKA Frequency	
Blyth	1/7
Deptford	1/7

HANKO Frequency	
Blyth	1/7
Lübeck	6/7
Antwerp	1/7

RAUMA Frequency	
Rostock	1/7
Lübeck	2/7
Blyth	1/7
Warrenp.	1/14
Deptford	1/7
Antwerp	2/7
Biscay	1/7

EXPORT QUANTITIES PER PORT OF DEPARTURE 1996 (1,000 tonnes)



RESEARCH AND DEVELOPMENT

The development of our information systems was driven by structural changes in forest industry marketing. In addition, a new unit tracking system and an office system were introduced.

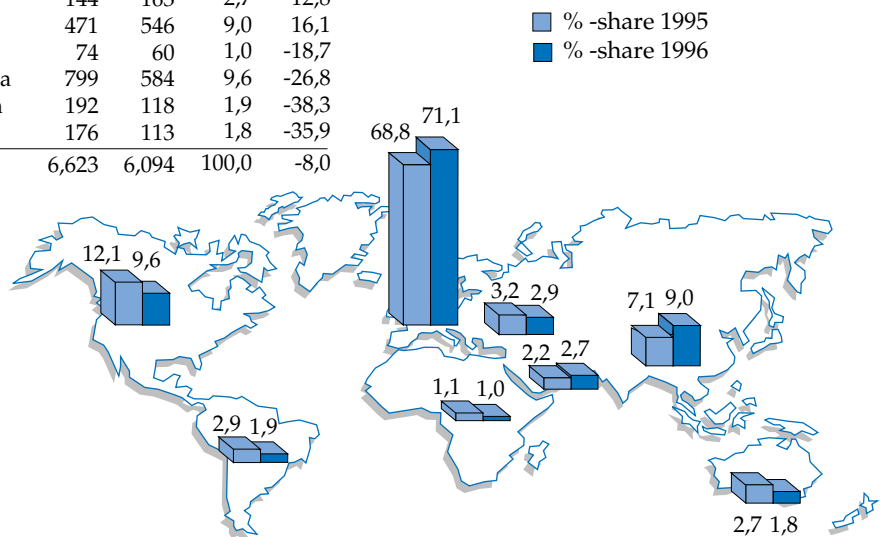
The Transfennica quality system now also extends to the subsidiary operations, and the first step towards this objective was subsidiary personnel training. Another quality-related development project was the environmental impact in the quality system. The extensions of the quality system will be certified according to the ISO 9002 and ISO 14001 standards during the year 1997.

LOADING PORTS AND DESTINATIONS OF THE VOLUMES CARRIED FROM FINLAND

The most important loading port was Rauma with 40% share of the total volumes (41% in 1995), followed by Kemi and Kotka.

	1995 TN	1996 TN	share %	96/95 %
EU	4,559	4,334	71,1	-4,9
Other Europe	209	175	2,9	-15,9
Middle East	144	163	2,7	12,8
Rest of Asia	471	546	9,0	16,1
Africa	74	60	1,0	-18,7
North America	799	584	9,6	-26,8
Latin America	192	118	1,9	-38,3
Oceania	176	113	1,8	-35,9
Total	6,623	6,094	100,0	-8,0

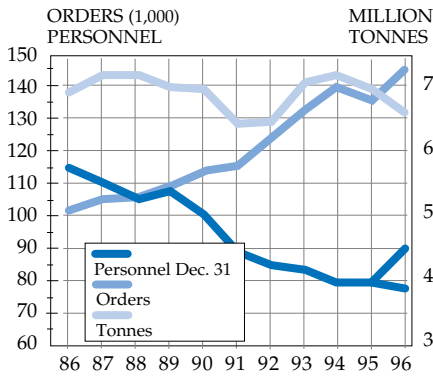
GEOGRAPHICAL DISTRIBUTION OF EXPORT VOLUMES 1995, 1996 (1,000 tonnes)



The EU countries constitute the major destination area with 71.1% (68.8%) of the freight volumes carried. There were about 100 destination countries and over 200 ports of discharge.

