

# FINNLINES

Annual Report



1998



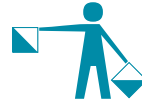
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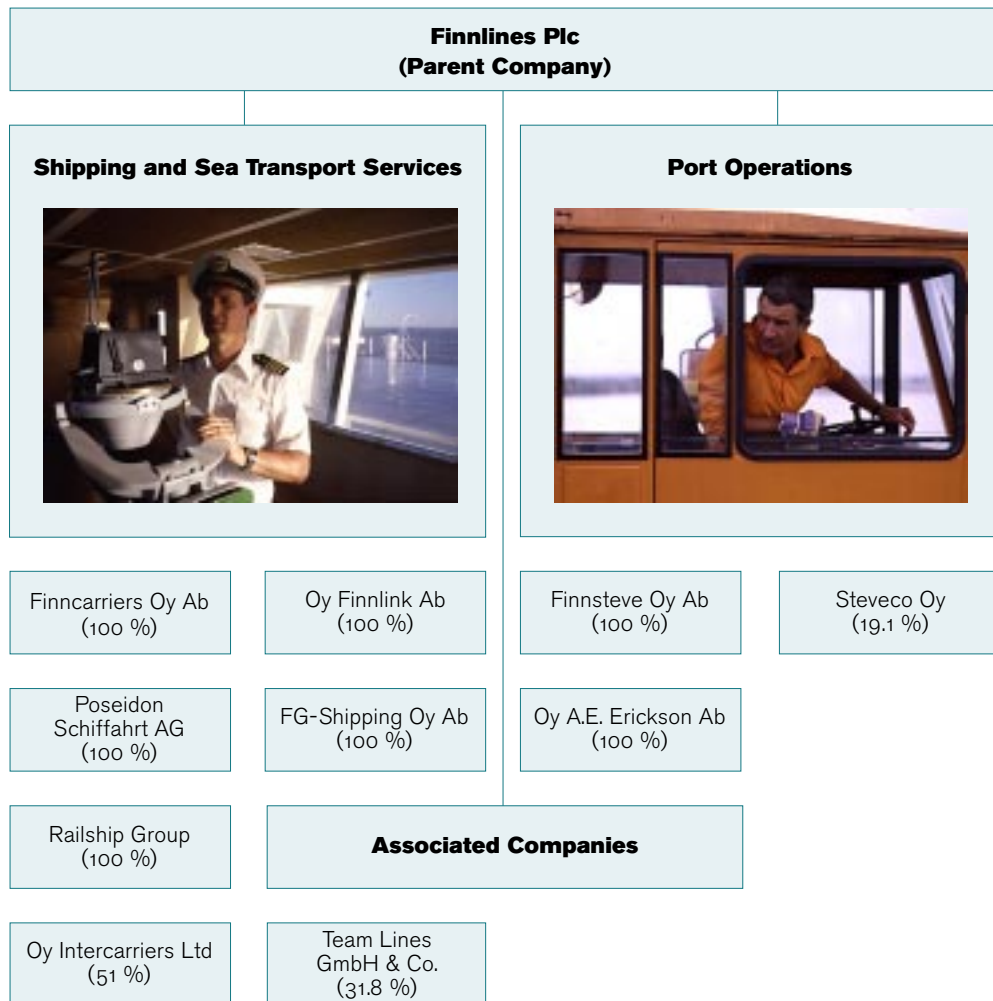
### Annual General Meeting

The Annual General Meeting will be held on Friday, 5 March 1999, commencing at 10.30 a.m. at the Palace Restaurant (10<sup>th</sup> floor), Eteläranta 10, 00130 Helsinki.

☑ Shareholders wishing to attend the Annual General Meeting are kindly requested to notify the Company no later than by 4.00 pm (Finnish time) on Tuesday, 2 March 1999, address: Finnlines Plc, P.O. Box 182, FIN-00121 Helsinki, Finland, or by telephone, +358-10-554 4427, or by telefax +358-10-554 4425.

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

# The Finnlines Group



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

■ The parent company Finnlines Plc is listed on the HEX Helsinki Exchanges.

The Group's vessels are mainly owned by the parent company and its German subsidiary Poseidon Schiffahrt AG. The Group had an average of 80 vessels in service or under its management during the year, 21 of which were owned by the company.

■ Marketing and sales of sea transport services between Finland and Continental Europe, Great Britain, Scandinavia and the Bay of Biscay are handled by Finncarriers Oy Ab in Finland, and by Poseidon Schiffahrt AG in Continental Europe.

Oy Finnlink Ab is responsible for the Group's sea transport services between Finland and Sweden. Poseidon Schiffahrt AG is additionally responsible for the maintenance and manning of its own tonnage.

■ FG-Shipping Oy Ab is responsible for the Finnish tonnage and its manning, as well as for the Group's passenger services.

■ The Group's port operations are 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 and Hamina.

