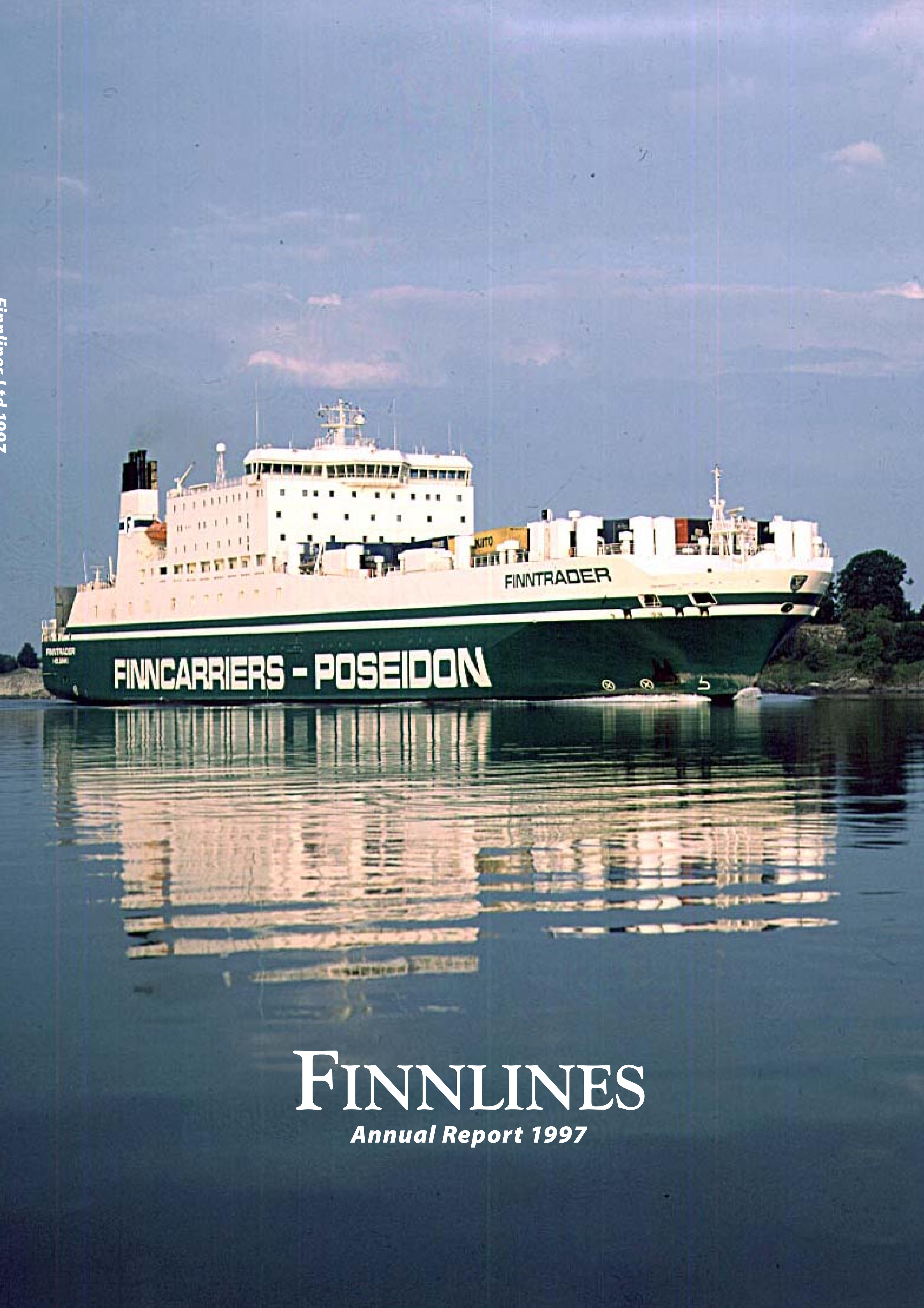


FINNLINES

Annual Report 1997

Finnlines Ltd 1997

The annual report this year is illustrated with pictures about sea travel drawn by young children on the MS Finntrader, which sails between Helsinki and Lübeck.

Finnlines Ltd

Annual Report 1997

Annual General Meeting

The Annual General Meeting will be held on Friday, 27 February 1998, commencing at 10 a.m. at the Palace Restaurant, Eteläranta 10, 00130 Helsinki.

Finnlines Ltd publishes its annual report and interim reports in Finnish and English. The two interim reports cover the periods January to April and January to August.

The Finnlines Group

Finnlines Ltd
(Parent Company)
(31 December 1997)

Shipping and Sea Transport Services
- Finncarriers Oy Ab (100 %)
- Oy Finnlink Ab (100 %)
- The Railship Group (40 %)
- FG-Shipping Oy Ab (100 %)
- Oy Intercarriers Ltd (51 %)

Port Operations
- Finnsteve Oy Ab (100 %)
- Oy A.E. Erickson Ab (100 %)
- Steveco Oy (19.1 %)

Associated Companies
- BTL AB, Sweden (35 % of the shares, 51.5 % of the votes)

The Finnlines Group specializes in providing a wide range of freight transport, logistics and related information services.

The parent company Finnlines Ltd is listed on the Helsinki Stock Exchange. Most of the Group's vessels are owned by the parent company. The Group had an average of 80 vessels in service or under its management, of which 16 were either wholly or partly owned. The Group's tonnage and its manning were handled by FG-Shipping Oy Ab.

Finncarriers Oy Ab was responsible for sea transports mainly between Finland and Continental Europe and Great Britain, and Oy Finnlink Ab between Finland and Sweden.

The Group's port operations were managed by Finnsteve Oy Ab in Helsinki and by Oy A.E. Erickson Ab in Turku. Steveco Oy (19.1 % holding) operates in the ports of Kotka, Hamina and Hanko.

On 17 November 1997 Finnlines exchanged its holding in BTL for ownership of the German Poseidon Schiffahrt AG shipping company, an additional 54 % holding in the Railship Group and a 31.8 % holding in the Team Lines shipping company. After the competition authorities give their approval, this agreement with Stinnes AG will come into effect retroactively from 1 January 1998. The diagram below describes the Group's new structure.

Finnlines Ltd
(Parent Company)
(1 January 1998)

Shipping and Sea Transport Services
- Finncarriers Oy Ab, Poseidon Schiffahrt AG (100 %)
- Oy Finnlink Ab (100 %)
- The Railship Group (94 %)
- FG-Shipping Oy Ab (100 %)
- Oy Intercarriers Ltd (51 %)

Port Operations
- Finnsteve Oy Ab (100 %)
- Oy A.E. Erickson Ab (100 %)
- Steveco Oy (19.1 %)

Associated Companies
- Team Lines (31.8 %)

Significant Events During 1997

In January Finnlines and the City of Helsinki signed a Memorandum on the exchange of land. This will allow Finnlines to receive approximately 8,500 m^2 of office building space in the centre of Helsinki in exchange for the land in Kantvik, Kirkkonummi, owned by its subsidiary Strömsby-Invest Oy Ab.

In March Finnlines increased its holding in BTL to 31.6 % of the shares and 45.8 % of the voting rights by exercising the options it had acquired in autumn 1996.

In April Finnlines acquired Palkkiyhtymä Oy's holding in Oy Finnlink Ab together with its shipping partnerships. Following this transaction Finnlink became a wholly owned Finnlines subsidiary. Since April Finnlink has concentrated on the route between Naantali and Kapellskär (Sweden).

In June Finnlines acquired two RoPax (roro-passenger) vessels from Stena Ferries Ltd, owned by the private Swedish company Stena AB. The vessels, which are under construction in Spain, each have a cargo capacity of 2,500 lane metres, passenger capacity of 440 beds, and a service speed of 21–22 knots. The vessels will be ready for service in mid-1998.

In October Finnlines acquired the MS Gotland roro-passenger vessel from Rederi AB Gotland in Sweden. This vessel, built in 1996, has a cargo capacity of 2,400 lane metres and can carry 119 passengers. She began service on the Helsinki-Travemünde route under the name of MS Finnarrow in December.

Finnlines raised its holding in BTL during the autumn to 33.3 % of the shares and 49.9 % of the voting rights. In mid-November the company signed option agreements with three Finnish companies representing altogether 1.7 % of the shares and 1.6 % of the voting rights in BTL. The options were exercised immediately. At the same time Finnlines made a deal with the German company Stinnes AG and exchanged its ownership in BTL (35 % of the shares and 51.5 % of the votes) to shares in Poseidon Schiffahrt AG, a German shipping company.

Key indicators	***1997***	***1996***	***% change***
Net turnover, FIM million	**2,242**	2,007	12
Profit before depreciation, FIM million	**599**	585 *)	2
% of net turnover	**27**	29	
Profit after depreciation, FIM million	**455**	444 *)	2
% of net turnover	**20**	22	
Profit before provisions and taxes, FIM million	**424**	401 *)	6
% of net turnover	**19**	20	
Profit for the year	**347**	279 *)	24
% of net turnover	**15**	14	
Earnings per share, FIM	**18.06**	14.65	23
Capital expenditure, FIM million	**782**	520	50
Equity ratio, %	**41**	40	–
Average personnel	**1,628**	1,550	5

*) Incl. FIM 115.5 million profit from the sale of Huolintakeskus.

ANNA-LENA KRÄMER

Chief Executive Officer's Review

Exports from Finland continued to grow vigorously to the end of the year. The country's GNP in 1997 is expected to have risen by five per cent and industrial production by a good seven per cent. Low interest rates and recovery in the European markets are expected to maintain a positive trend also in 1998.

Finland's strong export and import growth were reflected in Finnlines' operations during 1997. The company raised its capacity with the acquisition of another three vessels. One of these already entered service in December 1997; the other two will become available in summer 1998.

The company implemented several changes in ownership during the year. The first was to make Finnlink a wholly owned subsidiary, and since then Finnlink has operated exclusively between Naantali and Kapellskär (Sweden). The likely abolition of tax-free trading in summer 1999 will probably affect competition in cargo transportation between Finland and Sweden. Finnlink, which only serves commercial customers, will continue with measures to raise its customer satisfaction levels.

Finnlines exchanged its ownership of BTL for ownership of its long-term conference partner Poseidon Schiffahrt AG. This acquisition positions the company for further growth and higher profitability in its core business. Poseidon's operations and information management will be integrated with Finncarriers during 1998 to raise marketing efficiency and reduce costs. The deal also further clarified the company's role as a common carrier.

Transport companies, as indeed industrial and service companies in general, need to maintain their competitive efficiency by increasing their corporate size to reduce unit costs. This acquisition is one of the first in the land and sea transport sector in Europe, and it represents a trend which is likely to continue.

The Baltic Rim will be one of Europe's fastest growing economic regions in the coming years, a fact which has not gone unnoticed among the company's competitors. Finnlines is responding to this challenge by providing top-quality services emphasizing the best frequency of departures, a modern and well managed fleet, and even more advanced information services.

The overall result in 1998 will be substantially better than in 1997 as a result of the profit from the BTL sale. The result of operations will at least remain at the previous year's level, despite the one-time costs which the Poseidon integration will require, assuming that the company's business environment remains stable.

I would like to extend my sincere thanks to our customers, business partners and owners for their confidence in the company and their close cooperation, and also to all Finnlines employees for their valuable work during the year.

Helsinki, 15 January 1998

Antti Lagerroos

JOHANNA FORYZ

Shipping and Sea Transport Services

Net turnover of the Shipping and Sea Transport Services Division totalled FIM 1,959 million, which was 87 % of the Group's total net turnover. The division's personnel averaged 819 during the year.

Finnlines Ltd

Finnlines Ltd is the Group's parent company. It is responsible for fleet ownership, strategic planning, business control and management, finance and treasury, legal matters and information technology on behalf of the Group.

The Group owned altogether 16 vessels at the year end. These have an average age of nine years and mainly comprise roro and combi-roro vessels designed by the Group itself. The newest series, three combi-roro vessels built between 1991 and 1995, are registered as passenger vessels, each with accommodation for 114 passengers. The Group's fleet will be expanded during 1998 with the addition of five vessels owned by Poseidon and two new roro-passenger vessels acquired from Stena AB. The fleet is shown in full on page 42.

Finnlines and the City of Helsinki concluded a Memorandum on land exchange in January. Finnlines will receive approximately 8,500 m² of office space in the bus station area in the centre of Helsinki, and in exchange will hand over the land in Pikkala, Kirkkonummi, owned by its subsidiary Strömsby-Invest Oy Ab. The City of Helsinki is currently rezoning the bus station area and Finnlines has begun building planning and design. The zoning plan is expected to be ready during 1998, after which the exchange can be completed.

In April Finnlines Group acquired Palkkiyhtymä Oy's holding in Oy Finnlink Ab together with its shipping partnerships. Finnlines Group previously owned 76.5 % in these companies. Following this transaction Finnlink became a wholly owned Finnlines subsidiary. For historical reasons the holdings in these companies are entered in the FG-Shipping Oy Ab's balance sheet.