The number of assignments totalled

144,700. Their average size decreased from 51 tonnes in 1995 to 45 tonnes in 1996. Nearly 600 orders were handled every working day.



UNTIL THE GENERAL ASSEMBLY ON MARCH 12

Berndt Brunow	Finnpap, Chairman of the Board
Mainio Vainio	United Paper Mills Ltd, Vice Chairman of the Board
Markku Halonen	Veitsiluoto Oy
Jouko Jaakkola	Myllykoski Paper Oy
Raimo Mansukoski	Metsä-Serla Oy
Jorma Sahlstedt	Finnboard

AFTER THE GENERAL ASSEMBLY ON MARCH 12

Ordinary member

Jussi Sarvikas	UPM-Kymmene Oy, Chairman of the Board
Raimo Mansukoski	Metsä-Serla Oy, Vice Chairman
Seppo Hietanen	Enso Oy
Sverre Norrgård	Myllykoski Paper Oy

Deputy member

Tapio Kilpi	UPM-Kymmene Oy
Hannu Anttila	Metsä-Serla Oy
Veli-Jussi Potka	Enso Oy
Heikki Rätty	Myllykoski Oy

PERSONNEL AND NUMBER OF ASSIGNMENTS

Number of personnel	Group Parent company		
	1996	1996	1995
- average	86	82	81
- end of financial year	90	77	79

BUSINESS OUTLOOK

It is estimated that 1997 will be more profitable than this financial year.

AUDITORS

Oy Joe Sundholm & Co Ab, Authorized Public Accountants, acted as auditors.

BOARD OF DIRECTORS

On March 12, 1996 the Articles of Association were amended so that each Board member now has a personal deputy member. During the financial year, the Board members and their deputies were:

EXECUTIVES

Rolf G. W. Eriksson	President
Arto Jantunen	Director
Harri Mäkitie	Director
Holger Stubb	Director





Transfennica's Board of Directors. From left: Raimo Mansukoski, Sverre Norrgård, Jussi Sarvikas, Rolf Eriksson and Seppo Hietanen.

PROPOSAL BY THE BOARD OF DIRECTORS
FOR THE DISTRIBUTION OF PROFITS FOR 1996

The distributable shareholders' equity shown in the Consolidated Balance Sheet amounts to 9,676,000 whereas the distributable shareholders' equity of the parent company is 9,872,384 markka.

The Board of Directors proposes that the said funds be used as follows:

- dividend of 60 markka per share, or 6,000,000 markka to be paid to the shareholders
- to be retained in the profit and loss account 3,872,384 markka.

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, 1996

	FIM 1,000 Group 1996	FIM 1,000 Parent company 1996	FIM 1,000 1995
Net turnover	1,612,033	1,611,998	1,697,660
Costs			
Freight costs	1,557,156	1,558,557	1,637,791
Staff costs	23,569	22,779	21,103
Rents	2,450	2,350	2,218
Other fixed costs	13,241	12,536	11,850
	<u>1,596,416</u>	<u>1,596,221</u>	<u>1,672,962</u>
Profit from operations before depreciation	15,617	15,776	24,698
Depreciation on fixed assets and other capitalized expenditures	<u>-4,714</u>	<u>-4,674</u>	<u>-2,263</u>
Operating profit	10,903	11,102	22,435
Financial income and expenses			
Interest income from non- current investments	53	53	83
Other interest income	1,683	1,680	2,704
Interest expenses	-47	-47	-1,079
	<u>1,689</u>	<u>1,686</u>	<u>1,708</u>
Profit before extraordinary items, voluntary provisions and income taxes	12,592	12,789	24,143
Increase in accelerated depreciations		-934	-1,751
Income taxes	-3,514	-3,514	-5,844
Increase in deferred tax liability	-262		
Profit for the period	<u><u>8,816</u></u>	<u><u>8,340</u></u>	<u><u>16,548</u></u>