■ Team Lines GmbH & Co. (31.8 %) ranks among the largest Northern European container operators with 18 container vessels operating between ports in the Baltic Sea and North Sea.

## Significant Events During 1998

The stock swap between Finnlines Plc and Stinnes AG agreed in November 1997 came into force on 1 January 1998. According to the agreement, Finnlines acquired the Poseidon Schifffahrt AG shipping company, selling in exchange its holding in the Swedish transport group BTL AB (publ). The EU Commission and the German competition authorities gave their full approval to the transaction. The deal also gave Finnlines full ownership of the marketing company Frachtkontor Finnland. This company and Poseidon's maritime operations in Germany have been merged into Poseidon Schifffahrt AG. All transport operations in Continental Europe are now marketed systematically under the Finn-carriers service brand. The restructuring implemented during the year is expected to generate cost savings and increase business efficiency.

■ The Railship service was moved from Hanko to Turku at the beginning of June. This achieved a better balance of traffic, which is expected to result in higher profitability.

■ Zoning of the Kamppi block, in which the City of Helsinki has reserved a site for Finnlines, is still in progress. This is expected to be completed by summer 1999 and will then be rapidly followed by the exchange of sites agreed between Finnlines and the City of Helsinki. Finnlines has informed the city that it is prepared to start construction of its new head office immediately after the exchange is finalised.

■ Finnlines Plc floated fixed rate notes totalling FIM 200 million in June. The notes have a maturity of five years and carry fixed interest at 5 %. Given the buoyant market conditions at the time, the notes were in strong demand.

■ Construction of the two ropax vessels, acquired from Stena AB, continued in Spain. These vessels are well behind schedule but will enter service by summer 1999.

■ In December the Finnlines Group bought the remaining 6 % of the Railship group. After the deal Finnlines now has 100 % ownership of the Railship companies.

### Key indicators

Figures in million Finnish markka	1998 <sup>1)</sup>	1997	Change %
Net turnover <sup>2)</sup>	3,442	2,465	40
Operating profit	950	455	109
% of net turnover	28	20	
Profit before provisions and taxes	902	424	113
% of net turnover	26	19	
Profit for the year	624	347	80
% of net turnover	18	15	
Equity ratio, %	45	41	-

Figures in million euro	1998 <sup>1)</sup>	1997	Change %
Net turnover <sup>2)</sup>	579	415	40
Operating profit	160	77	109
Profit before provision and taxes	152	71	113
Profit for the year	105	58	80

<sup>1)</sup> Profit figures include a profit of FIM 470 million on the sale of the BTL AB (publ) shares.

<sup>2)</sup> Net turnover has been restructured owing to changes in the Finnish Accounting Act.

The comparative data for the previous year has been adjusted accordingly.

## Chief Executive Officer's Review



The year 1998 began with strong economic growth in Finland. During the first quarter imports of unitised cargo, including transit traffic from Russia, rose 20 % on the same period in 1997. Exports also rose robustly early in the year. The collapse of the rouble in the wake of Russia's political crisis in August virtually halted transit traffic. At the end of the year Finland's import and export growth figures were showing signs of waning. The declining volume of traffic in the Baltic Sea is also being affected by container transport to and from Asia, which have also been at a standstill because of the economic recession in East Asia. This is particularly evident in port operations.

■ Finland's industrial production is not expected to grow significantly during the current year. Although Finland's export volumes are expected to remain strong, growth appears to have halted, at least for the time being. Nevertheless, strong consumer confidence should keep imports of consumer goods at last year's level, at least during the early part of the year. The significance of the Russian and East Asian situations on economic growth in Europe has been underestimated. The Russian crisis appears to be deeper and to be lasting longer than it was possible to predict last autumn.

■ Finland has elected to remain voluntarily outside developments in European maritime trade following the Finnish government's decision on this issue. This has substantially reduced the competitiveness of ships sailing under the Finnish flag, compared to other European countries, and this will inevitably reduce the number of ships using the Finnish flag. Increases in official maritime charges such as channel fees and especially pilot fees cast doubt on Finland's competitiveness in transit traffic as well, once Russian cargo volumes begin to recover. The Group will increase its investments in



direct sea services from Continental Europe to Russia as necessary.

■ The German shipping company Poseidon Schiffahrt AG has been a part of the Finnlines Group for one year now and its integration has been successful. Development of information systems will make it easier to enhance cooperation and efficiency.

■ Being a Finnish company, Finnlines regards Finland as its most important market. The focus of Baltic Sea growth and development, however, is in the south and for this reason the Group's organisation and operating priorities will be developed to take better account of trends in Continental Europe.

■ Finnlines Group's result of operations in 1999 looks likely to be clearly weaker, compared to the previous year, owing to a decline in Finland's economic growth and the slow recovery of Russian transit traffic

through Finland. Changes in the operating environment could lead to restructuring in the maritime sector, which has so far been unusual. The Group is positioned to develop and expand both through acquisitions and by increasing cooperation with other companies in the sector and by opening up new routes.

