

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



1 9 9 7

A N N U A L R E P O R T





TRANSFENNICA LTD



1

**T**ransfennica is a global shipping company transporting in excess of 7 million tonnes a year of forest industry products and general cargoes to 110 countries.

We operate from Helsinki, Antwerp, Lübeck, Blyth and London.

In European trade, some 30 specialized ro-ro vessels handle roughly 70% of the total volume. The fifth generation of Transfennica vessels has been increased to four newbuildings and in total we will operate eleven newbuildings within the next 12 months.

In 1997, Transfennica became one of the first shipping companies in the world to be awarded a certificate under international ISO 14001 environmental standards. The environmental programme integrates environmental issues with the ISO 9002 quality management system.



2

**1997** started with the promise of growth in world trade. Despite the crises looming in the Far East, the main markets of Europe steamed ahead in a positive business climate. In the Baltic, one particular feature has been the continued increase in transit volumes to Russia and the CIS. In this generally favourable shipping market, competition is stiff and has led to mergers and takeovers. Internal savings coupled with improved quality of service have been phased out, and the next trend in shipping is to lower overheads through economies of scale. Customers are demanding a better quality service but at the lowest possible costs. Lead times are being cut in all industries, something that is totally dependent on a reliable sailing schedule. For the shipping industry, the years ahead will be operationally and financially turbulent. The quality of vessels, the competence of crews and environmental issues will be stormy issues for some time. Most European countries are reviewing the cost structure of

their national flags to secure at least a limited base for future shipping. Port operations are under considerable scrutiny in the transport network, which is an issue that the European Commission has highlighted in its port policy aimed at better integration of ports with the overall transport network. Cost cutting affects all areas of shipping, and sea freights have been under pressure. Despite all the uncertainties we are proceeding at full speed in developing our business segment, with a fleet of newbuildings, stricter schedules and higher service standards. As a niche operator we have to be a pioneer in the development of our markets and services. During the year our offices in the main European ports made clear inroads into the markets. Overall business growth was strong, in particular with the daily service between Hanko and Lübeck. The two newbuildings delivered during the year were severely tested in ice and storms to the complete satisfaction of all involved. The series of newbuildings has been extended to four more vessels. In total we will operate eleven newbuildings of the fifth generation within the next 12 months. This specialized fleet, with its operational speed of 20 knots, will cut through previous time barriers and maintain a reliable service schedule. Our objective is to respond to customers' demands where punctuality of service is the most important element in the total service package that we offer them. During the year we experienced a stimulating challenge from both old and new customers, and the total volume shipped increased by

9%. Turnover increased by 5% and net profit by 27%.

We are grateful for this trust and regard it as a firm foundation in our endeavour to provide a high quality service with a competitive edge for the future.

The year turned out to be a success for us and our gratitude goes to all of our customers and suppliers for their strong support, and also to everyone in the network for their untiring efforts.

A handwritten signature in blue ink, appearing to read 'Rolf Eriksson'.

Rolf G.W. Eriksson  
President





### Newbuildings

The second and third vessels in Transfennica's series of new-buildings started trafficking during the year.

The *Heralden*, owned by Rederi Ab Engship, started operating in February 1997 and has now been successfully sailing for about a year between northern Finland and the continent on a strict timetable. The *m/s United Express*, owned by United Shipping Ltd Ab, which also sails between northern Finland and the continent, started operating in September. The fourth newbuilding, the *m/s United Carrier*, entered Transfennica's traffic in January 1998. She was built by Fosen Mekaniske Verksteder A/s in Norway and is owned by Birka Line Ab/ United Shipping Ltd Ab. The *m/s United Carrier* is a sister vessel to the previously launched *m/s United Express*, and will serve in accordance with the same concept: a fast, flexible and safe service between northern Finland and the continent. She has a cargo capacity of 8,000 tonnes and is specifically designed for carrying paper as stowage cargo. However, the ship's flexibility of construction allows her to carry a wide range of other cargoes such as containers and trailers. The main engine has an output of 21,200 horsepower (15,600 kW) enabling a speed of 20 knots. The vessel is also one of the first in the Transfennica fleet to be equipped with fin stabilizers, a feature that is still uncommon among cargo vessels today. During 1998, two additional newbuildings in this series will enter Transfennica's traffic.