BALANCE SHEET

December 31, 1996

	FIM 1,000 Group 1996	FIM 1,000 Parent company 1996	FIM 1,000 1995
Assets			
Fixed assets and other non-current investments			
Tangible assets			
Machinery and equipment	17,935	17,391	12,790
Financial assets			
Bonds and shares	390	1,607	422
Loan receivables	895	895	1,278
	<u>1,285</u>	<u>2,502</u>	<u>1,700</u>
	<u>19,220</u>	<u>19,893</u>	<u>14,490</u>
Current assets			
Receivables			
Trade receivables	65,746	65,736	83,952
Prepaid expenses and accrued income	3,564	3,397	1,750
	<u>69,310</u>	<u>69,133</u>	<u>85,702</u>
Financial securities	7117	7117	
Cash in hand and at banks	56,006	55,715	46,690
	<u>151,653</u>	<u>151,858</u>	<u>146,882</u>
Liabilities			
Capital and reserves			
Restricted shareholders' equity			
Subscribed capital	10,000	10,000	5,000
Other equity	9,596	9,596	2,596
	<u>19,596</u>	<u>19,596</u>	<u>7,596</u>
Unrestricted shareholders' equity			
Retained earnings	7,094	1,532	984
Profit for the period	8,816	8,340	16,548
	<u>15,910</u>	<u>9,872</u>	<u>17,532</u>
	35,506	29,468	25,128
Provisions			
Accelerated depreciation		4,270	3,336
Voluntary provisions		4,340	4,340
Creditors			
Non-current			
Pension loans			101
Current			
Pension loans			8
Trade payables	75,699	75,977	77,929
Accrued liabilities and deferred income	40,448	37,803	36,040
	<u>116,147</u>	<u>113,780</u>	<u>113,977</u>
	<u>151,653</u>	<u>151,858</u>	<u>146,882</u>



SOURCES AND APPLICATIONS OF FUNDS

	FIM 1,000	FIM 1,000
	Parent Company	
Sources of funds	1996	1995
From operations		
Net profit	8,341	16,548
Depreciation	4,674	2,263
Change in reserves	934	1,751
Total from operations	<u>13,949</u>	<u>20,562</u>
Decrease in financial assets	383	273
Sales of fixed assets	63	3
Share issue	12,000	
	<u>26,395</u>	<u>20,838</u>
Application of funds		
Investments		
- subsidiaries' shares	1,217	
- containers and cassettes	7,421	6,832
- other	1,886	1,149
Reduction in long-term liabilities	101	11,510
Dividend distribution	16,000	
	<u>26,625</u>	<u>19,491</u>
Change in net working capital	-230	1,347
	<u>26,395</u>	<u>20,838</u>
Change in net working capital		
Cash and bank	9,025	22,589
Short-term current assets	-9,452	13,491
Short-term liabilities	197	-34,733
	<u>-230</u>	<u>1,347</u>
Net working capital, Jan 1	18,415	17,068
Net working capital, Dec 31	<u>18,185</u>	<u>18,415</u>





NEWBUILDINGS DEVELOPED DURING OUR 20 YEARS OF OPERATION



Nordic Link 1981 **DWT 6700**
Baltic Link 1984
Solano 1984



Forte 1989 **DWT 4000**
Largo 1989



Degerö 1985 **DWT 9300**



Hamnö 1991 **DWT 5700**
Granö 1991
Styrsö 1992
Ahtela 1992



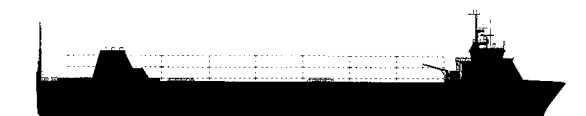
Camilla 1982 **DWT 7500**



Ann-Mari 1992 **DWT 4600**



Trans Fennia 1982 **DWT 5700**



Transgard 1996 **DWT 7500**
Heralden 1997
Engship NWB 157 1998



Trans Nordia 1986 **DWT 4500**



United Shipping NWB 61 1997 **DWT 8800**
United Shipping NWB 62 1998
United Shipping NWB 63 1998
Seatrans NWB 64 1999



Mini Star 1988 **DWT 4400**
Link Star 1989
Martha Russ 1990





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