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

Helsinki, 15 January 1999

Antti Lagerroos

## Division Performance

# Shipping and Sea Transport Services

Net turnover of the Shipping and Sea Transport Services Division totalled FIM 3,035 million, which was 88.2 % of the Group's total net turnover. The division companies had 1,109 employees on average during the year.

## Shipping

The Group's parent company is Finlines Plc, which is listed on the HEX Helsinki Exchanges. The parent company owns the main part of the fleet and is responsible for strategic planning, management and business control, finance and treasury, legal matters and information technology for the Group. It employed 19 (20) persons at the year end.

■ The Group's own fleet – altogether 21 vessels at year-end – consists mainly of ro-ro and combi-ro-ro vessels designed for the Group's own transport operations. Their average age is ten years. Most of the tonnage sailing under Finnish flag is owned by the parent company. The Poseidon/BTL stock swap gave the Group ownership of the German shipping company Poseidon Schiffahrt AG, which owns five ro-ro vessels and two railferries. Two new ro-ro-passenger vessels will be added to the Group's tonnage in 1999. These will be owned by Poseidon Schiffahrt AG and will be regis-



Two new combi-ro-ro vessels will be added to the Finlines Group's fleet in 1999.





The Finnlines Group now also offers a year-round daily service for passengers between Finland and Germany.

tered in Germany. Poseidon Schifffahrt AG is responsible for manning and maintenance of the vessels it owns.

■ The Poseidon deal also gave the Group a 31.8 % holding in the German shipping company Team Lines GmbH & Co., one of the largest container feeder operators in Northern Europe. Team Lines operates 18 container vessels of various sizes between ports in the Baltic Sea and North Sea.

■ Finnlines' subsidiary FG-Shipping is responsible for the management, manning and development of the Group's vessels. It also provides these services for other shipowners' vessels. FG-Shipping is additionally in charge of passenger services for the Group's own vessels. (see page 42)



The Group's passenger service organization is based, first and foremost, on customer needs.

■ In its development activities during the year FG-Shipping focused on conversion of the tonnage and on supervising the construction of the new ropax vessels acquired from Stena Line. It also enhanced the cargo handling capacity of MS Finnarrow while this vessel was docked in June. MS Finnarrow was then transferred to the Finnlink route.

■ At the end of the period FG-Shipping had altogether 25 vessels (21 in 1997) under its management. The company manned 19 (19) of these and employed 588 (549) seamen. Of the vessels managed by the company, eleven operated on Finn carriers Oy Ab's European routes, one on its North-Atlantic route, and three on the Finnlink route between Finland and Sweden. The company also managed ten vessels used by industrial companies for carrying their own goods: one bulk chemicals carrier, three pusher tugs and six pusher barges. During the year nine vessels and three barges were docked. The largest project was MS Finnarrow's docking and conversion work, which lasted five weeks. The other vessels were all docked for normal maintenance work and classification.

■ Twelve vessels were granted ISM international safety management certification during 1998, which means that all nineteen of the vessels managed by FG-Shipping and two Poseidon vessels are now certified according to this code. The STCW convention, which defines the standards of training, competences and hours of duty required of sea personnel, is being introduced in steps by 2002. The company is already implementing the measures required by the agreement. The first master training course arranged by the company was completed and a second similar course was started during the year.

## Sea Transport Services

During the year Finncarriers Oy Ab and Poseidon Schifffahrt AG jointly engaged in:

- Regular liner service in the Baltic Sea between Finland, Germany, Scandinavia and Poland; and in the North Sea between ports in Finland, Great Britain, Belgium and the Netherlands. Finncarriers also operated between Finland and the Bay of Biscay.
- TransRussiaExpress service between Kiel, Sassnitz and St. Petersburg
- Railferry service between Finland and Germany.

■ The company also offered selected door-to-door and terminal services for individual customers.

■ Port and canvassing agent services were provided by Frachtkontor Finnland OHG in Lübeck and Travemünde, by Finnbelgia Agencies N.V. in Antwerp, and by Finanglia Ferries Ltd (50 %) in London, Felixstowe and Hull. Frachtkontor Finnland OHG's business operations were transferred to Poseidon Schifffahrt AG at the end of the year.

■ To enhance business efficiency, transport operations throughout Continental Europe are now marketed exclusively under the Finncarriers service brand. As a part of this process, Finnbelgia Agencies N.V. was renamed Finncarriers N.V. at the beginning of June.

■ Finncarriers Oy Ab also handled contract traffic between North America and Finland, acted as main agent for Svenska Orient Linien AB in the eastern Mediterranean, and marketed and operated bulk transport services in the Baltic Sea on behalf of the owners of these vessels.