New contracts have been finalized for the delivery of a further four newbuildings during the first quarter of 1999. These new-buildings also belong to the fifth generation vessels. Trailers are

well catered for, with a total lane length exceeding 1,600 metres. Two of these new vessels are owned by the Godby Shipping Group, and the other two by Ernst Russ GmbH & Co. All four vessels will be built in Germany by the J.J. Sietas shipyard. In effect, Transfennica is expanding its fleet by altogether eleven newbuildings in the same series to satisfy greater service requirements and the growing demand for transportation.

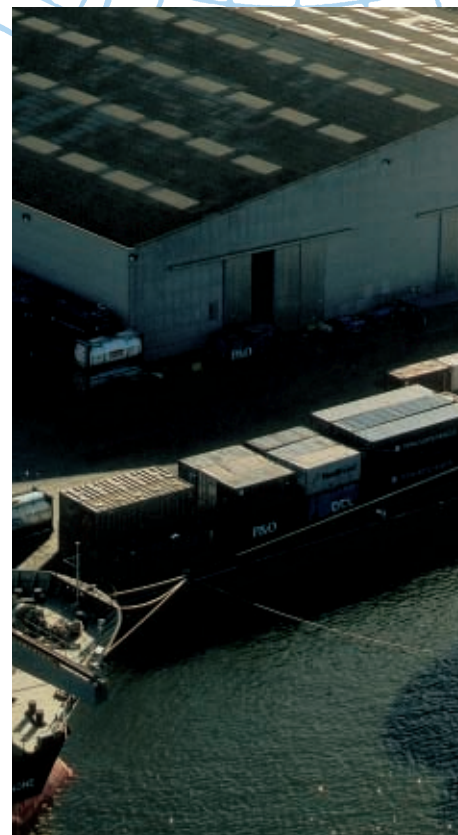
### Services

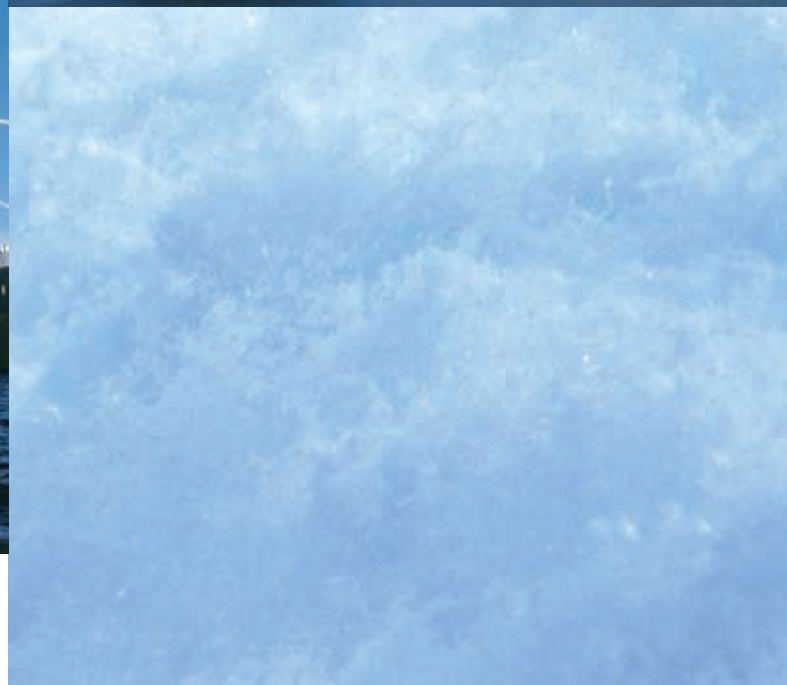
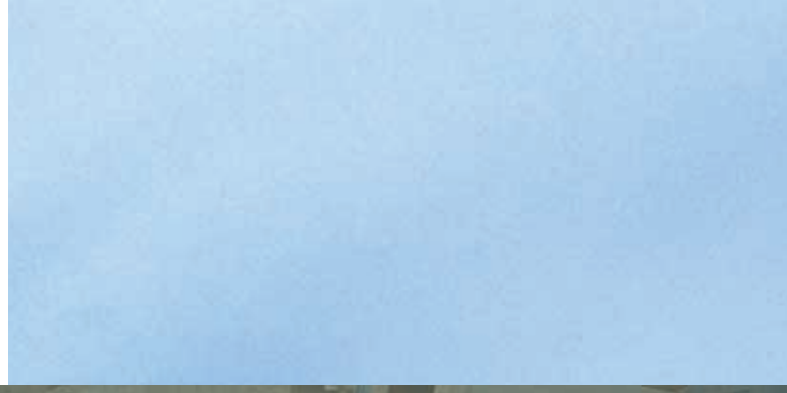
During 1997, Transfennica's shipments of general cargo in both imports and exports exceeded 1 million tonnes for the first time. The Hanko-Lübeck traffic saw a substantial increase, with a tripling of last year's volumes. More than 30,000 trailers were shipped and daily departures were introduced on the Hanko-Lübeck line. In the Baltic trading area, some 30,000 cars were also shipped. In all trading areas cooperation with our partners has developed well, especially in relation to transit traffic to Russia.