In June Finnlines acquired two RoPax (roro-passenger) vessels from Stena Ferries Ltd, owned by the private Swedish company Stena AB. The vessels, which are under construction at the AESA Puerto Real shipyard in Spain, each have a cargo capacity of 2,500 lane metres, passenger capacity of 440 beds, and a service speed of 21–22 knots. The vessels meet all the existing and known planned safety regulations for passenger ferries and their main and auxiliary engines will be fitted with catalytic exhaust gas cleaning. The vessels will have ice classification 1A. After delivery during the second tertial in 1998, they will begin cargo and passenger service on Finnlines' Helsinki–Travemünde route. This investment will allow the company to release certain cargo vessels for operation on its other routes and/or possible new routes. Each vessel has a purchase price of approximately US$ 80 million. Stena Ferries Ltd is responsible for financing of the construction. Finnlines will finance the investment after their delivery, partly with cash funds and partly with loan capital.

In October Finnlines acquired the MS Gotland roro-passenger vessel from Rederi AB Gotland in Sweden for approximately 400 million Swedish crowns. The vessel has a cargo capacity of 2,400 lane metres and she offers accommodation for 119 passengers. Built in 1996 she has ice classification 1A. The vessel was in service on Silja's Sea Wind Line between Turku and Stockholm until December 1997, when she was handed over to Finnlines. She then began service on Finnlines' Helsinki–Travemünde route under the name MS Finnarrow. At the beginning of 1998 the vessel will be modified to make cargo handling faster and in summer she will be transferred to the Group's Finnlink route between Naantali and Kapellskär (Sweden).

At the beginning of 1996 Finnlines owned 21.2 % of the share capital of BTL AB, representing 25.6 % of the voting rights. In March Finnlines exercised the option agreements it had concluded in autumn 1996 and acquired 4.1 million A shares in BTL AB from AB Catena, as well as 7.5 million A shares and 20,000 B shares from Walleniusrederierna AB, all for 25 Swedish crowns per share. Finnlines raised its holding in BTL further during the autumn, giving it 33.25 % of BTL's shares and 49.87 % of the voting rights by mid-November. On 14 November Finnlines signed option purchase agreements with three Finnish companies, Pension Varma Mutual Insurance Company, Veikko Laine Oy and Industrial Mutual Insurance Company, which together represented 1.75 % of the shares and 1.64 % of the voting rights in BTL AB.

The same weekend Finnlines reached agreement with Stinnes AG, a subsidiary of the German listed company VEBA AG, to exchange its BTL shares for shares in the German shipping company Poseidon Schiffahrt AG. Finnlines exercised its option agreements with the three Finnish companies immediately.

Finnlines will hand over its 27,376,909 A-Series shares and 11,971,478 B-Series shares in BTL AB to Stinnes, representing 35 % of the shares and 51.51 % of the voting rights in the company. The acquisition will be implemented retroactively with effect from 1 January 1998 when the approval of the relevant competition authorities is received.

In exchange, Finnlines is to receive all the business operations of Poseidon and their related shareholdings, the rights to the Poseidon name, and the vessels in service and their equipment. The following vessels are to be transferred to Finnlines: MS Transeuropa, MS Translubeca, MS Transfinlandia, MS Transbaltica, MS Railship I (54 %), MS Railship II (54 %), MS Railship III (54 %) and MS Transrussia. Prior to this transaction, Finnlines held 40 % of each of the Railship vessels. Poseidon's turnover in 1996 was approximately FIM 650 million and its profit before depreciation was FIM 190 million. It had about 250 employees, including sea personnel. The balance sheet total of the acquired company is approximately FIM 650 million and its equity ratio, calculated from the balance sheet, is over 80 %. The market value of the fleet and its equipment amounts to approx. FIM 1.1 billion. Finnlines will also receive 31.8 % of the container shipping company Team Lines GmbH & Co. KG, which will be registered in the Poseidon balance sheet. This company operates about 20 container vessels, mainly in the Baltic Sea, and is one of the largest companies in its field in Northern Europe.

Stinnes' subsidiary Schenker and BTL together form Europe's largest consortium of companies specializing in land and air transportation. In 1996 they had an aggregate turnover of about FIM 9.5 billion Deutschmark. The acquisition of Poseidon Schiffahrt AG does not alter the competitive situation since Finnlines and Poseidon have for a long time operated as conference partners, an arrangement which has received EU Commission approval.

Finncarriers Oy Ab

The Finncarriers subgroup comprises the parent company Finncarriers Oy Ab and four subsidiaries: Finncarriers AB, Fennia Shipping Ltd, Finncarriers GmbH and Oy Intercarriers Ltd (51 %).

During the year Finncarriers Oy Ab engaged in the following activities:

- Regular liner service in the Baltic Sea between Finland, Germany, Scandinavia and Poland; in the North Sea between ports in Finland, Great Britain, Belgium and the Netherlands; and between Finland and the Bay of Biscay. The company also participated in liner service between Kiel and St. Petersburg
- Railferry service between Finland and Germany
- Small tonnage services between ports in Finland, Scandinavia, Continental Europe, Great Britain and the Bay of Biscay
- Contract services between Finland and North America
- Barge services in the Baltic Sea through the associated company Baltic Bulk Services Oy Ab (50 %).

The company also offered selected door-to-door and terminal services and acted as the main agent for Svenska Orient Linien AB in the eastern Mediterranean.

Oy Intercarriers Ltd supplied agency and clearance services related to small tonnage chartering operations. The Norwegian companies Finncarriers AS and its subsidiary Norsteve AS handled agency, stevedoring, warehousing and distribution in Oslo. Finncarriers' associated companies Frachtkontor Finnland OHG (50 %) in Lübeck and Travemünde, Finnbelgia Agencies N.V. (50 %) in Antwerp, and Finanglia Ferriers Ltd (50 %) in London, Felixstowe and Hull were responsible for port and canvassing agent services. The company also has holdings in the Finnish transport and forwarding company North Euroway Oy (50 %) and in the Belgian terminal company Finnwest N.V. (33.3 %) in Antwerp.

Finncarriers had an average of 70 vessels in service during the year. Volumes of both exported and imported cargo increased substantially.

Liner service

Finncarriers consolidated its position in the Baltic Sea and North Sea, its main routes, during the year. In these areas Finncarriers operates through conferences consisting of several partners. Since it is the majority holder in these conferences, Finncarriers acts as the conference manager responsible for administration, marketing, sales, customer service and the operation and maintenance of the vessels.

The conference partner in the Baltic liner service, the Railship railferry service and the Scandinavian liner service was the German company Poseidon Schiffahrt AG, and also Transbaltic Schiffahrt GmbH on the Rostock route. Frequency was high with the conference offering several daily departures from both Finland and Germany. Vessel capacity was increased in response to greater demand. The two new RoPax vessels acquired by Finnlines from Stena will begin operating in the Baltic liner service in summer 1998. Finnlines acquired Poseidon Schiffahrt AG from Stinnes AG in November and the Finncarriers and Poseidon operations will be combined during 1998 as a result.

The conference partners in the North Sea liner service were Poseidon, mentioned above, and Andrew Weir Shipping Company through its subsidiary United Baltic Corporation. The conference offered several weekly departures to various North Sea ports. At the beginning of the year a container service with two container vessels was started between Rauma and Felixstowe. This service was very successful in meeting its targets.

Polfin Line was a new liner service started at the beginning of the year between Finland and Poland, also with two vessels. Finncarriers' conference partners on this route were the Polish company Euroafrica Shipping Lines and Poseidon Schiffahrt AG with Finncarriers as the service manager.

Through its German subsidiary Finncarriers GmbH, Finncarriers was also involved in a Russian conference called TransRussiaExpress, set up at the beginning of the year to handle sea transport between Kiel and St. Petersburg. The conference manager is Poseidon and the oth-

er partners are Baltic Transport System (BTS), St. Petersburg, and Friedrich Sänger GmbH, Hamburg.

Liner services developed favourably and the vessels ran on schedule. The new capacity made it possible to handle increased transport volumes (trailers, trucks and transit cargo) and also created a solid basis for further development of this business. Thanks to its new routes the company was able to offer alternative reliable and effective transport solutions.

Finncarriers' new computerized logistics system Octopus was brought into operation in Finland. The system is also close to being introduced in its international subsidiaries and associated companies and the aim is to integrate Frachtkontor Finnland and Finnbelgia within the system in early 1998. The Octopus system is part of Finncarriers' overall operating structure, which emphasizes the close interface between the business processes and information systems. Octopus enables both customers and Finncarriers to raise the efficiency of their logistical processes and improve the delivery reliability of their shipments.

The company also further raised its techical capabilities and the quality of its operations. Part of this work involved self-evaluation of the company's business operations and the launch of the "Navicare" service brand.

Railferry services

The Railship railferry operations between Finland and Continental Europe were reorganized to achieve a better balance of traffic. Two railferries operated on the Railship service between Hanko and Travemünde. The Railship group has developed its own rail wagons with changeable bogies to provide uninterrupted transport between Finland, Russia and Continental Europe without the need to reload cargo. At the end of the year Railship had about 1,300 such wagons in service.

To strengthen this service and its competitive efficiency along with the liner service, it was decided to transfer the Railship service from Hanko to Pansio in Turku in summer 1998. The main change will be an increase in the number of weekly departures to six. The wagons themselves and their number will also be rationalized to correspond better with railferry requirements.

Special emphasis was given to developing services to Russia with new representative offices opened in St. Petersburg and Moscow.

Small tonnage services

During the year Finncarriers operated an average of 25 so-called small tonnage vessels which sail under the German and Russian flags. These plied direct routes from Lake Saimaa and sea ports in Finland to Continental Europe and to sea and inland ports in Russia. The operations of Intercarriers also comprised traffic from Russian sea and inland ports to Scandinavia and Continental Europe. Measures were taken during the year to reorganize the small tonnage services and improve their efficiency.

Contract traffic

Finncarriers engaged in contract traffic under the name of F-Ships between North America and Europe. This service, using five vessels, strengthened its position during the year. In 1998 these activities will continue with six vessels and will concentrate more clearly on the transport of forest industry cargo. The conference partners are the Finnish company Palkkiyhtymä Oy, the Swedish company B & N Bylock & Nordsjöfrakt AB and Finncarriers Oy Ab, each with a one-third holding.

The associated company Baltic Bulk Services Oy Ab continued to operate barge traffic in the Baltic Sea with three barges. Its operations recovered as the markets stabilized. In 1998 Finncarriers will continue to market and operate its bulk transport operation, which in addition to the existing vessels will also include Enso Oyj's MegaMotti pusher barge for wood transport. The company also participated in development of UPM-Kymmene Seaways Oy's transport between Pietarsaari and Emden.

Oy Finnlink Ab

The Finnlink subgroup comprises Oy Finnlink Ab and Finnlink AB (Sweden). Since April of the year under review Finnlink has operated between Naantali and Kapellskär (Sweden) with three roro vessels.

MS Finnfellow was out of service for the first two months of the year, having run aground the previous December. The combi-roro ferry MS Finnsailor was out of service for two weeks in April–May when dry-docked for conversion work.

The Finnlink service continued to operate on the Uusikaupunki–Hargshamn (Sweden) route until the beginning of April. It was then moved to the Naantali–Kapellskär route and cargo customers were offered three daily departures in both directions. The cargo volumes carried, computed by truck loads, rose 34 % on the new route, compared to the previous year. Altogether 65,000 truck loads were transported. The company will further raise its cargo capacity and improve its service during 1998.

FG-Shipping Oy Ab

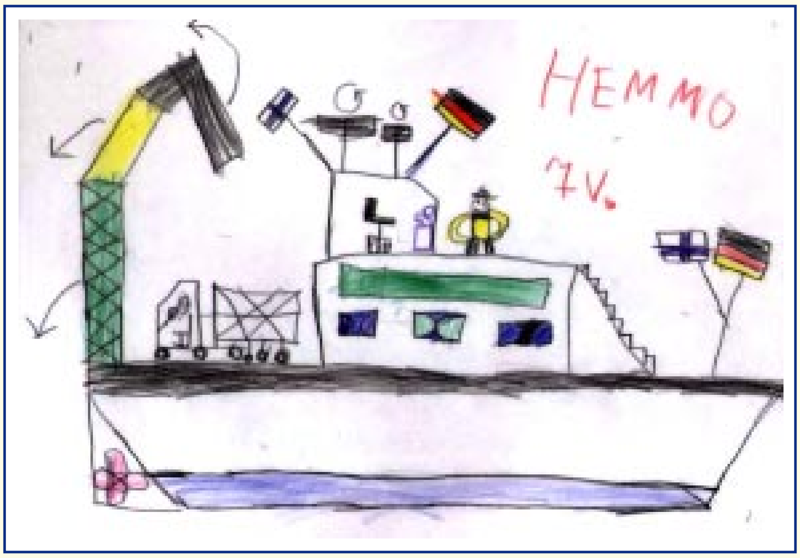
FG-Shipping Oy Ab has four subsidiaries: AB Finnlines Ltd (100 %), Finnlines (Lübeck) GmbH (100 %), Finnmanagement Ltd (100 %) and Oy Finnlink Ab (100 %).