■ Oy Intercarriers Ltd (51 %) supplied agency and clearance services related to small tonnage chartering operations. This company's other owners are the Russian shipping companies North Western Shipping Company (35 %), White Sea Omega Ship-

ping Company (10 %) and the Danish company H.H. Danship A/S (4 %).

■ The Norwegian companies Finncarriers AS and its subsidiary Norsteve AS handled agency, stevedoring, warehousing and distribution in Oslo. Finncarriers Oy Ab also has holdings in the Finnish transport and forwarding company North Euroway Oy (50 %) and in the Belgian terminal company Finnwest N.V. (66.6 %) in Antwerp.

■ The Group had an average of 70 vessels in its own service during the year. Volumes of both exported and imported cargo increased.

## Finncarriers liner services

The Group's position remained strong in the Baltic Sea and North Sea, its main area of operations.

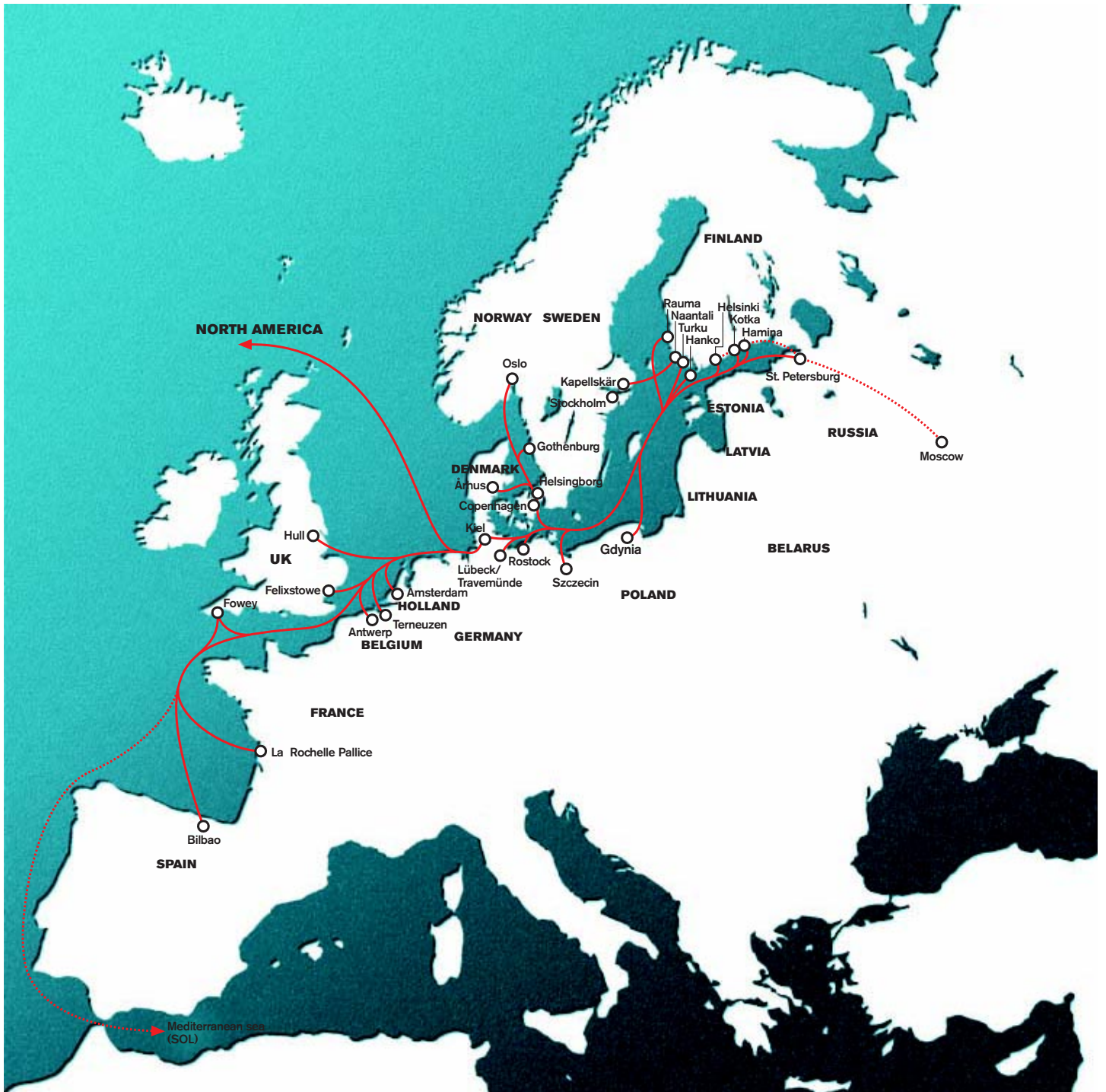
■ Frequency was high with the Group offering several daily departures from both Finland and Continental Europe. One weekly departure was rescheduled to arrive earlier in Helsinki, enabling earlier distribution of goods than usual.

■ The Group's external conference partner on the Rostock route was Euroseabridge GmbH (Rostock).