New services for 1998 were also developed during the year. In effect, a new line between Kotka and Oslo started at the beginning of 1998. The port of Felixstowe in the UK was also added to the northern Finland - Antwerp & Deptford service. Long-term shipping contracts have been signed with customers for services from northern, western and eastern Finland to Antwerp. In 1999 a twice weekly service will be started between eastern Finland and Antwerp. All these services will be handled by our newbuildings.

### Port and cargo handling development

In line with previous years, Transfennica has continued to invest in special containers. During





1997 Transfennica acquired 200 new 20' high cube-pallet wide containers as well as 200 40' containers. An order for a series of 100 new cassettes was also placed. At the beginning of 1997, traffic leaving Lübeck for Hanko and Kotka was transferred to the Konstinkai terminal, which has enough capacity to handle the increased daily trailer traffic. Cooperation with Lübecker Hafengesellschaft has proved very successful and as a result, the Konstinkai area has developed considerably. A new pontoon ramp and a new shed of 7,280 square metres were built to accommodate the growing volumes of forest products. For Lübecker Hafengesellschaft and the Hanko port authorities as well as for Transfennica, these improvements are an important phase in the development of traffic in accordance with customers' needs.

**Subsidiaries**

Our European subsidiaries in Germany, Belgium and the UK have been fully operational for a year. Providing customers and partners with a wide range of services, they have proved to be an important link in the development of Transfennica's business concept, and trade has progressed well. At the end of the year, traffic from northern Finland to Kiel was transferred to Lübeck, and as a consequence the Kiel office has also moved to Lübeck.

**Training & development**

Continuous training and education aimed at improving know-how and proficiency amongst personnel and sub-contractors was provided during the year. The education project for ships' crews continued during 1997 on the basis of the good results obtained earlier. The Transfennica Award, which was launched in 1996 to spur and

motivate the personnel, was presented four times. During the year, Transfennica introduced an extended follow-up on vessels' timetables to ensure and further improve the quality of shipments; this has been well received by our customers.

**Environmental issues**

At the end of November 1997, the Transfennica group was awarded a certificate under international ISO 14001 environmental standards. The environmental programme is unique in that it integrates environmental issues with the ISO 9002 quality management system. The newest integrated tool in this programme is self-assessment, which is conducted according to international quality award criteria.

Environmental certification under ISO 14001 is based on the efficient use of resources. By matching quantities with capacity, and by bringing the goods as close to the customer as possible, maritime transportation is made more efficient and the environmental impact is minimized.

Transfennica's activities will be developed according to the customers' needs and requirements - economically, ecologically and competitively. One example is the use of a water injection system in the ship's engines that will cut NO<sub>x</sub> emissions. This system will be used in the last four vessels in the fifth generation series.

All our subsidiaries are linked to the environmental system, which meets internationally accepted standards, and most of our subcontractors have also taken up this challenge.