FG-Shipping is responsible for the management, manning and time-chartering of the Group's vessels, and their development. It also provides vessel management services for other shipowners' vessels as well as passenger services for the Group's own vessels.

Development during the year concentrated on conversion of the existing and acquired tonnage. After Finnlink moved to the Naantali-Kapellskär route, extensive modifications were made to Finnfellow, Finnmaid and Finnsailor to speed up cargo handling. Work has also been under way since July on adapting the newbuildings acquired from Stena AB for their future tasks and on supervising the construction of the newbuildings.

Further progress was made to developing and introducing a security system complying with the international security management (IMS) code. All the company's roro-passenger vessels, as well as its bulk chemicals carrier MS Kemira, have been awarded Security Management Certification by the Board of Finnish Maritime Authority.

During the year 11 (1996: 8) manned vessels and 3 (4) barges were docked for normal maintenance work. At the end of the period FG-Shipping managed 21 (25) vessels and a further four (0) were bareboat-chartered from the parent company. These represented a total gross capacity of 353,680 (348,989) tonnes. The company manned 19 (17) of these and employed 549 (532) seamen. Eleven of the vessels managed by the company operated on Finncarriers' European routes, one in F-Ships' North Atlantic service and three in Finnlink's Swedish service. The company also managed ten vessels used by industrial companies for carrying their own goods. The company offered passenger services to four combi-roro vessels between Finland and Germany. One of these, MS Finnarrow, entered service at the end of December.



HEMMO

Port Operations

The net turnover of the Port Operations Division was FIM 359 million, which was 16 % of the Finnlines Group's total net turnover. The division had an average of 809 employees during the year.

The Group manages port operations including stevedoring and terminal operations, warehousing services and container depot operations under the name of Finnsteve Oy Ab in Helsinki and Kirkkonummi, and under the name of Oy A.E. Erickson Ab in Turku. Invoicing and accounting of cargo fees in both Helsinki and Turku are managed by agreements with the Port of Helsinki. The Helsinki and Turku ports, which are specialized in handling unitized cargo, are the largest in Finland measured in terms of cargo value. They also offer the best balance between imports and exports compared with Finland's other ports.

Finnsteve Oy Ab

Finnsteve Oy Ab is a stevedoring company operating in the Sompasaari, West and South harbours of Helsinki and the Kantvik harbour in Kirkkonummi. The company also runs a terminal, provides warehousing services and operates a container depot.

The recent positive development of Finland's foreign trade and sea transportation was also reflected in Finnsteve's operations. A total of 2,667,219 tonnes and 858,520 units of cargo were handled in Helsinki during the year (1,975,995 tonnes and 780,842 units in 1996). The introduction of FIPS software at Helsinki's West harbour has considerably improved quality and efficiency there. The full benefits of the same system at Sompasaari will be seen during 1998. Both ports have increased cooperation with the City of Helsinki to ensure flexible and rapid handling of cargo volumes.

The importance of information systems in daily port operations has risen substantially. Roughly ten of Finnsteve's customers have so far joined the STEVIS customer terminal system. The Port of Helsinki also uses Finnsteve's systems at the West Terminal and in the supervision of hazardous substances.

Continuous investments have also been made to enhance security and access control and these issues will continue to receive priority in conjunction with the development of other functions.

The company was awarded Quality Certification in March 1997.

Oy A.E. Erickson Ab

Oy A.E. Erickson Ab is engaged in stevedoring and terminal operations in the port of Turku. The company also provides bonded terminal, warehousing and container depot services. Under the auxiliary name of Turku Shipping the company runs forwarding, documentation and ship clearance operations in the economic region of Turku.

In 1997 the company handled altogether 1,003,719 (980,101) tonnes of cargo. During the year the company placed heavy priority on personnel training to further raise customer satisfaction levels.

The company runs a quality system certified according to the SFS-EN ISO 9002 standard, covering stevedoring, terminal, forwarding, documentation and ship clearance services.

The transfer of the Railship traffic to Turku in summer 1998 will considerably increase the volume of cargo handled by the company.

Steveco Oy (19.1 %)

Finnlines owns 19.1 % of Steveco Oy, which operates the ports of Kotka, Hamina and Hanko as well as some ports around Lake Saimaa. The company paid a total dividend of FIM 60 million in 1996, of which Finnlines received FIM 16 million.

JULIUS

Associated Companies

BTL AB , Sweden

(35.00 % of the shares, 51.51 % of the votes, sold on 17 November 1997)

BTL AB is the largest transport and logistics group in the Nordic countries. It operates mainly in the EU and its corporate network, which handles road, sea and air transport, comprises about 500 offices in 32 countries. The company transports about 18 million tons annually and it has 11,000 employees.

BTL's A and B shares are listed on the Stockholm stock exchange and its B shares also on the Copenhagen stock exchange. There are approximately 25,000 shareholders. The company's market capitalisation at the year end was 4,092 million Swedish crowns (SEK 2,642 million in 1996).

In 1997 the company rationalised its operations in Sweden. It placed further emphasis on its core business by divesting its shipping company holdings. It also reached agreement on the divestment of its Specialist division, which will take place during 1998 and give rise to a gain of about SEK 190 million.

The Group's net invoicing in 1996 was SEK 17 billion. Profits accrued positively during the first nine months of 1997 and strong demand was expected to continue to the year end. Net invoicing for January to September totalled SEK 13.5 billion (1–9/96: SEK 12.6 billion). The operating profit between 1 January and 30 September 1997 was SEK 516 (216) million and the profit after taxes was SEK 307 (–44) million. BTL will publish its financial statements for the full year on 19 February 1998.

Finnlines' share of BTL's profit (profit after taxes) in proportion to its average shareholding during the year is entered under Associated Companies in the Group's profit and loss account. The figure is based on BTL's estimated profit for the full year, calculated from the interim financial statements for the period 1 January to 30 September.

At the start of the year Finnlines held 21.2 % of the shares and 25.6 % of the votes of BTL. The company increased its holding during the year firstly by exercising the option agreements concluded with AB Catena and Walleniusrederierna AB in autumn 1996, and later by acquiring further shares on the open market. In November 1997 Finnlines sold its BTL interest to Stinnes AG, a subsidiary of the German listed company VEBA AG, receiving in return a shipping company called Poseidon Schiffahrt AG. This transaction will come into effect retroactively with effect from 1 January 1998, when the approval of the relevant competition authorities is received. Finnlines recorded a profit on sale of the BTL holding totalling over FIM 500 million; of this amount, FIM 50 million was entered in the 1997 accounts as Finnlines' share of BTL's profit for the year and the remainder will be entered in the 1998 accounts.

BTL and Schenker, a subsidiary of BTL's new owner Stinnes, together form the largest consortium in Europe specializing in road and air transportation.


Finntrader
Für den Kapitän von Ann-Kathrin aus Flensburg 8 Jahre

ANN-KATHRIN

Board of Directors' Report

Business environment

The volume of exports transported by sea increased by 8 % and imports by 6 % during the year. Exports of paper rose during the same period by 17 % and imports of unitised cargo by 21 %.

Financial performance

No changes took place to the Group's structure during 1997 which affected the structure of the financial accounts for the year. The Group's holding in Oy Finnlink Ab, which was consolidated as a subsidiary already at the end of 1996, increased from 76.5 % to 100 %. The BTL holding increased during the year from 21.2 % to 35 %. As in the previous year, the Group's share of BTL's profit was shown separately after net turnover under Associated Companies.

The gross sales of the Finnlines Group totalled FIM 3,727 million (1996: FIM 3,236 million). The increase was mainly attributable to strong growth in import and export volumes. Sales adjustment items comprised the share of conference partners in the sales of sea transport services, customs dues and VAT, discounts, exchange rate differences on sales receivables, cargo fees at ports, rents on container terminals and land areas, and other transit items.

The Finnlines Group's net turnover totalled FIM 2,242 (2,007) million. The Group's share of associated companies' results was FIM 52 (2) million, of which FIM 50 million came from BTL. The Group's share of BTL's result is estimated for the whole year, based on the figures published in BTL's interim report for January to September.

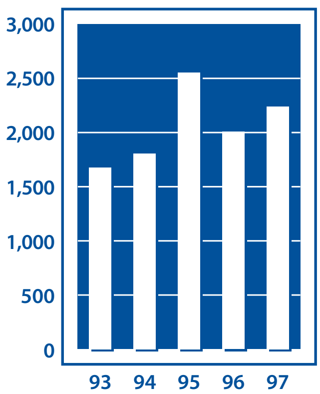
In transaction with Stinnes AG on 17 November 1997 the BTL shares were exchanged for the shares of Poseidon Schiffart AG. This acquisition will come into effect retroactively from 1 January 1998 when approval is received from the competition authorities. Of the profit from BTL disposal, about FIM 460 million will be recorded in 1998.

Other operating income, mainly proceeds from the sale of fixed assets, amounted to FIM 10 million (1996: FIM 120 million including a gain of FIM 115.5 million on the sale of Huolinta-keskus). Operating income totalled FIM 2,304 (2,125) million.

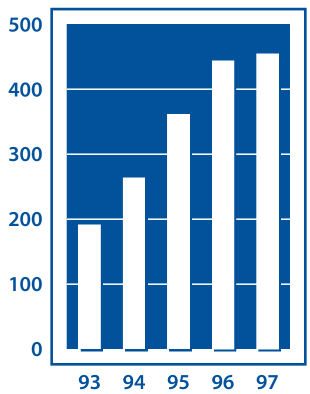
The operating profit before depreciation was FIM 599 (585) million, which was 27 % of net turnover (1996: 29 %, including the Huolintakeskus gain).

Depreciation according to plan totalled FIM 144 (141) million, including planned deprecia-

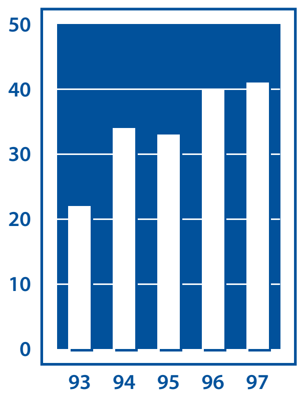
Net turnover, MFIM



Operating profit , MFIM



Equity ratio, %



tion on vessels and ship shares of FIM 89 (86) million.

The Group showed an operating profit of FIM 455 (444) million.

Financial expenses (net) were FIM 31 (40) million. Dividend income, FIM 16 million, comprised the dividend paid by Steveco Oy (Group holding 19.1 %).

Exchange rate differences (net), FIM + 3 million, included realised exchange rate differences of FIM + 5 million, and unrealised exchange rate differences of FIM –2 million allocated to the review year. Unrealised exchange rate differences arising from the Group's loan portfolio in 1997 have been allocated over the maturity of the Group's loans. The share not allocated to 1997, FIM –11 million, has been entered under valuation items in the balance sheet.

The profit before extraordinary items was FIM 424 (404) million.

The result was weakened by the docking of MS Finnfellow for two months and of MS Finnsailor for two weeks during the spring.

The Group's profit before provisions and taxes was FIM 424 (401) million. The Group's accounts show a profit after taxes, the change in deferred tax liability and minority interests totalling FIM 347 (279) million.

Investments and financing

The Group's gross investments came to FIM 782 (520) million. Investments in vessels included the acquisition price of MS Finnarrow (MS Gotland) and the shares (24.5 %) in MS Finnfellow and MS Finnmaid acquired from Palkkiyhtymä Oy. Investments also include the acquisition price of the BTL shares, FIM 309 million, and the acquisition of the holding in Finnlink Group (24.5 %).

Consolidated interest-bearing liabilities totalled FIM 1.6 (1.2) billion at the year end.

The Group's cash reserves amounted to FIM 327 (363) million at the year end.

The Group's equity ratio was 41 % (40 %), calculated at the book value of the fixed assets, and 45 % (42 %) calculated at the market value of the fixed assets.

Fleet

At the end of the period the Group owned, either wholly or partly, a total of 16 vessels. The market value of the fleet exceeded the balance sheet value by FIM 104 million. Market value is the average of two external evaluations. The

Finnlines Group result

	1 Jan.–31 Dec. 1997		1 Jan.–31 Dec.1996	
	MFIM	**%**	MFIM	%
Net turnover	**2,242**	**100**	2,007	100
Share of associated companies' results	**52**	**2**	–2	–
Other operating income	**10**	**–**	120 *)	6
Expenses	**–1,705**	**–75**	– 1,540	– 77
Operating profit before depreciation	**599**	**27**	585	29
Depreciation according to plan	**–144**	**–7**	– 141	– 7
Operating profit	**455**	**20**	444	22
Financial income/expenses (net)	**–31**	**–1**	– 40	– 2
Profit before extraordinary items	**424**	**19**	404	20
Extraordinary income/charges	**–**	**–**	–3	–
Profit before provisions and taxes	**424**	**19**	401	20
Profit for the year	**347**	**15**	247	14

*) Incl. FIM 115.5 million profit from the sale of Huolintakeskus.

fleet is presented on page 42 of this Annual Report.