■ The conference partner in the North Sea liner service was Andrew Weir Shipping Company through its subsidiary United Baltic Corporation. This conference offered several weekly departures to various North Sea ports using both ro-ro and container vessels.

■ Transport between Finland and the Bay of Biscay proceeded as planned. This route employed between four and five vessels and offered a regular weekly departure between the main ports.

■ A warehouse and distribution terminal (10,000 m<sup>2</sup>) was opened in Kotka in the autumn. This will be used by North Euroway Oy (50 %) mainly for transit traffic to Russia.



Marketing and sales of sea transport services between Finland and Continental Europe, Great Britain, Scandinavia and the Bay of Biscay are handled by Finn carriers Oy Ab in Finland, and by Poseidon Schiffahrt AG in Continental Europe. Oy Finnlink Ab is responsible for the Group's sea transport services between Finland and Sweden.

■ Vessel capacity was successfully matched to liner service needs even though the two ropax vessels acquired by the Group from Stena failed to enter service during the year. To further improve service in the future, long-term time-charter contracts were signed for four roro vessels which will be built in China. These vessels, for which the Group also has a purchase option, will be delivered in 2000 and 2001. The Group will possibly make a similar contract for two more vessels.



The Finnlines Group has also been offering passenger services for several decades.

#### Polfin Line service

The Polfin Line service between Finland and Poland showed positive growth in cargo volumes. A new route between Rauma and Gdynia was started up at the beginning of the year. The Polfin Line service employed between two and three vessels during the year. The Group's conference partner in this traffic was the Polish company Euroafrica Shipping Lines Ltd.

#### TransRussiaExpress service

The TransRussiaExpress service operated between Kiel, Sassnitz and St. Petersburg, employing from one to five vessels during the year. The number of vessels was reduced during the second half of the year as the Russian economic crisis deepened. The Group's partners in this conference were Baltic Transport Systems (BTS), St. Petersburg, and Friedrich Sanger GmbH, Hamburg. The TransRussiaExpress service was further developed by improving technical services in the new area of St. Petersburg's port. This will speed up cargo handling and enhance customer service.

#### Railferry service

The Railship railferry operations between Finland and Continental Europe were further reorganised. The Railship service was moved from Hanko to a newly built port area

in Pansio, Turku in June. At the same time the number of weekly railferry departures was increased from four to six.

■ All three railferries – Railship I, II and III – were used for a combined form of cargo transport involving railway wagons, trailers, trucks and break bulk loads.

■ At this new port area the Group invested in the bogie changing hall, the transfer load terminal and equipment. The port of Turku's investments related to infrastructure development.

■ The type and number of rail wagons were rationalised. At the year end the Railship group owned about 1050 wagons (1300 in 1997). The major challenges facing the service are to accelerate wagon turnaround times and the development of management systems to meet the growing requirements of the customers. For this reason it was decided to tighten collaboration with the Continental European Transwaggon group, DB-Cargo, which is owned by the German railways, and VR Cargo in Finland.

■ In December Poseidon Schiffahrt AG acquired the remaining 6 % of Railship's German companies, including the shipping partnerships in Railship II and Railship III, from the Swiss company Ostmare AG. At



Customers can enjoy a delicious buffet at every meal on the Group's ro-ro-passenger vessels.

the same time Finnlines Plc acquired 13 % of the Swiss company Railship AG. After the deals Finnlines Group now owns 100 % of the Railship companies.

■ Finnlines Plc and the Transwaggon group's parent company, Waggon Holding AG in Switzerland, one of the largest private rail wagon operators in Continental Europe, signed an agreement to cooperate in the management and marketing of rail wagons. This cooperation will ensure more efficient deployment of rail wagons in Continental Europe.

#### Small tonnage services

During the year the Group operated an average of 25 so-called small tonnage vessels which sail under the EU and

Russian flags. These mainly plied direct routes from Lake Saimaa and sea ports in Finland to Continental Europe and the UK.

■ Services from Russian sea and inland ports to Scandinavia and Continental Europe were also operated by Inter-carriers. The efficiency of small tonnage services was improved during the year by raising the frequency of traffic in the Baltic Sea and North Sea.

#### Contract traffic

Finn-carriers engaged in contract traffic under the name of F-Ships between North America and Finland. This service involved six vessels. The conference partners are the Finnish company Palkkiyhtymä Oy and the Swedish company B & N Nordsjöfrakt AB, each with a one-third holding. Finn-carriers was responsible for marketing, operation and management.

■ Finn-carriers also markets and operates bulk carrier services in the Baltic Sea on behalf of the vessel owners. This operation, based on four barges, mainly involved raw material transport for the forest and process industries.

#### Finnlink traffic

Oy Finnlink Ab operated from the beginning of the year between Naantali and Kapellskär (Sweden) with three ro-ro vessels. Cargo customers were offered three daily departures in both directions, making 2,048 in all during the year.