*TRANSFENNICA DEUTSCHLAND GmbH, Lübeck (from left): André Stammer, Dirk Lange, Kari Kesitalo, Niels Path, Susanne Götsch, Ursula Hinz, Marco Neuhäusser, Waltraud Herrlich (director).*



*TRANSFENNICA (BELGIUM) B.V.B.A., Antwerp (from left): Hugo Van de Vondel (director), Annick De Wreede, Gina Van Laere, Didier Dufour.*



*TRANSFENNICA (UK) Ltd, London (from left): James Deeprose (director), Leigh Booker, Andrew Prior, Steven Bassett.*



*TRANSFENNICA (UK) Ltd, Blyth (from left): Sean Lyons, Avril Bell.*



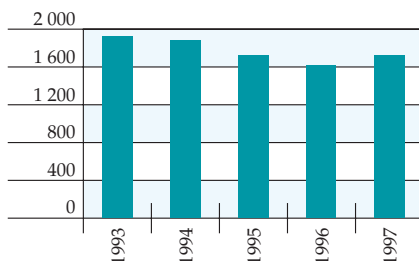
### Financial progress

The Transfennica Group's consolidated profit and loss account and balance sheet include the subsidiaries Transfennica Deutschland GmbH, Transfennica (UK) Ltd and Transfennica Belgium B.V.B.A for the whole of the 1997 financial period. In the 1996 figures, these subsidiaries are included from the time their operations began towards the end of the year.

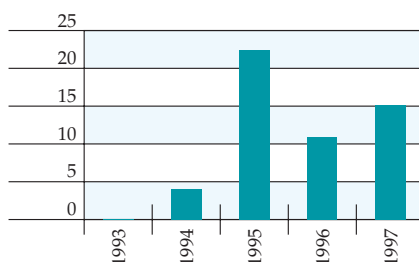
Turnover for the Group was FIM 1,700 million, 5% up on the previous year's figure of FIM 1,612 million. Turnover was derived largely from the transport of exports by the Finnish forest industry. Total freights carried were 7.2 million tonnes, 9% more than in 1996 (6.6 million tonnes). Operating profit was FIM 15.1 million (10.9 million) for the Group and FIM 14.4 million (11.1 million) for the parent company. The Group's profit after taxes was FIM 11.2 million (8.8 million). Capital invested at the end of the year was FIM 41 million (36 million) and the return on investment was 41% (36%). The Group's equity ratio was 28% (23%).

### Investments and newbuildings in service

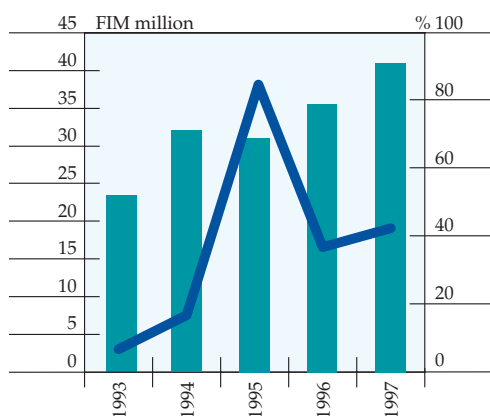
Investment totalled FIM 12.7 million (9.9 million). Acquisition of cargo units accounted for FIM 11.3 million of this (7.4 million). Transfennica charters its fleet for the production of transport services. The m/s Heraldien and the m/s United Express, two vessels in a series planned by Transfennica, entered traffic during 1997. The vessels are designed for speed and cargo handling efficiency. This type of vessel has proved its performance in the past.



TURNOVER  
FIM million

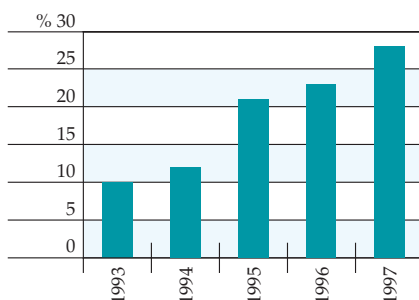


OPERATING PROFIT  
FIM million



RETURN ON INVESTMENT

■ Capital invested  
■ Return, %



EQUITY RATIO

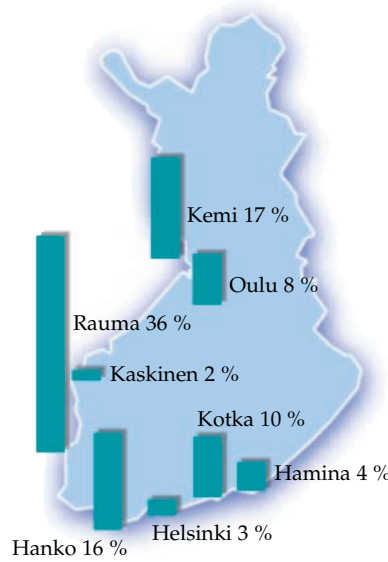
### Research and development

Transfennica's quality system, which has been certified under the ISO 9002 standard, was extended to include the subsidiaries. The extension received certification on 14 May 1997.