The hull and hull interest insurance on ships wholly owned by the Group was FIM 2,715 (2,205) million at the end of the year, and the corresponding insurance value of the ship shares reported in the balance sheet was FIM 66 (281) million, making a total of FIM 2,781 (2,486) million.

Impact of exchange rates

The Group's principal invoicing currency is the Deutschmark, which was very stable with respect to the Finnish markka throughout the year. Fuel costs depend on both prices of crude oil and on the US dollar. Crude oil prices fell during the year, whereas the US dollar strengthened against the markka. The Group has partially hedged against fluctuations in oil prices using so-called bunker clauses, which are written into its customer agreements. The Group hedges against foreign exchange risks through foreign exchange clauses in its customer agreements, and also through the use of foreign exchange loans, forward foreign exchange contracts and currency options.

Forward foreign exchange contracts have been used to hedge the US dollar-denominated acquisition cost of the vessels acquired from Stena AB and due for delivery during 1998.

Miscellaneous

In August Rautaruukki Corporation's subsidiary Oy JIT-Trans brought legal action against Finnlines' subsidiary FG-Shipping in a court of arbitration concerning the capsizing of the pusher-barge MS Finn-Baltic in 1990. JIT-Trans is claiming FIM 28.9 million with interest and costs from FG-Shipping. The company considers the claim to be completely unfounded.

Prospects

The Group's result was an improvement on the result for the previous year, even though the 1996 profit included a one-time gain of FIM 115.5 million. Similarly, the result for the current year will be a distinct improvement on the profit for 1997 due to the proceeds from the sale of the BTL shares at the beginning of the year. The result of operations will at least remain at the previous year's level, despite the one-time costs arising from the integration of the Poseidon operation, assuming that the business environment remains stable.

Net turnover by division

	1997		1996	
	MFIM	**%**	MFIM	%
Shipping and Sea Transport Services	**1,959**	**87.4**	1,736	86.5
Port Operations	**359**	**16.0**	332	16.5
Intra-group eliminations	**–76**	**–3.4**	– 61	– 3.0
Group total	**2,242**	**100.0**	2,007	100.0

Key Indicators

	1997	1996	1995	1994	1993
Sales, FIM million	**3,726.8**	3,236.4	4,338.4	2,953.0	2,656.3
Net turnover, FIM million	**2,242.3**	2,007.1	2.554.4	1.805.3	1,678.6
Associated companies	**51.6**	–1.7	8.5	26.2	21.6
Other operating income, FIM million	**10.1**	120.3	3.5	8.3	18.6
Total operating income, FIM million	**2,304.0**	2,125.7	2,566.4	1,839.8	1,718.8
Operating profit before depreciation, FIM million	**598.8**	584.7	499.9	405.5	302.4
% of net turnover	**26.7**	29.1	19.5	22.5	18.0
Operating profit, FIM million	**454.6**	443.9	370.0	290.0	213.0
% of net turnover	**20.3**	22.1	14.5	16.1	12.7
Profit before extraordinary items, FIM million	**423.8**	403.9	315.3	245.2	104.5
% of net turnover	**18.9**	20.1	12.3	13.6	6.2
Profit before provisions and taxes, FIM million	**423.8**	400.8	318.7	245.2	106.1
% of net turnover	**18.9**	20.0	12.5	13.6	6.3
Profit for the year	**346.7**	278.6	215.6	173.0	97.6
% of net turnover	**15.5**	13.9	8.4	9.6	5.8
Return on equity, %	**24.3**	23.8	21.8	26.0	26.0
Return on investment, %	**17.0**	19.1	17.7	17.0	15.3
Total assets, FIM million	**3,924.1**	3,223.6	3,248.8	2,608.8	2,104.8
Total investments as per funds statement, FIM million	**782.3**	519.8	618.5	478.8	260.1
% of net turnover	**34.9**	25.9	24.2	26.5	15.5
Equity ratio, %	**40.5**	39.9	32.8	34.2	21.7
Equity ratio, adjusted for the market value of the vessels, %	**45.3**	41.9	35.4	39.4	31.2
Rate of self-financing, %	**62.8**	80.7	55.9	60.3	71.9
Average number of employees during the year	**1,628**	1,550	2,009	1,402	1,210

Calculation of key ratios

ROE (Return on equity, %) $= \dfrac{\text{Profit before extraordinary items – taxes for the financial year – change in deferred tax liability}}{\text{Shareholders' equity + minority interests (average)}} \times 100$

ROI (Return on invested capital, %) $= \dfrac{\text{Profit before extraordinary items + interest expenses + other financial items under liabilities}}{\text{Balance sheet total – interest-free loans (average)}} \times 100$

Equity ratio, % $= \dfrac{\text{Shareholders' equity + minority shares}}{\text{Balance sheet total – advances received}} \times 100$

Rate of self-financing, % $= \dfrac{\text{Funds generated from operations according to funds statements}}{\text{Investments according to funds statements}} \times 100$

Share Data

	1997	*1996*	*1995*	*1994*	*1993*
Earnings per share (undiluted), FIM	**18.06**	14.65	11.11	9.45	6.42
Earnings per share without change in deferred tax liability, FIM	**20.70**	18.17	15.31	12.09	6.72
Earnings per share less warrant bond dilution, FIM	**17.39**				
Shareholders' equity per share, FIM	**81.08**	66.68	55.14	46.12	29.15
Dividend per share, FIM	**5.00**	4.00	3.00	2.00	1.00
Payout ratio, %	**27.7**	27.3	27.0	22.2	16.2
Effective dividend yield, %	**2.3**	3.5	4.2	2.1	1.7
Price/earnings ratio (P/E)	**12.0**	7.7	6.4	10.3	9.4
Share price on the stock exchange at the year end, FIM	**217.00**	113.00	71.00	97.00	60.50
Market capitalisation at the year end, FIM million	**4,231.3**	2,166.1	1,361.0	1,859.4	943.8
Adjusted average number of shares	**19,200,232**	19,168,979	19,168,979	18,305,968	15,022,222
Adjusted number of shares on 31 December	**19,499,379**	19,168,979	19,168,979	19,168,979	15,600,000

Share performance in 1997

	January–February	March–April	May–June	July–August	September–October	November–December	January–December
Highest, FIM	139.50	137.00	160.00	174.00	204.00	222.50	222.50
Lowest, FIM	111.50	116.10	131.00	150.00	156.00	190.00	111.50
Average price, FIM	125.46	128.08	146.65	164.31	177.14	210.64	153.24
No. of shares traded	3,288,810	1,804,225	2,366,833	848,995	1,643,040	1,806,100	11,758,003
Total trading, FIM	412,629,412	231,084,126	347,094,253	139,498,009	291,045,512	380,435,132	1,801,786,444

$$\text{Earnings per share (EPS)} = \frac{\text{Profit before extraordinary items +/– minority share of Group profit +/– change in deferred tax liability – taxes for the financial year, from which the effect of extraordinary income and charges has been eliminated}}{\text{Average number of shares adjusted by share issue}}$$

$$\text{Shareholders' equity per share} = \frac{\text{Shareholders' equity}}{\text{Number of shares as on 31 Dec. adjusted for share issue}}$$

$$\text{Dividend per share, \%} = \frac{\text{Dividend for the year distributed}}{\text{Number of shares on balance sheet date}} \times 100$$

$$\text{Payout ratio, \%} = \frac{\text{Dividend for the year distributed}}{\text{Profit before extraordinary items +/– minority share of Group profit +/– change in deferred tax liability – taxes for the financial year, from which the effect of extraordinary income and charges has been eliminated}}$$

$$\text{Effective dividend yield, \%} = \frac{\text{Dividend per share}}{\text{Share price quoted on stock exchange as on 31 Dec. adjusted for share issue}} \times 100$$

$$\text{Price /earnings ratio (P/E)} = \frac{\text{Share price quoted on stock exchange on 31 Dec.}}{\text{Earnings per share}}$$

Shares and Shareholders

Share capital

The company's share capital is minimum FIM 70,000,000 and maximum FIM 280,000,000. Within these limits the share capital may be raised or lowered without amending the Articles of Association. The shares have a nominal value of FIM 10 per share. Each share carries one vote at shareholder meetings. The Board of Directors holds no authorisations to raise the share capital.

Bonds with warrants

Finnlines has issued two bonds with warrants to its management, one in 1994 and one in 1997. The 1994 bond with warrants totalled FIM 1,100,000 and the loan period is four years, from 1 June 1994 to 1 June 1998. Each bond with a nominal value of FIM 1,000 carries one warrant entitling the holder to subscribe for 400 Finnlines shares for a subscription price of FIM 89.70. The shares may be subscribed annually from 2 January to 15 December and no later than 1 June 1998. Based on the warrants of this 1994 bond, the number of shares may increase by at most 440,000 and the share capital by at most FIM 4,400,000. A total of 330,400 shares had been subscribed by the end of 1997, based on this bond.

The 1997 bond totalled FIM 100,000 and the loan period is four years, 3 March 1997 to 3 March 2001. Each bond with a nominal value of FIM 1,000 carries one warrant entitling the holder to subscribe for 500 shares for a subscription price of FIM 135.36 per share. The shares may be subscribed annually from 2 January to 30 November and no later than 3 March 2001. Based on the warrants of the 1997 bond the number of shares may increase by at most 500,000 and the share capital by at most FIM 5 million.

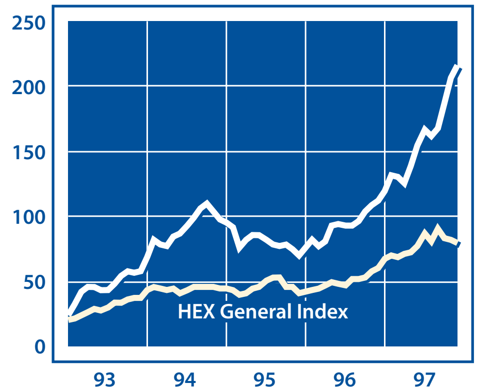
Share prices and trading

The registered share capital of Finnlines Ltd was FIM 194,993,790 divided into 19,499,379 shares of FIM 10 nominal value with equal voting rights. The shares are listed on the Helsinki Stock Exchange. Share trading during the year totalled 60 % of the share capital registered at the end of the year. The highest quotation, FIM 222.50, was in December and the lowest, FIM 111.50, in January. The market capitalisation on 31 December 1997 was FIM 4,231 million. The company's share is included in the Hex-20 index, ie. among the 20 most traded shares on the HSE.

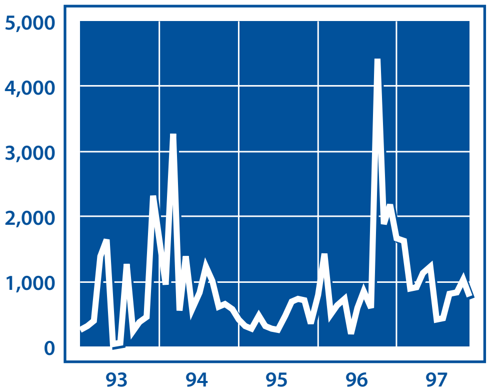
Shareholder agreements

Finnlines Ltd knows of no shareholder agreements which would have a material impact on the value of the shares.