Oy Finnlink Ab operates three ro-ro vessels between Naantali, Finland, and Kapellskär, Sweden.

■ MS Finn fellow, MS Finnmaid and MS Finnsailor were in operation from the beginning of the year. MS Finnarrow, with over 2,000 lane metres of capacity, was brought into service at the beginning of July, replacing the slower MS Finnmaid with capacity of less than 1,000 lane metres.

■ The cargo volumes carried, computed by number of truck loads, rose 21 % on the previous year. Altogether 78,970 truckloads were transported. The total unit transport volumes between Finland and Sweden increased only by one percent to 232,046 unit loads at the year end, which means that Finnlink raised its market share during the year to 34 %.

■ The company will complete 10 years of operation in 1999. During this anniversary year it will continue to develop its operations and improve the quality of service.

#### Passenger service

The company offers passenger services on five combi-ro-ro vessels between Finland and Germany. This activity is handled by FG-Shipping Oy Ab. During the year considerable attention was given to enhancing organisational efficiency in the main markets, focusing primarily on customer needs, and to pre-marketing of the new ropax vessels. Altogether 38,100 passengers (35,385 in 1997) and 16,000 passenger cars (14,411) travelled between Helsinki and Lübeck during the year.

■ The Group will continue with measures started during 1998 to simplify and intensify its passenger service operations since passenger capacity will be further increased during 1999.

#### Information systems

The technical and operational standard of the information systems used by the Group's companies was the focus of further



All ro-ro-passenger vessels are functional in design and tastefully furnished to high standards.

development. The Octopus computerised logistics system, which has been in use in Finland since 1997, was introduced in Germany and Belgium. This will guarantee reliable and real-time data transfer throughout the transport chain, which will enhance both reliability of deliveries and control of the transport process. In the future, system improvements will concentrate on the development of customer services such as supervision of delivery and electronic booking applications.

■ At the beginning of 1999 Finn carriers Oy Ab adopted a euro-based financial management system called Flipper, which is seamlessly linked to the Octopus logistics system. This system will also be introduced in the foreign units and will allow concentration on administrative routines in the most effective manner.

■ The euro was adopted as the Group's accounting and invoicing currency from 1 January 1999. The Group is also giving serious attention to the question of year 2000 compliance. The required analyses and changes relating to the euro and year 2000 placed a heavy load on the Group's information technology resources during the year.

## Associated companies

### Team Lines GmbH & Co. (31.8 %)

In conjunction with the Poseidon/BTL stock swap in autumn 1997 Finnlines Group acquired a 31.8 % holding in the German shipping company Team Lines GmbH & Co.

■ Team Lines GmbH & Co. was founded in October 1991. The company is owned by four well known German shipping companies – Johannes Ick, Mathies Reederei GmbH and Ernst Russ GmbH & Co., and also from 1 January 1998 by Finnlines' wholly owned subsidiary Poseidon Schifffahrt AG.

■ Team Lines, with a fleet of about 18 vessels, is one of the largest container feeder operators in Northern Europe. The company's head office is in Hamburg and it has a branch office in Bremerhaven. It also has subsidiaries in Finland and Sweden: Team Lines Sverige AB in Stockholm and Gothenburg, and Team Lines Oy in Helsinki.

■ Team Lines supplies regular transport services, mainly to Hamburg and Bremerhaven, from Denmark, Finland, Latvia, Lithuania, Norway, Russia, Sweden and Poland.



## Division Performance

### Port Operations

The net turnover of the Port Operations Division was FIM 538 million, which was 15.6 % of the Finnlines Group's total net turnover. The division had an average of 883 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 Ports of these cities.

■ The Helsinki and Turku ports 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.

### Port of Helsinki

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 provides terminal, warehousing and container depot services.



The ports of Helsinki and Turku are the largest in Finland in terms of cargo value.





Port services were further enhanced during 1998.

- A total of 2,483,477 tonnes and 832,939 units of cargo were handled in Helsinki and Kantvik during the year compared to 2,667,219 tonnes and 858,520 units in 1997.
- Finnsteve was responsible for managing the container terminals in both West and Sompasaari Harbours. The level of service at West Harbour was improved during the year. In Sompasaari the introduction of FIPS planning software brought tangible benefits, which were clearly visible in the harbour's operation. To speed up container handling and make site allocation easier a 4,600 m<sup>2</sup> warehouse was pulled down at Sompasaari and replaced with a lightweight 3,000 m<sup>2</sup> warehouse, which was also sited more advantageously. In West Harbour a 22,000 m<sup>2</sup> warehouse was demolished and its stock moved elsewhere, which freed the entire warehouse site for cargo handling.
- Finnsteve and the City of Helsinki maintained closer contact in order to ensure the continued efficiency of the harbours during the remaining term of operation at their current locations. The City of Helsinki's harbours will eventually be relocated to Vuosaari.
- Finnsteve set up a new company called RossEuroTrans Ltd in St. Petersburg with two Russian partners. The new company

supplies cargo handling and terminal services in St. Petersburg. It was registered in the local register of companies in November 1998 and officially began operating in December although no business operations took place during the year. Finnsteve holds 50 % of the stock. The company has leased its cargo handling equipment from Finnsteve, which is now providing user training.