Transfennica's environmental management system received ISO 14001 certification on 25 November 1997. A concept based on new information technology was developed for planning loading operations.

**Transfennica's sailings**

Most of Transfennica's sailings depart from or arrive at a Finnish port. The other port where the goods are loaded or unloaded is usually in the EU.



VOLUMES CARRIED THROUGH FINNISH PORTS IN 1997  
7,108,000 t

**GEOGRAPHICAL DISTRIBUTION OF VOLUMES**

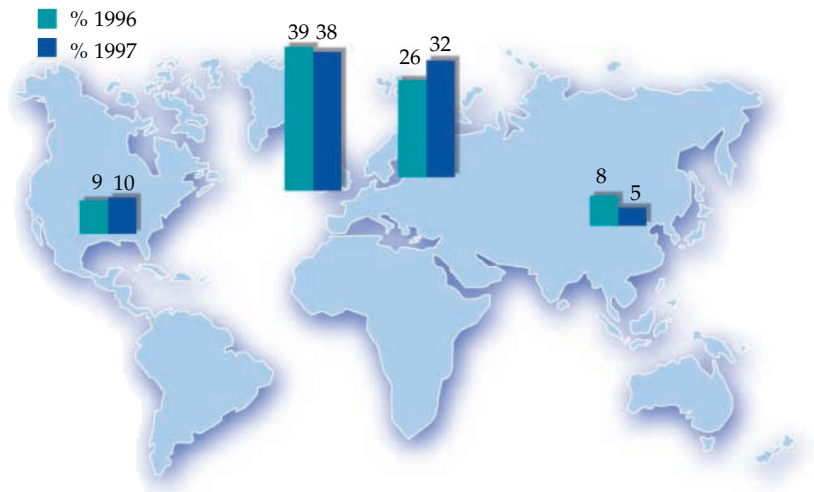
	1996 mill.tons	1997 mill.tons	1997 %
Baltic Sea	1.7	2.3	32
North Sea	2.6	2.7	38
Other Europe	0.6	0.6	9
North America	0.6	0.7	10
Asia	0.5	0.3	5
Other overseas	0.5	0.5	7
<b>TOTAL</b>	<b>6.6</b>	<b>7.2</b>	<b>100</b>

**Personnel and training**

The average number of employees was 94 for the Group (86 in 1996) and 77 for the parent company (81).

Employees of the parent company and its subsidiaries received training related to the environmental management system in 1997. Employees at the subsidiaries received quality training related to the extension of the quality system.

The total number of consignments was 190,000. The average size decreased to 38 tonnes from 45 tonnes the previous year.