Share price performance, FIM



Shares traded, No. x 1,000



Principal shareholders on 31 December 1997

	Number	% of shares/votes
Sampo Group	2,213,000	11.35
Pohjola Group	2,198,800	11.28
Thominvest Group	1,939,380	9.95
Veikko Laine Oy	1,760,136	9.03
Enso Oyj	1,349,870	6.92
Pension Varma Group	703,050	3.61
Dreadnought Finance Oy	505,320	2.59
Thomproperties Oy	400,439	2.05
Laatusäilyke Oy	373,300	1.91
Municipal Authorities' Pension Insurance	325,320	1.67
Foreign and nominee registered	3,574,638	18.33
Other	4,156,126	21.31
Total	19,499,379	100.00
Group management holding	8,000	0.04

Ownership structure on 31 December 1997

	No. of owners	% of shares/votes
Listed companies	6	7.16
Non-listed companies	209	29.93
Financial and insurance institutions	55	29.53
Public entities	37	6.97
Non-profit associations	134	4.07
Households	1,741	3.98
Foreign, nominee registered	21	18.33
Not transferred to book-entry accounts	–	0.03
Total	2,204	100.00

Distribution of ownership on 31 December 1997

No. of shares	Shareholders No.	Shareholders %	Shares/votes No.	Shares/votes %
1 – 100	769	34.89	39,700	0.20
101 – 1,000	997	45.24	404,781	2.08
1,001 – 10,000	342	15.52	1,199,236	6.15
10,001 – 100,000	72	3.27	2,309,047	11.84
100,001 – 1,000,000	19	0.86	6,317,637	32.40
1,000,001 –	5	0.23	9,222,716	47.30
Not transferred to book-entry accounts			6,262	0.03
Total	2,204	100.00	19,499,379	100.00

Profit and Loss Accounts

FIM million	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
SALES	**3,726.8**	3,236.4	**247.5**	232.0
SALES ADJUSTMENT ITEMS	**−1,484.5**	−1,229.3	**−4.7**	
NET TURNOVER	**2,242.3**	2,007.1	**242.8**	228.1
Associated companies	**51.6**	−1.7		
OTHER OPERATING INCOME (1)	**10.1**	120.3	**5.4**	83.4
Expenses				
Materials and supplies				
Purchases during the financial year	**204.6**	171.2	**5.1**	3.8
Increase/decrease in stocks	**−1.4**	−2.8	**−0.3**	0.2
Staff costs (2)	**406.2**	377.7	**9.0**	8.1
Rental costs	**42.2**	25.2	**0.8**	0.7
Other operating expenses	**1,053.6**	969.7	**23.2**	21.1
	1,705.2	1,541.0	**37.8**	33.9
OPERATING PROFIT BEFORE DEPRECIATION	**598.8**	584.7	**210.4**	277.6
Depreciation				
Goodwill	**4.3**	4.8		
Other long-term expenditure	**6.8**	6.1	**1.1**	1.0
Buildings and structures	**7.6**	7.7		
Ships	**72.9**	65.4	**65.7**	59.5
Ship shares	**16.5**	21.2		
Machinery and equipment	**36.1**	35.6	**6.3**	6.2
	144.2	140.8	**73.1**	66.7
PROFIT FROM OPERATIONS	**454.6**	443.9	**137.3**	210.9
Financial income and expenses (3)				
Dividend income	**16.0**	12.8	**21.7**	70.3
Interest income from non-current investments	**0.8**	6.1	**1.7**	2.6
Other interest income	**8.6**	9.8	**12.9**	15.1
Other financial income	**0.1**	0.1	**0.0**	0.0
Interest expenses	**−56.6**	−66.5	**−60.6**	−65.1
Exchange rate differences (4)	**2.8**	−0.2	**−1.9**	−8.1
Other financial expenses	**−2.5**	−2.1	**−1.4**	−0.9
	−30.8	−40.0	**−27.6**	13.9
RESULT BEFORE EXTRAORDINARY ITEMS	**423.8**	403.9	**109.7**	224.8
Extraordinary income and charges (5)				
Extraordinary income		–		–
Extraordinary charges		−3.1	**−75.0**	−1.2
Group contribution received			**260.5**	208.3
Group contribution given				−7.1
	0.0	−3.1	**185.5**	200.0
RESULT BEFORE PROVISIONS AND TAXES	**423.8**	400.8	**295.2**	424.8
Depreciation difference			**−216.4**	−234.1
Change in voluntary provisions			**1.0**	
Income taxes (6)	**−24.5**	−56.9	**−21.1**	−53.5
Change in deferred tax liability (7)	**−50.7**	−67.5		
Minority interest	**−1.9**	2.2		
PROFIT FOR THE YEAR	**346.7**	278.6	**58.7**	137.2

Funds Statements

FIM million	*Group* **1997**	1996	*Parent Company* **1997**	1996
SOURCE OF FUNDS				
Funds generated from operations				
Profit before depreciation	**598.8**	584.7	**210.4**	277.6
Financial income and expenses	**–30.9**	–40.0	**–27.6**	13.9
Other income and expenses	**0.0**	–3.1	**260.6**	200.0
Taxes	**–75.1**	–124.5	**–21.2**	–53.5
Minority interest in profits	**–1.9**	2.2		
Total funds generated from operations	**490.9**	419.3	**422.2**	438.0
Sales of fixed assets	**16.6**	257.4	**0.2**	193.2
Change in minority interest	**–1.2**	0.8		
Translation difference	**3.2**	–		
Other change in capital and reserves	**29.6**	0.1	**29.6**	
Increase in non-current liabilities	**644.8**	161.3	**566.6**	104.4
TOTAL SOURCE OF FUNDS	**1,183.9**	838.9	**1,018.6**	735.6
APPLICATION OF FUNDS				
Investments				
Buildings and structures	**7.6**	4.3		
Ships	**396.3**	53.4	**425.6**	53.1
Ship shares	**0.0**	29.4		
Shares and holdings	**316.5**	379.5	**312.0**	383.3
Other fixed assets	**61.9**	52.0	**1.4**	1.4
Goodwill	**0.0**	1.2		
Total investments	**782.3**	519.8	**739.0**	437.8
Associated companies	**51.6**	–1.7		
Decrease in non-current liabilities	**265.2**	260.9	**228.6**	128.4
Dividend paid	**76.7**	57.5	**76.7**	57.5
Change in net working capital	**8.1**	2.4	**–25.7**	111.9
TOTAL APPLICATION OF FUNDS	**1,183.9**	838.9	**1,018.6**	735.6
CHANGE IN NET WORKING CAPITAL				
Cash at bank and in hand, increase	**38.1**	71.9	**28.9**	69.8
Other financial assets, increase	**–22.9**	–218.3	**0.3**	–0.2
Stocks, increase	**1.4**	2.8	**–78.9**	–9.5
Current liabilities, increase/decrease	**–8.5**	146.0	**24.0**	51.8
NET WORKING CAPITAL	**8.1**	2.4	**–25.7**	111.9

Balance Sheets

FIM million	*Group*		*Parent Company*	
ASSETS	**1997**	1996	**1997**	1996
FIXED ASSETS AND OTHER NON-CURRENT INVESTMENTS (8)				
Intangible assets				
Goodwill	**5.7**	10.0		
Other capitalised expenditure	**11.3**	12.8	**1.8**	2.1
	17.0	22.8	**1.8**	2.1
Tangible assets				
Land	**49.2**	49.2		
Buildings and structures	**83.6**	83.7		
Ships	**1,876.0**	1,547.2	**1,735.0**	1,419.4
Ship shares	**37.9**	104.0		
Vessels under construction	**44.3**		**44.3**	
Machinery and equipment	**196.7**	192.8	**63.1**	69.1
	2,287.7	1,976.9	**1,842.4**	1,488.5
Financial assets (9)				
Shares and holdings (10)				
Group companies			**302.2**	377.1
Associated companies	**753.7**	392.3	**696.6**	387.9
Other shares	**37.7**	31.0	**28.9**	25.7
Loans receivable	**3.2**	6.7	**43.2**	43.7
	794.6	430.0	**1,070.9**	834.4
VALUATION ITEMS(11)	**10.9**	–	**10.9**	–
CURRENT ASSETS				
Stocks				
Materials and supplies	**13.7**	12.4	**1.2**	0.9
Debtors (12)				
Trade debtors	**350.2**	303.2	**5.3**	5.3
Loans receivable	**1.2**	0.4		
Prepayments and accrued income	**53.9**	65.1	**12.3**	25.0
Other debtors	**68.1**	50.1	**185.4**	177.2
	473.4	418.9	**203.0**	207.5
Investments				
Marketable securities	**50.5**	124.5	**50.5**	124.5
Cash at bank and in hand	**276.3**	238.1	**246.0**	216.9
	3,924.1	3,223.6	**3,426.7**	2,874.8
Pledges given (17)	**1,132.3**	1,138.3	**917.9**	971.1

FIM million	Group		Parent Company	
LIABILITIES	**1997**	1996	**1997**	1996
CAPITAL AND RESERVES (13)				
Restricted capital				
Share capital	**195.0**	191.7	**195.0**	191.7
Other restricted capital	**310.5**	280.6	**302.1**	275.8
Non-restricted capital				
Capital part of provisions	**658.2**	484.9		
Associated companies	**–1.7**	0.0		
Translation difference	**3.2**	0.0		
Other non-restricted capital	**69.2**	42.4	**261.1**	200.5
Profit for the period	**346.7**	278.6	**58.7**	137.2
	1,581.1	1,278.2	**816.9**	805.2
MINORITY INTEREST	**7.1**	8.2		
PROVISIONS (14)				
Accelerated depreciation			**902.8**	686.4
Voluntary provisions				1.0
VALUATION ITEMS (11)		7.2		7.2
CREDITORS (12)				
Non-current (15)				
Notes and bonds (16)	**200.0**	200.0	**200.0**	200.0
Loans from credit institutions	**1,111.6**	704.0	**1,079.5**	642.3
Pension loans	**43.6**	46.9	**28.3**	30.4
Other non-current liabilities	**3.9**	6.0	**50.1**	81.1
Deferred tax liability on provisions (14)	**306.8**	256.0		
	1,665.9	1,212.9	**1,357.9**	953.8
Current				
Notes and bonds (16)		100.0		100.0
Loans from credit institutions	**188.5**	143.7	**176.3**	124.2
Pension loans	**3.3**	3.5	**2.1**	2.3
Trade creditors	**166.5**	139.2	**0.9**	0.2
Accruals and deferred income	**250.5**	282.1	**34.6**	88.3
Other creditors	**61.2**	48.6	**135.2**	106.2
	670.0	717.1	**349.1**	421.2
	3,924.1	3,223.6	**3,426.7**	2,874.8

Contingent liabilities (17)	**35.4**	36.0
Pension liabilities (17)	**1.1**	1.4

Accounting Principles

Consolidated financial statements

The consolidated financial statements include the parent company and all domestic and foreign subsidiaries (companies in which the parent company directly or indirectly holds more than 50% of the voting rights) and all domestic and foreign associated companies (companies in which the parent company directly or indirectly holds 20 to 50% of the share capital and voting rights). The financial period of the subsidiaries and associated companies is the same as that of the parent company. More detailed information about the Group companies and associated companies is given below in Note 10.

The consolidated financial statements are prepared according to the acquisition cost method. The acquisition cost of subsidiary shares is eliminated against the capital and reserves in the balance sheet at the time of the acquisition. The consolidated difference arising in the elimination is allocated to the subsidiary's fixed assets where the current value of such assets exceeds the book value at the time of acquisition. The remainder of the acquisition cost of the shares is presented as Group goodwill in the consolidated balance sheet. On 31 December 1997, items allocated to land totalled FIM 6.6 million, to buildings and structures FIM 3.5 million, and to ship shares FIM 6.8 million. The items allocated to buildings and structures and ship shares will be depreciated according to the depreciation plan of the fixed assets item in question.

Intra-group transactions, sales profits, distribution of profits and intra-group receivables and liabilities, are eliminated.

Minority interests in the subsidiaries' results, capital and reserves, and the share of provisions allocated to capital and reserves are presented separately in the profit and loss account and the balance sheet.

The associated companies are consolidated according to the equity method. The Group's share of the associated companies' results for the financial period is entered separately after net turnover in the profit and loss account. The Group's share of BTL AB's result for the period 1 January–31 December 1997 is estimated on the basis of BTL's result published in its nine-month interim report. The effect of the consolidation of associated companies on the Group's capital and reserves is presented separately in the balance sheet.

The balance sheets of foreign subsidiaries and associated companies are converted into Finnish markka at the average exchange rates on the closing day. The profit and loss accounts are converted using the average exchange rates of the financial period. The resulting translation difference is presented separately under consolidated non-restricted capital.

The Group's shares of the results and balance sheet items of domestic and foreign shipping partnerships are presented according to the gross principle in the consolidated financial statements. However, in the financial statements of separate companies, the shares of the results and balance sheet items of domestic shipping partnerships are presented according to the net principle.

Foreign currency items and derivative instruments

Foreign currency receivables, cash at banks and in hand, and liabilities are valued according to the Bank of Finland's average exchange rate on the last day of the year.

Exchange rate differences on sales receivables and accounts payable realised during the financial period, and on unpaid receivables and payables on the closing day, are reported in the profit and loss account before the operating profit before depreciation. The exchange rate differences on financing operations and loans are entered separately under financial income and expenses. The unrealised exchange gains or losses on currency-denominated loans are allocated annually over the maturity of the loans. The part of the exchange rate difference not entered under expenses is shown under valuation items.

The realised changes in the value of other derivative contracts concluded in order to hedge against foreign exchange and interest rate risks are charged against the result: interest rate derivatives under interest income and expenses, and currency forward contracts and currency options under the individual items hedged.

Fixed assets

Fixed assets are capitalised at their direct acquisition cost. Fixed assets are depreciated on a straight-line basis according to plan, based on estimated useful economic life.

The construction-time interests and currency differences of vessels are capitalised, and are included in the acquisition cost of the vessels.

Valuation items

Valuation items are unrealised exchange rate differences on foreign currency loans. The increases and decreases in valuation items are presented in Note 11.