### Port of Turku

Oy A.E. Erickson Ab supplies stevedoring, terminal and bogie changing services in the port of Turku's West Harbour and Pansio's railferry harbour. 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.

- The company handled altogether 1,389,450 tonnes of cargo in 1998 (1,003,719 tonnes in 1997)
- In February the company took over responsibility for railferry traffic in Hanko. Railship traffic was then moved in June to the new railferry harbour in Pansio, Turku, where Erickson is the port operator. This transfer to Pansio has required substantial investments by the Group, the largest of which was the construction of a 8,500 m<sup>2</sup> transfer load terminal.
- In May the company adopted the ESSI planning software, which will be expanded in 1999 to include cargo planning for railferries. This software will enable further improvements in the level of port services. The company's information management capabilities will be enhanced in 1999 with automation of bogie changing and upgrading of the forwarding and financial control software.

## Board of Directors' Report

### Business environment

The full-year volume of Finnish exports transported by sea increased by 4 % and imports stayed at the previous year's level. Imports of unitised cargo decreased during the same period by 2 %. The Finnish export and import figures include transit traffic, in which imports of the unitised cargo increased heavily during the first half of the year. Following the collapse of the Russian rouble this traffic came to a virtual halt in August. For this reason the volume of transit traffic for the full year remained 21 % below the previous year's level.

■ The two ropax vessels purchased by Finnlines, both of which can take 2,500 lane metres of cargo (can be increased to 3,000 lane metres) and 440 passengers, are well behind their original delivery schedule. They should have started service between Helsinki and Travemünde, Germany, early in the summer of 1998. The vessels are expected to enter service by summer 1999. The price agreed by Finnlines for both vessels was approximately 160 million US dollars, of which it has paid a down-payment of five per cent. The state-owned AESA Puerto Real shipyard in

Spain will pay penalty fines for the delay, in accordance with normal ship ordering practice, to Stena AB, which originally ordered the vessels, and Stena AB will then pay corresponding penalty fines to Finnlines when the vessels are delivered.

### Financial performance

The profit and loss account and balance sheet of the German shipping company Poseidon Schiffahrt AG were consolidated in the Group's accounts from the beginning of the year.

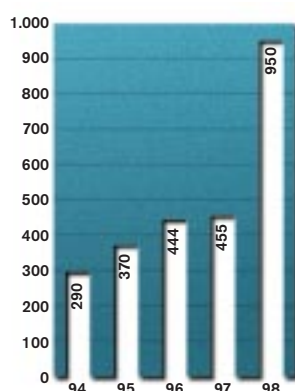
■ Finnlines Group recorded net turnover of FIM 3,442 (2,465 in 1997) million. The increase was principally due to the addition of the Poseidon operations. Poseidon was fully integrated with the Group's Shipping and Sea Transport Services division during the year.

■ The Group's share of associated companies' results was FIM - 1 (52) million. The difference, compared to the previous year, was due to the divestment of the BTL AB (publ). Other operating income, totalling FIM 475 (10) million, mainly comprised the profit on BTL disposal less the Group's share of BTL results in previous years.

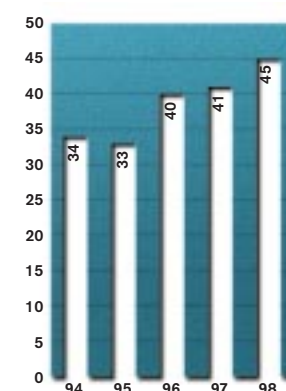
Net turnover, MFIM



Operating profit, MFIM



Equity ratio, %



■ Depreciation according to plan totalled FIM 246 (144) million. The depreciation base was increased by the Poseidon vessels and equipment, and also goodwill which will be amortised over 20 years.

■ The Group showed an operating profit of FIM 950 (455) million. The operating profit was reduced by one-time expenses, approximately FIM 30 million. This includes the reorganisation of Poseidon, docking expenses of MS Finnarrow and the transfer of the Railship operation to Turku, totalling FIM 15 million. Finnlines and the Railship group's Swiss shareholder Ostmare AG had an agreement entitling Finnlines to exercise Ostmare's voting rights in decisions affecting the Railship group. This agreement, which was valid until the year 2010, was dissolved at the end of the review year when Ostmare divested its holding in the Railship group. The parties agreed a lump-sum settlement of FIM 15 million entered under other operating expenses.