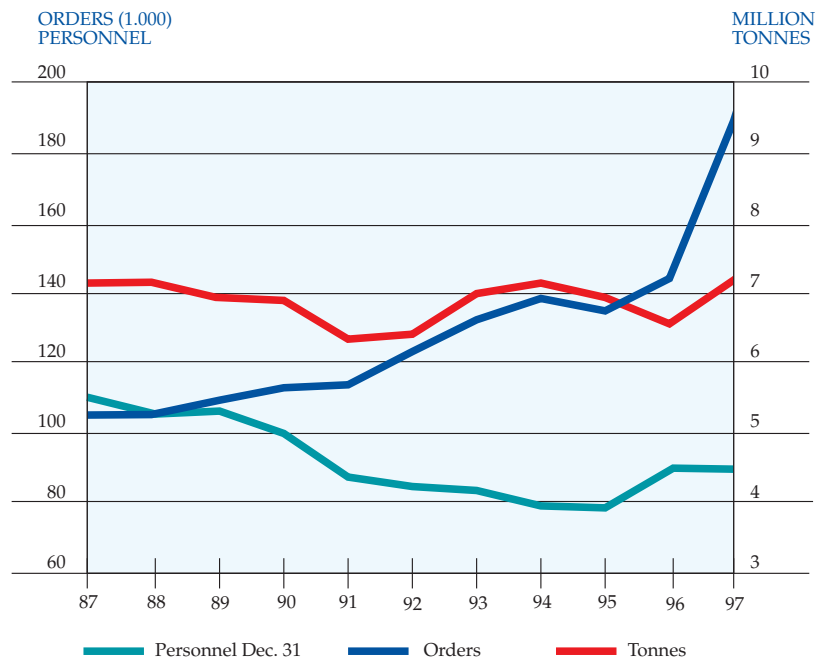
**Business outlook**

Turnover for 1998 is expected to be smaller than in 1997.

**Shareholders**

There were no changes in the ownership of Transfennica Ltd during the 1997 financial period. The company's shareholders at 31 December 1997 were:

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



## BOARD OF DIRECTORS

During the financial year, the Board members and their deputies were:

### up to the General Assembly on 13 March 1997:

#### Ordinary member

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

#### Deputy member

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

### after the General Assembly on 13 March 1997:

#### Ordinary member

Heikki Sara	UPM-Kymmene Corporation, Chairman
Aarre Metsävirta	Metsä-Serla Corporation, Vice Chairman
Seppo Hietanen	Enso Oyj
Sverre Norrgård	Myllykoski Paper Oy

#### Deputy member

Jussi Sarvikas	UPM-Kymmene Corporation
Raimo Mansukoski	Metsä-Serla Corporation
Veli-Jussi Potka	Enso Oyj
Heikki Rätty	Myllykoski Oy

## AUDITORS

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

## EXECUTIVES

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

## PROPOSAL BY THE BOARD OF DIRECTORS FOR THE DISTRIBUTION OF PROFITS FOR 1997

The consolidated balance sheet shows distributable shareholders' equity of FIM 14,410,000, and the parent company's balance sheet shows distributable shareholders' equity of FIM 14,182,709.

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

- a dividend of FIM 50 per share	FIM 5,000,000
- to be retained in the profit and loss account	FIM 9,182,709

Only the principal parts of the financial statements are published in printed form.

The official statements are available from the Trade Register Department of the National Board of Patents and Registration, Albertinkatu 25 B, FIN-00180 HELSINKI



*Transfennica's Board of Directors: From left: Rolf Eriksson, Aarre Metsävirta, Heikki Sara, Sverre Norrgård and Seppo Hietanen.*





12



# PROFIT AND LOSS ACCOUNT

January 1 – December 31, 1997

thousand FIM

	Group		Parent company	
	1997	1996	1997	1996
Net turnover	<u>1 699 743</u>	1 612 033	<u>1 698 803</u>	1 611 998
Costs				
Freight costs	1 631 922	1 557 156	1 639 583	1 558 556
Staff costs	26 904	23 569	22 416	22 779
Rents	2 689	2 450	2 333	2 350
Other fixed costs	<u>17 088</u>	<u>13 241</u>	<u>14 226</u>	<u>12 536</u>
	<u>1 678 603</u>	1 596 416	<u>1 678 558</u>	1 596 221
Profit from operations before depreciation	21 140	15 617	20 245	15 777
Depreciation on fixed assets and other capitalized expenditures	<u>- 6 014</u>	<u>- 4 714</u>	<u>- 5 797</u>	<u>- 4 674</u>
Operating profit	15 126	10 903	14 448	11 103
Financial income and expenses				
Interest income from non-current investments	38	53	38	53
Other interest income	1 493	1 683	1 407	1 680
Interest expenses	<u>- 743</u>	<u>- 47</u>	<u>- 683</u>	<u>- 47</u>
	788	1 689	762	1 686
Profit before extraordinary items, voluntary provisions and income taxes	15 914	12 592	15 210	12 789
Increase in accelerated depreciations			- 4 954	- 934
Decrease in voluntary provisions			4 340	
Income taxes	- 4 566	- 3 514	- 4 286	- 3 514
Increase in deferred tax liability	<u>- 172</u>	<u>- 262</u>		
Profit for the period	<u>11 176</u>	<u>8 816</u>	<u>10 310</u>	<u>8 341</u>