Stocks

Ships stocks of fuel, lubricating oil, materials, provisions, and the tax-free sales stores are entered under materials and supplies. The stocks are valued at direct acquisition cost according to the FIFO principle.

Securities included in current assets

Group liquid assets invested in money market instruments are presented in the balance sheet under marketable securities.

Tax liability corresponding to voluntary provisions and accumulated depreciation difference

Tax liability corresponding to voluntary provisions and accumulated depreciation difference

Voluntary provisions (i.e. the transition provision) and the accumulated depreciation difference, are allocated to the result for the year and capital and reserves and, on the other hand, to the change in the deferred tax liability and the deferred tax liability. The deferred tax liability is calculated according to the tax rate in force when preparing the financial statements, i.e. 28%. The change in the tax rate is reported in Note 7. The deferred tax liability on the closing day is shown separately in the balance sheet under non-current liabilities. The share of provisions and the accumulated depreciation difference entered under capital and reserves and the corresponding change is presented in more detail in Note 13. The amount of provisions and accumulated depreciation difference before the division into capital and reserves and deferred tax liability is presented in Note 14.

Pension arrangements

The statutory pension obligations of the Group's sea and shore personnel are covered by pension insurances. The liabilities of the pension funds of all the other Group companies are transferred to pension insurance companies. The Group's pension commitments are presented in Note 17.

Other income from operations

Profits from the sale of ships are reported under other operating income after net turnover. The same item includes profits on the sale of other fixed assets which are not regarded as extraordinary income. The sale profits are calculated as the difference between the sales price and the residual value according to plan. Other items in other operating income are presented in more detail in Note 1.

Depreciation

Depreciation according to plan is calculated on uniform principles as straight-line depreciation on the original acquisition cost based on the useful economic life of the fixed assets. The depreciation periods according to plan are:

Group goodwill	10 years
Other long-term expenditure	5 to 10 years
Buildings and constructions	5 to 40 years
Vessels and ship shares	30 years
Machinery and equipment	3 to 5 years
Machinery and equipment used in stevedoring	5 to 10 years

The second-hand cargo vessels are depreciated on a straight-line basis so that the vessel is fully depreciated by the end of its useful life as estimated at the time of the purchase.

The fixed assets items included in non-current investments are depreciated on a straight-line basis according to the useful life of the item as follows:

Information systems	5 years
Merger loss	10 years
Improvements on rented premises	10 years

Extraordinary income and charges

Extraordinary income and charges comprise extraordinary gains and losses arising from the sale of shares and non-recurring items. A more detailed description of extraordinary income and charges is given in Note 5.

Notes to the Financial Statements

FIM million, unless otherwise stated

1 Other operating income

	Group		Parent Company	
	1997	1996	**1997**	1996
Gain from sale of Huolintakeskus		115.5		83.1
Gains from sales of other fixed assets	**8.4**	3.1	**5.4**	0.3
Rental income	**1.7**	1.7		
	10.1	120.3	**5.4**	83.4

2 Staff and staff costs

Staff

Group personnel during the year averaged the following;

	Group		Parent Company	
	1997	1996	**1997**	1996
Shore personnel				
Shipping and SeaTransport Services	**405**	395	**18**	17
Port Operations	**809**	772	**–**	–
	1,214	1,167	**18**	17
Sea personnel				
Shipping and SeaTransport Services	**414**	383	**–**	–
Total	**1,628**	1,550	**18**	17

The Group employed 1,155 persons ashore at the beginning of the year and 1,267 at the end. The corresponding figures for sea personnel were 383 and 461.

Staff costs

	Group		Parent Company	
	1997	1996	**1997**	1996
Wages and salaries	**308.9**	284.4	**6.5**	5.9
Pension costs	**46.3**	46.0	**1.7**	1.8
Other employee costs	**51.0**	47.3	**0.8**	0.4
Total staff costs	**406.2**	377.7	**9.0**	8.1
Taxable value of fringe benefits	**7.6**	7.7	**0.3**	0.3
Managing directors and Board members	**6.0**	6.0	**2.2**	2.1

3 Parent Company's financial income and expenses / Group and associated companies

	Parent Company	
	1997	1996
Dividends received from		
Group companies	**5.7**	4.2
Interest received on non-current investments		
Group companies	**1.5**	2.4
Other interest received		
Group companies	**4.1**	3.5
Interest expenses		
Group companies	**7.8**	8.1
Currency differences		
Group companies	**–2.6**	–7.7

4 Currency differences

	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Currency differences				
Currency losses/gains realised during the review year	**4.7**	–0.1	**0.0**	–8.0
Share of unrealised exchange rate losses arising from currency-denominated loans allocated to review year	**–1.9**	–0.1	**–1.9**	–0.5
Currency differences	**2.8**	–0.2	**–1.9**	–8.1

5 Extraordinary income and charges

	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Cost of terminating Uusikaupunki railferry service		–3.1		
Cost of dismantling a subsidiary/merger loss			**–75.0** *)	–1.2
Group contributions received			**260.5**	208.3
Group contribution given				–7.1
		–3.1	**185.5**	200.0

*) Writedown in the parent company accounts of subsidiary shares corresponding to goodwill writeoff on railship operation entered earlier in the consolidated accounts.

6 Income taxes

	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Taxes for financial year	**–25.2**	–57.4	**–21.8**	–53.8
Taxes for previous years (includes corporate tax credit on internal dividend distributed)	**+0.7**	+0.5	**+0.7**	+0.3
	–24.5	–56.9	**–21.1**	–53.5

7 Change in deferred tax liability

	Group 1997	Group 1996
Changes		
In depreciation difference		
Other long-term expenses	**0.5**	
Buildings	**3.6**	–1.5
Vessels	**214.4**	221.6
Ship shares	**–21.9**	4.2
Machinery and equipment	**32.9**	16.5
	229.5	240.8
In voluntary provisions	**–48.3**	–0.1
Total	**181.2**	240.7
Change in deferred tax liability (28 %)	**–50.7**	–67.4

8 Fixed assets

	Group 1997	Group 1996	Parent Company 1997	Parent Company 1996
Goodwill				
Acquisition cost on 1 Jan.	**41.7**	83.4		
Increases	**0.2**	1.2		
Decreases		–42.9		
Acquisition cost on 31 Dec.	**41.9**	41.7		
Accumulated depreciation on 1 Jan.	**31.9**	30.0		
Accumulated depreciation on decreases		–2.9		
Depreciation for period	**4.3**	4.8		
Book value on 31 Dec.	**5.7**	10.0		

8 Fixed assets (continued)

	Group		Parent Company	
	1997	1996	**1997**	1996
Other non-current term expenditure				
Acquisition cost on 1 Jan.	**53.0**	49.2	**8.5**	8.3
Increases	**5.3**	4.6	**0.8**	0.3
Decreases		–0.8		–0.1
Acquisition cost on 31 Dec.	**58.3**	53.0	**9.3**	8.5
Accumulated depreciation on 1 Jan.	**40.2**	34.2	**6.4**	5.4
Accumulated depreciation on decreases		–0.1		
Depreciation for period	**6.8**	6.1	**1.1**	1.0
Book value on 31 Dec.	**11.3**	12.8	**1.8**	2.1
Land areas				
Acquisition cost on 1 Jan.	**49.2**	85.3		
Increases				
Decreases		36.1		
Acquisition cost on 31 Dec.	**49.2**	49.2		
Buildings and structures				
Acquisition cost on 1 Jan.	**130.0**	228.9		
Increases	**7.6**	4.3		
Decreases	**–1.4**	–103.2		
Acquisition cost on 31 Dec.	**136.2**	130.0		
Accumulated depreciation on 1 Jan.	**46.3**	40.9		
Accumulated depreciation on decreases	**–1.3**	–2.3		
Depreciation for period	**7.6**	7.7		
Book value on 31 Dec.	**83.6**	83.7		
Ships				
Acquisition cost on 1 Jan.	**1,893.5**	1,840.1	**1,554.8**	1,501.8
Increases	**401.6**	53.4	**381.3**	53.0
Decreases				
Acquisition cost on 31 Dec.	**2,295.1**	1,893.5	**1,936.1**	1,554.8
Accumulated depreciation on 1 Jan.	**346.2**	280.9	**135.4**	75.9
Accumulated depreciation on decreases				
Depreciation for period	**72.9**	65.3	**65.7**	59.5
Book value on 31 Dec.	**1,876.0**	1,547.3	**1,735.0**	1,419.4
Ship shares				
Acquisition cost on 1 Jan.	**178.7**	149.2		
Increases		29.5		
Decreases	**89.9**			
Acquisition cost on 31 Dec.	**88.8**	178.7		
Accumulated depreciation on 1 Jan.	**74.7**	53.5		
Accumulated depreciation on decreases	**–40.3**			
Depreciation for period	**16.5**	21.2		
Book value on 31 Dec.	**37.9**	104.0		
Machinery and equipment				
Acquisition cost on 1 Jan.	**364.6**	384.4	**83.0**	82.1
Increases	**40.0**	47.4	**0.6**	1.2
Decreases	**-15.0**	–67.2	**–0.9**	–0.3
Acquisition cost on 31 Dec.	**389.6**	364.6	**82.7**	83.0
Accumulated depreciation on 1 Jan.	**171.8**	147.1	**13.9**	7.9
Accumulated depreciation on decreases	**–15.0**	–10.9	**–0.6**	–0.2
Depreciation for period	**36.1**	35.6	**6.3**	6.2
Book value on 31 Dec.	**196.7**	192.8	**63.1**	69.1

Taxation values

	Group		Parent Company	
	1997	1996	**1997**	1996
Land	**8.8**	8.8		
Buildings	**68.1**	70.5		
Shares and holdings	**759.5**	445.7	**910.8**	661.1

9 Financial assets

	Parent Company 1997	1996
Shares and holdings		
Group companies	**302.2**	377.1
Associated companies	**696.6**	387.9
Loans receivable		
Group companies	**40.2**	40.7

Loans receivable
The Group's loan receivables FIM 3.2 million include loans of DEM 1 million given to finance a small tonnage German vessel with an option to convert the loans to 20 % ownership of the vessel in 1998.

10 Shares and holdings

	Number	Holding %		Nominal value	Book value	Net result
HOLDINGS IN SUBSIDIARIES						
Domestic						
Finncarriers Oy Ab, Helsinki	1,000,000	100.0		100.0	100.0	–0.6
FG-Shipping Oy Ab, Helsinki	1,000,000	100.0		10.0	10.0	0.0
Oy Finnlink Ab,Uusikaupunki	34,650	100.0		0.4	23.0	25.1
Finnfellows Oy Ltd., Helsinki	500,000	100.0		5.0	5.0	0.1
Finnsteve Oy Ab, Helsinki	14,400	100.0		1.4	89.9	0.6
Oy A.E. Erickson Ab, Turku	420,000	100.0		4.1	21.5	0.0
Strömsby-Invest Oy Ab, Kirkkonummi	8,448	60.0		8.4	10.0	–1.9
Optar Oy, Helsinki	3,576	100.0		3.6	1.8	0.0
Metropolitan Port Oy Ab, Helsinki	750	100.0		0.8	0.3	0.0
Oy Intercarriers Ltd, Helsinki	51	51.0		0.2	0.2	3.3
Kantvikin Satama Oy, Kirkkonummi	2,400	30.0		2.4	2.4	0.1
Foreign						
FCRS-Shipping Ltd., Cayman Islands	50,000	100.0	USD	0.05	0.0	0.0
FG-Waggon Limited., Cayman Islands	100	100.0	USD	0.01	0.0	0.0
FG-Finance S.A.H.,Luxemburg,	15,913	100.0	LUF	166.5	23.5	–1.4
FG Schiffahrts-Beteiligungs-gesellschaft mbH, Germany	2	100.0	DEM	0.05	75.0	0.4
Railship AG, Switzerland	4,348	86.96	CHF	4.3	37.4	3.3
Finncarriers GmbH, Germany	50	100.0	DEM	0.05	0.1	0.6
Finncarriers AB, Sweden	500	100.0	SEK	0.05	0.0	0.0
Finncarriers A/S, Norway	500	100.0	NOK	0.5	0.3	2.1
Norrsteve A/S,Norway	50	100.0	NOK	0.05	1.8	1.2
Fennia Shipping Ltd., Cayman Islands	50,000	100.0	USD	0.05	0.2	0.0
Aktiebolaget Finnlines Ltd., Sweden	600	100.0	SEK	0.06	0.6	0.0
Finnlines (Lübeck) GmbH, Germany	1	100.0	DEM	0.05	0.2	0.0
Finnlines (Cyprus) Ltd,Cyprus	1,000	100.0	CYP	0.001	0.0	0.0
Finnmanagement Ltd., Cayman Islands	100	100.0	USD	0.001	0.0	0.0
					328.2	
of which subsidiaries' holdings in Group companies					–26.0	
Total					302.2	
ASSOCIATED COMPANIES						
Domestic						
Baltic Bulk Services Oy Ab, Helsinki	250	50.0		0.3	0.3	1.2
Railship Oy Ab, Helsinki	46,000	46.0		4.6	0.6	0.6
North Euroway Oy, Kouvola	12	20.0		0.1	0.8	0.5

10 Shares and holdings (continued)

	Number	Holding %	Nominal value		Book value	Net result
Foreign						
BTL AB (publ.), Sweden	39,510,687	35.1	MSEK	494	696.6	110.0
Finnbelgia Agencies N.V., Belgium	3,200	50.0	BEC	4.0	0.6	0.1
Frachtkontor Finnland OHG, Germany	1	50.0	DEM	0.01	0.0	
Finnwest N.V., Belgium	2,500	33.3	BEC	25.0	2.7	0.6
Finanglia Ferries Ltd., UK	50,000	50.0	GBP	0.1	1.6	1.1
Total					703.2	
Consolidation of the associated companies					+50.5	
					753.7	
OTHER SHARES						
Domestic						
Steveco Oy,Kotka	5,732	19.1		5.7	24.5	
Helsingin Puhelinyhdistys, Helsinki	310				0.8	
Helsingin Puhelin Oyj	3,120				0.2	
Other companies (27)					9.0	
Foreign						
Other companies (1)					3.2	
Total					37.7	

11 Valuation items

	Group		Parent Company	
	1997	1996	**1997**	1996
Capitalised exchange rate losses on loans on 1 Jan.	**7.2** *)	1.5	**7.2** *)	1.5
Change during the year	**20.0**	–8.6	**20.0**	–8.6
Allocation to the year	**–1.9**	–0.1	**–1.9**	–0.1
Capitalised exchange rate gains/losses on loans on 31 Dec.	**10.9**	–7.2	**10.9**	–7.2

*) Shown under liabilities in the balance sheet.

12 Parent Company's receivables and payables/ Group and associated companies

	Parent Company	
	1997	1996
Sales receivable		
Group companies	**5.3**	5.3
Other receivables		
Group companies	**181.8**	175.5
Other non-current liabilities		
Group companies	**50.0**	80.0
Purchases payable		
Group companies		0.1
Other current payables		
Group companies	**67.4**	66.1

13 Shareholders' equity

	Group		Parent Company	
	1997	1996	**1997**	1996
Share capital on 1 Jan.	**191.7**	191.7	**191.7**	191.7
Share issue	**3.3**			
Share capital on 31 Dec.	**195.0**	191.7	**195.0**	191.7
Premium reserve on 1 Jan.	**275.8**	275.8	**275.8**	275.8
Share issue	**26.3**		**26.3**	
Premium reserve on 31 Dec.	**302.1**	275.8	**302.1**	275.8
Other restricted equity on 1 Jan.	**4.8**	4.8		
Transferred from non-restricted equity	**3.6**			
Other restricted equity on 31 Dec.	**8.4**	4.8		
Restricted equity on 31 Dec.	**505.5**	472.3	**497.1**	467.5

13 Shareholders' equity (continued)

	Group		Parent Company	
	1997	1996	**1997**	1996
Adjustment for associated companies				
before previous year's result	**0.0**	27.5		
Of previous year's result	**–1.6**	–27.4		
Translation difference	**–0.1**	–0.1		
Adjustment for associated companies on 31Dec.	**–1.7**	0.0		
Capital part of provisions before				
previous year's result	**484.3**	326.1		
Of previous year's result	**173.9**	158.1		
Other adjustment item		0.1		
Equity in provisions on 31 Dec.	**658.2**	484.3		
Translation difference on 31 Dec.	**3.2**	0.0		
Other non-restricted equity before previous				
year's result and translation difference	**43.0**	19.8	**200.5**	176.0
Of previous year's result	**106.3**	84.9	**137.2**	82.0
Translation difference	**0.1**	–4.2		
Transferred to restricted equity	**–3.6**	–3.3		
Dividend paid	**–76.6**	–57.5	**–76.6**	–57.5
Other non-restricted equity on 31 Dec.	**69.2**	43.0	**261.1**	200.5
Profit for the period	**346.7**	278.6	**58.7**	137.2
– of which from associated companies	**52.4**	–1.6		
– of which from capital part of provisions	**130.7**	173.9		
– transferred to other non-restricted equity	**163.6**	106.3		
Non-restricted equity on 31 Dec.	**1,075.6**	805.9	**319.8**	337.7
– of which distributable	**286.7**	147.7	**319.8**	337.7
Total shareholders' equity on 31 Dec. 1997	**1,581.1**	1,278.2	**816.9**	805.2

14 Depreciation differences and provisions

	Group	
	1997	1996
Depreciation difference		
Other long-term expenses	**0.5**	
Buildings	**18.3**	14.7
Vessels	**984.2**	769.8
Ship shares	**0.3**	22.2
Machinery and equipment	**92.2**	59.3
	1,095.5	866.0
Voluntary provisions	**0.1**	48.4
Group total before provision	**1,095.6**	914.4
Deferred tax liability (28 %)	**306.8**	256.0
Minority interests		0.2
Share of shareholders' equity	**788.8**	658.2
of which		
– share of provisions	**658.2**	484.3
– share of the year's result	**130.6**	173.9

15 Non-current liabilities

	Group		Parent Company	
	1997	1996	**1997**	1996
Debts falling due in five years or longer				
Loans from credit institutions	**460.0**	211.6	**458.7**	210.1
Pension loans	**33.5**	35.1	**21.2**	22.8

16 Fixed and floating rate notes and management bond loans with warrants

Capital, FIM	Loan period	Interest	Type
100,000,000	28.4.94–28.4.99	6 mo. Helibor+1.20 %	bullet, unsecured
100,000,000	16.6.95–16.6.2000	8.50 %	bullet, unsecured
1,100,000	1.6.94–1.6,98	BoF's base rate –1 %	bullet, management bond loan with warrants
	Each bond with a nominal value of FIM 1,000 contains one warrant, which entitles the holder to subscribe for 400 Finnlines shares with a nominal value of FIM 10 at a subscription price of FIM 89.70.		
500,000	10,3,97–3,3,2001	interest-free	bullet, management bond loan with warrants
	Each bond with a nominal value of FIM 100 contains one warrant, which entitles the holder to subscribe for 500 Finnlines shares with a nominal value of FIM 10 at a subscription price of FIM 135.36.		

17 Pledges and liabilities

	Group		*Parent Company*	
	1997	1996	**1997**	1996
On own account				
Mortgages on land areas and buildings	**33.9**	34.0		
Mortgages on ships	**1,032.1**	1,026.7	**857.8**	905.7
Mortgages on ship shares	**6.2**	12.2		
Mortgages on machinery	**60.1**	65.4	**60.1**	65.4
On other companies' account				
Guarantees	**1.8**	2.4		
Other own liabilities				
Liabilities from pension commitments	**1.1**	1.4		
Other liabilities	**33.6**	33.6		
Liabilities from derivative contracts	**1,228.7**	433.6	**1,228.7**	433.6
Total				
Mortgages on land areas and buildings	**33.4**	34.0		
Mortgages on ships	**1,032.1**	1,026.7	**857.8**	905.7
Mortgages on ship shares	**6.2**	12.2		
Mortgages on machinery	**60.1**	65.4	**60.1**	65.4
Pledged shares				6.5
Guarantees	**1.8**	2.4		3.0
Liabilities from pension commitments	**1.1**	1.4		
Other liabilities	**33.6**	33.6		
Liabilities from derivative contracts	**1,228.7**	433.6	**1,228.7**	433.6
Leasing liabilities				
One year after reporting year	**18.3**	17.4	**15.7**	13.4
On subsequent years	**1.4**	15.8		13.4

Proposal of the Board

According to the consolidated balance sheet on 31 December 1997:

Profit from previous years	FIM	728,876,119.00
Profit from the financial year	FIM	346,704,656.31
Non-restricted equity, total	FIM	1,075,580,775.31
of which disposable	FIM	286,732,282.94

According to the balance sheet on 31 December 1997, Parent Company profits stand at:

Profit from previous years	FIM	261,030,711.00
Profit from the financial year	FIM	58,734,832.39
Non-restricted equity, total	FIM	319,765,543.39

The Board of Directors proposes that a dividend of FIM 5.00 per share on the 19,499,379 shares, i.e. a total of FIM 97,496,895.00, be paid out of the profit for the year and that the residual balance be transferred to non-restricted equity.

Helsinki, 5 February 1998

L.J. Jouhki

Martin Granholm   Jukka Härmälä

Hannu Ketola   Pertti Laine

Jouko K. Leskinen   Thor Björn Lundqvist

Antti Lagerroos
President and CEO

According to the proposal made by the Board of Directors, the dividend approved by the Annual General Meeting will be paid to those shareholders who on 4 March 1998 are registered as shareholders in the list kept by the Central Register for Shares. The dividend payment date is 9 March 1998.

Auditors' Report

To the shareholders of Finnlines Ltd

We have audited the accounting records, the financial statements and administration of Finnlines Ltd for the financial year 1997. The financial statements, which have been prepared by the Board of Directors and the Chief Executive Officer, contain the Board's report, and the consolidated and parent company profit and loss accounts, balance sheets and notes to the financial statements. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted our audit in accordance with generally accepted auditing standards in Finland. These standards require that we conduct a sufficient examination of the annual accounts, as well as the accounting principles, disclosures and presentation of the financial statements, to obtain reasonable assurance that the financial statements are free of material misstatement. The purpose or our audit of the corporate governance is to establish that the Board of Directors and Chief Executive Officer have complied with the rules of the Finnish Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations and financial position. The financial statements, including the consolidated statements, may be adopted, and the members of the Board of Directors and the Chief Executive Officer may be discharged from liability for the financial period audited by us. The proposal of the Board of Directors concerning the disposition of the non-restricted shareholders' equity is in compliance with the Finnish Companies Act.

We have reviewed the interim reports published by the Company published during the financial year. In our opinion the interim reports have been prepared in accordance with the applicable regulations.

Helsinki, 6 February 1998

SVH Coopers & Lybrand Oy
Authorized Public Accountants

Christer Antson
Authorized Public Accountant

Group Administration and Auditors

Board of Directors

Chairman
L.J. Jouhki
(1995–1998)
President and CEO,
Thomesto Trading Companies Ltd
Member of the Board since 1989

Deputy Chairman
Jukka Härmälä
(1997–2000)
President and CEO, Enso Oyj
Member of the Board since 1989

Members
Martin Granholm
(1997–2000)
Executive Vice President,
UPM-Kymmene Corporation
Member of the Board since 1992

Hannu Ketola
(1996–1999)
Senior Vice President, The Pohjola Group
Member of the Board since 1995

Pertti Laine
(1995–1998)
President, Veikko Laine Oy
Member of the Board since 1994

Jouko K. Leskinen
(1996–1999)
President and CEO,
Sampo Insurance Company Limited
Member of the Board since 1993

Thor Björn Lundqvist
(1995–1998)
President, Rettig Heating Group B.V. (Holland),
Member of the Board since 1992

The term of office of Board members is three years, beginning and ending at the Annual General Meetings of the years given in brackets.

Auditors

Regular auditor
SVH Coopers & Lybrand Oy
Authorized Public Accountants

Deputy accountant
Anneli Lindroos
MSc (Econ.), APA

Group Management

Antti Lagerroos
President and CEO
Finnlines Ltd

Patrik Flinck
Vice President, Chief Controller

Kari Savolainen
Vice President
Corporate Information Technology

Lars Trygg
Vice President, Legal Counsel

Seija Turunen
Vice President, Chief Financial Officer

Subsidiaries

Asser Ahleskog
President
Finncarriers Oy Ab

Christer Backman
President
Oy Finnlink Ab

Hans Martin
President
Finnsteve Oy Ab and Oy A.E. Erickson Ab

Esko Mustamäki
President
FG-Shipping Oy Ab

Articles of Association

The Company and its operations

§1 Name and domicile

The name of the company is Finnlines Oy, in Swedish Finnlines Ab, in English Finnlines Ltd, and in German Finnlines AG. The Company is domiciled in the City of Helsinki.

§2 Object of the company

The Company shall engage in shipping, other transport operations and foreign trade and other services, and trade and commercial operations related to the foregoing.

Minimum and maximum capital, shares and shareholders

§3 Minimum and maximum capital

The Company´s minimum capital is FIM 70 million and its maximum capital FIM 280 million, within which limits the share capital may be increased or decreased without amending these Articles of Association.

§4 Nominal value of the shares

The nominal value of the shares is FIM 10.00.

§5 Book-entry securities system

The Company shares shall be registered in the book-entry securities system.