# BALANCE SHEET

December 31, 1997

thousand FIM

	Group		Parent company	
	1997	1996	1997	1996
<b>Assets</b>				
<b>Fixed assets and other non-current investments</b>				
Tangible assets				
Machinery and equipment	24 622	17 935	24 002	17 391
Financial assets				
Bonds and shares	408	390	1 624	1 607
Loan receivables	653	895	653	895
	<u>1 061</u>	<u>1 285</u>	<u>2 277</u>	<u>2 502</u>
	25 683	19 220	26 279	19 893
<b>Current assets</b>				
Receivables				
Trade receivables	86 491	65 746	86 299	65 736
Prepaid expenses and accrued income	6 045	3 564	5 870	3 397
	<u>92 536</u>	<u>69 310</u>	<u>92 169</u>	<u>69 133</u>
Financial securities		7 117		7 117
Cash in hand and at banks	27 599	56 006	26 919	55 715
	<u>145 818</u>	<u>151 653</u>	<u>145 367</u>	<u>151 858</u>
<b>Liabilities</b>				
<b>Capital and reserves</b>				
Restricted shareholders' equity				
Subscribed capital	10 000	10 000	10 000	10 000
Other equity	9 596	9 596	9 596	9 596
	<u>19 596</u>	<u>19 596</u>	<u>19 596</u>	<u>19 596</u>
Unrestricted shareholders' equity				
Retained earnings	9 985	7 094	3 872	1 532
Profit for the period	11 176	8 816	10 310	8 340
	<u>21 161</u>	<u>15 910</u>	<u>14 182</u>	<u>9 872</u>
	40 757	35 506	33 778	29 468
<b>Provisions</b>				
Accelerated depreciation			9 224	4 270
Voluntary provisions				4 340
<b>Creditors</b>				
Current				
Loans from credit institutions	129		129	
Trade payables	60 362	75 699	60 963	75 977
Accrued liabilities and deferred income	44 570	40 448	41 273	37 803
	<u>105 061</u>	<u>116 147</u>	<u>102 365</u>	<u>113 780</u>
	<u>145 818</u>	<u>151 653</u>	<u>145 367</u>	<u>151 858</u>





## SOURCES AND APPLICATIONS OF FUNDS

thousand FIM

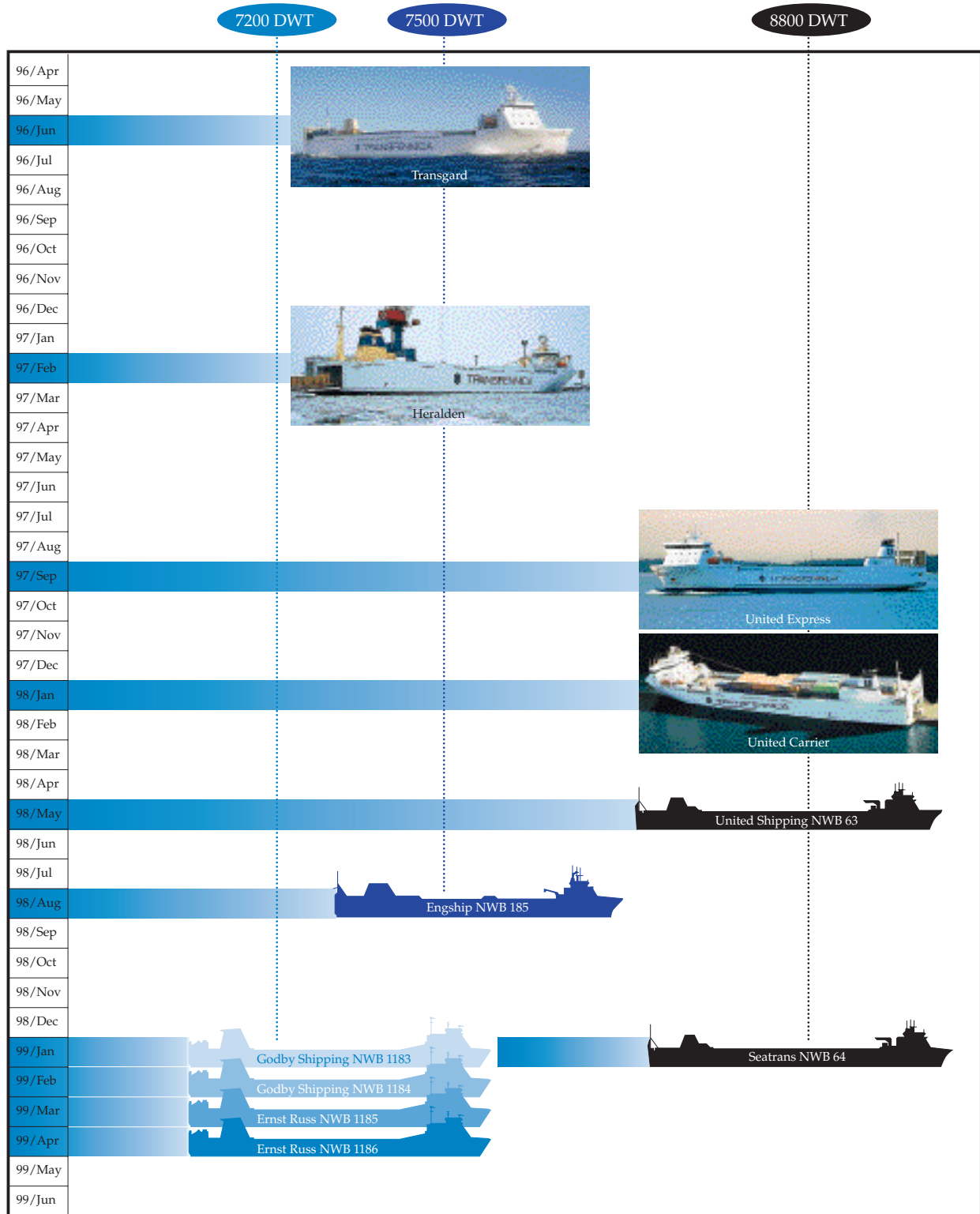
Sources of funds	Group	Parent company	
	1997	1997	1996
From operations			
Net profit	11 176	10 310	8 341
Depreciation	6 014	5 796	4 674
Change in reserves		614	934
Total from operations	17 190	16 720	13 949
Decrease in financial assets	242	242	383
Sales of fixed assets	45	45	63
Share issue			12 000
Change in translation difference	75		
	<u>17 552</u>	<u>17 007</u>	<u>26 395</u>
<b>Application of funds</b>			
Investments			
– subsidiaries' shares			1 217
– containers and cassettes	11 332	11 332	7 421
– other	1 432	1 137	1 886
Reduction in long-term liabilities			101
Dividend distribution	6 000	6 000	16 000
	18 764	18 469	26 625
Change in net working capital	– 1 212	– 1 462	– 230
	<u>17 552</u>	<u>17 007</u>	<u>26 395</u>
Change in net working capital			
Cash and bank	– 28 407	– 28 796	9 025
Short-term current assets	16 109	15 919	– 9 452
Short-term liabilities	11 086	11 415	197
	<u>– 1 212</u>	<u>– 1 462</u>	<u>– 230</u>
Net working capital, Jan. 1	16 286	18 185	18 415
Net working capital, Dec. 31	<u>15 074</u>	<u>16 723</u>	<u>18 185</u>



# TRANSFENNICA'S NEWBUILDING PROGRAMME

Fifth generation ro-ro vessel

16



Delivery Time





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

Eteläranta 12, FIN-00130 Helsinki, Finland  
Tel: +358 9 132 62 Fax: +358 9 652 377

TRANSFENNICA DEUTSCHLAND GmbH  
Lübeck  
Hafenstr. 1 B, 23568 Lübeck  
Tel: +49 (0) 451 484 850  
Fax: +49 (0) 451 484 8521

TRANSFENNICA (BELGIUM) B.V.B.A.  
Antwerp  
Land van Waaslaan - Haven 1207  
B-9130 Kallo-Beveren  
Tel: +32 (0) 3 570 9292  
Fax: +32 (0) 3 570 9299

TRANSFENNICA (UK) Ltd  
London  
Convoys Wharf, Prince Street  
Deptford, London SE8 3JH  
Tel: +44 (0) 181 691 2650  
Fax: +44 (0) 181 692 8107

Blyth  
South Harbour, Blyth  
Northumberland NE24 3PB  
Tel: +44 (0) 1670 361 053  
Fax: +44 (0) 1670 369 055