Only those shareholders will be entitled to receive distributable funds from the company and to subscribe for new shares in conjunction with an increase in the company's share capital:

1. Who have registered as shareholders in the shareholder register on the record date specified by the company,
2. Whose right to receive payment is registered on the record date in the book-entry account of the shareholder registered in the shareholder register, or
3. Whose share, if this is nominee registered, is registered in his/her book-entry account on the record date and the custodian of which is registered in the shareholder register as the custodian of the shares on the record date.

§6 Redemption of Company shares

The Company is entitled to offer to redeem its own shares using its distributable equity without decreasing the share capital.

Board of Directors

§7 Board of Directors

The Board of Directors shall be elected from among the Company's shareholders. The Board of Directors shall comprise at least seven and at most twelve members.

The term of a Board member will begin immediately following the election, and will end no later than at the close of the third subsequent Annual General Meeting. If possible, the Annual General Meeting shall elect the members so that the term of one-third of the members ends every year. A member who is in turn for retirement from the Board may be re-elected. Should a Board member resign before the end of his term, a by-election for the remainder of this term can be held at a general meeting.

The Board of Directors shall elect a Chairman and a Deputy Chairman from among its members, who shall hold office until the end of the following Annual General Meeting.

§8 President

The Company shall have a President appointed by the Board of Directors. The President shall be responsible for managing the administration of the Company in accordance with the instructions and requirements of the Board of Directors, and he may have one or more deputies.

§9 Signing for the Company

The Chairman of the Board of Directors and the company's President shall sign for the company, each singly, and the members of the Board of Directors two jointly.

The Board of Directors shall decide on the granting of procuration.

§10 Auditors

The Company shall have one regular auditor and one deputy auditor.

The auditors shall be elected for the ongoing financial year at the Annual General Meeting. The regular auditor and the deputy auditor shall be authorized public accountants or authorized public accounting firms.

Shareholders' Meetings

§11 Convocation

Shareholders' Meetings shall be announced in a national newspaper chosen by the Board, no earlier than four weeks before the Shareholders' Meeting and no later than one week before the registration date for the Shareholders' Meeting as specified in §12.

§12 Attendance

A shareholder who wishes to attend a Shareholders' Meeting shall notify the Board of Directors no later than on the day specified in the convocation. The date so indicated shall not be earlier than five days prior to the meeting.

§13 Meeting procedure

A Shareholders' Meeting shall be opened by the Chairman or Deputy Chairman of the Board of Directors, or, if they are unable to attend, by another member of the Board of Directors who is present.

The minutes of a Shareholders' Meeting shall be verified by the Chairman and two offers elected by the meeting.

Matters shall be decided by a simple majority of votes, unless otherwise prescribed by the Companies Act. In the event of a tie, the Chairman shall have the casting vote except in an election, where the matter shall be settled by ballot. The method of voting shall be decided by the Chairman of the meeting.

§14 Annual General Meeting

The Annual General Meeting shall be held annually at the latest in June.

At the Annual General Meeting the following shall be presented:

1. The financial statements
2. The auditors´ report

decided:

3. Approval of the income statement and balance sheet;
4. Measures to which the result shown in the financial statements may give rise;
5. Discharge from liability to the members of the Board of Directors and the President;
6. Number of Board members and the remuneration to be paid to Board members;
7. The remuneration to be paid to the auditors;

elected:

8. Board members;
9. The auditor and deputy auditor, and

dealt with:

10. Any other matters mentioned in the convocation to the General Meeting.

§15 Financial year

The company financial year is the calendar year.

Registered on 15 March 1995

Environmental Report

The Finnlines Group is committed to working together with its customers to improve the environment using ecologically sound transport solutions. This means taking environmental aspects into consideration in investment decisions and daily operations, as well as continuous efforts to maximize the overall capacity of outward bound and homebound routes.

During 1997 increasing environmental awareness received high priority in the Finnlines Group, which drew up an Environmental Policy. Finncarriers has also signed the Business Charter for Sustainable Development, prepared by the ICC (International Chamber of Commerce). The Group completed a provisional environmental report, started during the previous year, and this provided a basis for preparing environmental management systems in its subsidiaries. The main goals are to raise environmental awareness in the Group and to continuously develop the operations to reduce environmental loads.

Finnlines places particular emphasis on the following environmental concerns:

- Transport safety
- Evaluation of the environmental impact of new products, working procedures and acquisitions before these are brought into operation
- Continuous development of existing products and operating procedures
- Providing reliable information to customers on the company's services and how to use them effectively
- Monitoring of operations, open communication and internal training
- Participation in public discussion and development projects to ensure compliance with environmental requirements in maritime operations.

Finnlines also requires the same commitment and action from its conference partners and suppliers. The guideline in preparing the Group's environmental management system is to specify action which will exceed the requirements of the ISO 14001 standard. The decision to apply for certification of the system will be taken later. The system will be based on existing certified quality and security management systems. The goals and action taken to promote environmental protection will be applied in accordance with the requirements of customers and society in general within the bounds set by the Group's operational and financial constraints.

The waste and wastewater produced in the vessels managed by the Group are treated in accordance with existing legislation. The fire extinguishing systems on most vessels are halon-free. Waste is not incinerated on vessels in the Baltic Sea. The new vessels taken into operation in 1998 are also equipped for onboard collection of greywater, which is pumped ashore. Waste from oily wastewater is pumped ashore. Hazardous wastes are collected and treated in the proper manner ashore. To prevent accidents, the vessels also employ a security management system developed in accordance with the ISM Code and maintained by training and practical drills.

On this basis the most important priority in the 1998 environmental management plan will be emissions into the atmosphere, particularly of nitrogen oxides. The plan also specifies action to further raise environmental awareness in the Group through training and monitoring of the environmental impacts of its maritime operations.

Fleet on 31 December 1997

Vessels in Group Service

	Service	Group's share in ship, %	Owner	GT/Lane metre, year of delivery
ANTARES*	Finncarriers	100	Finncarriers Oy Ab	19,963 /2,090, 1988
FINNSAILOR*	Finnlink	100	Finnlines Ltd	20,783/1,790, 1987/96
FINNOAK	Finncarriers		Shipping partnership Ahtela	6,620/1,278, 1991
FINNBEAVER	Finncarriers		Oy Rettig Ab, BORE	5,972/1,016, 1991
FINNSEAL	Finncarriers		Oy Rettig Ab, BORE	7,395/1,212, 1991
ASTREA*	Finncarriers	100	Finncarriers Oy Ab	9,528/827, 1991
AURORA	Finncarriers		Hafslund Bulk I A/S	20,391/2,170, 1982
FINNMERCHANT*	Finncarriers	100	Finnlines Ltd	21,195/2,170, 1982
OIHONNA*	Finncarriers	100	Finncarriers Oy Ab	20,203/2,170, 1984
BALTIC EIDER	Finncarriers		United Baltic Corporation Ltd,	20,865/2,170, 1989
TRANSBALTICA	Finncarriers		Poseidon Schiffahrt AG	21,224/2,170, 1990
BALTIC EAGLE	Finncarriers		United Baltic Corporation Ltd,	14,738/1,403, 1979
FINNFOREST	Finncarriers		Bore Lines AB	15,525/2,100, 1978
FINNBIRCH	Finncarriers		Bore Lines AB	14,059/2,100, 1978
TRANSNORDICA	Finncarriers		Oy Rettig Ab, BORE	8,188/1,268, 1977
FINNARROW *	Finncarriers	100	Finnlines Ltd	25,996/2,400, 1996
FINNRIVER	Finncarriers		B & N Rederi AB	20,172/1,812, 1979
FINNROSE	Finncarriers		B & N Rederi AB	20,169/1,812, 1978
FINNFELLOW*	Finnlink	100	Finnlines Ltd	14,297/1,130, 1973/89
FINNMAID*	Finnlink	100	Finnlines Ltd	13,730/1,200, 1972/89
FINNHANSA*	Finncarriers	100	Finnlines Ltd	32,531/3,200, 1994
FINNPARTNER*	Finncarriers	100	Finnlines Ltd	32,534/3,200, 1995
FINNTRADER*	Finncarriers	100	Finnlines Ltd	32,534/3,200, 1995
TRANSEUROPA	Finncarriers		Poseidon Schiffahrt AG	32,533/3,200, 1995
FINNMASTER*	Finncarriers	100	Finnlines Ltd	11,839/1,480, 1973
RIJNHAVEN	Finncarriers		Rijnhaven Shipping Ltd	11,889/1,480, 1973
FINNPINE*	Finncarriers	100	Finnlines Ltd	8,996/1,184, 1984
OCTOGON 3	Finncarriers		Octogon Shipping & Services SRL	9,983/1,088, 1985
POLARIS	Finncarriers		Schiffahrtsgesellschaft MS "Odin" KG	7,950/610, 1988
SWAN HUNTER	Finncarriers		Seatrans DA	8,407/1,068, 1993
TRANSFINLANDIA	Finncarriers		Poseidon Schiffahrt AG	19,524/2,240, 1981
TRANSLUBECA	Finncarriers		Poseidon Schiffahrt AG	24,727/2,100, 1990
JULIA	Finncarriers		Oy Trailer Link Ab	4,303/–, 1993
JENOLIN	Finncarriers		Minicarriers Ab	4,303/–, 1992


RAILSHIP I*	Finncarriers	40	Railship Oy Ab	17,864/1,800, 1975/79
RAILSHIP II	Railship	40	Partenreederei MS "Railship II"	20,077/1,950, 1984
RAILSHIP III	Railship	40	Partenreederei MS "Railship III"	20,729/1,975, 1990

FINNFIGHTER*	F-Ships		Palkkiyhtymä Oy	12,582/-, 1978
TOFTON	F-Ships		B & N, Bylock & Nordsjöfrakt AS	12,409/-, 1980
WESTON	F-Ships		B & N, Bylock & Nordsjöfrakt AS	12,409/-, 1979

NOMADIC POLLUX	F-Ships		Mathilda Shipping AS	14,013/-, 1977
NOMADIC PATRIA	F-Ships		AS Rederiparter	14,013/-, 1978

PARA-DUO	Baltic Bulk Services		Shipping partnership Proomu 343	2,826/-, 1984/92
PARA-UNO	Baltic Bulk Services		Shipping partnership Proomu 342	2,826/-, 1992

Altogether 42 vessels in Group's service

* Managed by FG-Shipping

25 TIME-CHARTERED SMALL TONNAGE VESSELS ON AVERAGE DURING THE YEAR, EG.:

PINTA	Finncarriers	2,200/2,850 DWT
P-type	Finncarriers	1,522/1,650 DWT
LADOGA-type	Finncarriers	1,600/1,850 DWT

Ships managed by FG-Shipping


BOARD	bulk	Merita Financing	9,066/14,100 DWT, 1987
BOTNIA	bulk	Merita Financing	9,066GT/13,995 DWT,1987/91
BULK	bulk	Merita Financing	9,066/14,100 DWT, 1987
KALLA	bulk	Merita Financing	9,066/14,100 DWT, 1986
TASKU	bulk	Merita Financing	9,066/14,100 DWT, 1986
MOTTI	bulk	Lumi Shipping Oy	5,165/8,212 DWT, 1993

KEMIRA	industrial transport	Kemira Chemicals Oy	5,582/8,250 DWT, 1981


RAUTARUUKKI	bulk	Merita Financing	1,562/445 DWT, 1986
STEEL	bulk	Merita Financing	1,562/430 DWT, 1987/91
MEGA	bulk	Lumi Shipping Oy	768/186 DWT, 1974/93

Altogether 25 ships managed by FG-Shipping

Ships in Group service + managed by Group, total		52
+ Small tonnage vessels on average		25
	TOTAL	77

NEWBUILDINGS

NB 78	Finnlines Ltd	30,500/2,450, 1998
NB 79	Finnlines Ltd	30,500/2,450, 1998

VEERA MOILANEN

Addresses

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	FIN-00121 Helsinki		
FG-Shipping Oy Ab	Lönnrotinkatu 21	phone	+358 10 216 40
	P.O. BOX 406	telefax	+358 10 216 4243
	FIN-00121 Helsinki		
Finncarriers Oy Ab	Porkkalankatu 7	phone	+358 10 343 50
	P.O. BOX 197	telex	1001743 fcrs fi
	FIN-00181 Helsinki	telefax	+358 10 343 5200
Oy Finnlink Ab	Satamatie 11	phone	+358 10 436 7620
	FIN-21100 Naantali	telefax	+358 10 436 7680
Finnsteve Oy Ab	Saukonkuja 5	phone	+358 10 565 60
	P.O. BOX 225	telefax	+358 9 685 7253
	FIN-00181 Helsinki		
Oy A.E. Erickson Ab	Huolintakatu 5	phone	+358 10 233 7555
	P.O. BOX 38	telex	62166 tship fi
	FIN-20201 Turku	telefax	+358 2 230 3115
Railship Oy Ab	Porkkalankatu 7	phone	+358 10 343 50
c/o Finncarriers Oy Ab	P.O. BOX 197	telex	1001743 fcrs fi
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SILKE

FINNLINES

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