■ Financial expenses (net) were FIM -48 (-31) million. Dividend income, FIM 29 million, mainly comprised the dividend paid by Stevco Oy. Exchange rate differences (net), FIM -16 million, include also unreal-

ised exchange rate differences arising from the Group's loan portfolio, which were charged in their entirety to the profit and loss account due to the adoption of the euro.

■ The profit before extraordinary items was FIM 902 (424) million. The result was weakened by the docking of MS Finnarrow for six weeks. The delayed delivery of the ropax vessels reduced the forecast growth in net turnover and profits during the second half of the year.

■ The Group's profit before provisions and taxes was FIM 902 (424) million. The Group's accounts show a profit after taxes, the change in deferred tax liability and minority interest totalling FIM 624 (347) million.

■ Return on equity (ROE) was 33 % and return on investment (ROI) was 29 %.

## Investments and financing

The Group's gross investments came to FIM 1,542 (782) million. This figure includes the FIM 470 million profit on the BTL disposal, charged to the profit and loss account, which as part of the stock swap was used to acquire the stock of Poseidon Schifffahrt AG,

Finnlines Group result	1 Jan.–31 Dec.1998		1 Jan.–31 Dec.1997	
	MFIM	%	MFIM	%
<b>Net turnover</b>	3,442	100	2,465	100
Share of associated companies' results	- 1	-	52	2
Other operating income	475	14	10	-
Expenses	- 2,720	- 79	- 1,927	- 78
Depreciation according to plan	- 246	- 7	- 144	- 6
<b>Operating profit</b>	950	28	455	18
Financial income/expenses (net)	- 48	- 2	- 31	- 1
<b>Profit before extraordinary items</b>	902	26	424	17
Extraordinary income/charges	-	-	-	-
<b>Profit before provisions and taxes</b>	902	26	424	17
<b>Profit for the year</b>	624	18	347	14

i.e. the company's business operations, vessels and equipment. The investments include the Poseidon vessels, FIM 861 million, the Railship wagons owned by Poseidon, FIM 148 million, the Poseidon goodwill, FIM 311 million, other vessel investments, FIM 85 million, and the investments in Turku's Pansio harbour, FIM 39 million.

■ In June Finnlines floated fixed rate notes totalling FIM 200 million. These have a maturity of five years and carry fixed interest of 5 % per annum. The notes were in strong demand due to the buoyant market conditions. Cash reserves amounted to FIM 706 (327) million at the year end and interest-bearing liabilities totalled 1.6 (1.6) billion.

■ The Group's equity ratio calculated from the balance sheet was 45 (41) %. Gearing was 41 (77) %.

### Personnel

The Group had altogether 1,992 (1,628) employees on average during the year consisting of 1,372 (1,214) persons on shore and 620 (414) persons at sea. Of shore-based personnel 1,225 were employed in Finland and 147 abroad.

### The Finnlines share

The Group's registered share capital was FIM 199,789,790. Altogether 9,967,608 shares were traded on the HEX Helsinki Exchanges during the year, representing 50 % of the registered amount of shares at the end of the year. The market capitalisation of the company's stock was FIM 4,355 million on 31 December 1998. Earnings per share (EPS) were FIM 31.75 (18.06). EPS excluding the deferred tax liability was FIM 34.88 (20.70). Shareholders' equity per share was FIM 108.41 (81.08).

### Fleet

At the end of the year the Group owned 21 vessels. The Group's fleet is listed on pages 44–45. The hull and hull interest insurance on ships owned by the Group was FIM 4,459 (2,781) million at the end of the year.

### Exchange rates

Finnlines adopted the euro as its invoicing currency on 1 January 1999. From this date the company's annual report and interim reports will also be published in euro.

■ Approximately 80 % of Finnlines' sales is invoiced in euro currencies. The rest is

Net turnover by division	1998		1997	
	MFIM	%	MFIM	%
Shipping and Sea Transport Services	3,035	88.2	2,009	81.5
Port Operations	538	15.6	532	21.6
Intra-group eliminations	- 131	- 3.8	- 76	- 3.1
Group total	3,442	100.0	2,465	100.0

invoiced mainly in pounds sterling, US dollars and Swedish krona. All the Group's long-term loans are in euro-based currencies. The adoption of the euro has considerably reduced the Group's need to hedge against currency risks. Interest risk management likewise will be substantially improved since most of the Group's cashflow is in euro currencies.

■ Fuel costs depend on both prices of crude oil and on the US dollar. The Group has partially hedged against fluctuations in oil prices using so-called bunker clauses written into its customer agreements.

■ The price in US dollars of the ropax vessels, purchased in 1997 and due for delivery in 1999, was hedged using forward foreign exchange contracts at the time of purchase.

### Year 2000

Finnlines Group has evaluated its information technology systems and microprocessor controlled operations with respect to Year 2000 compliance. Most of the Group's information technology infrastructure has been upgraded to ensure functionality during the change of millennium. The measures necessary to render the equipment and software Year 2000 compliant are being performed together with suppliers and other shipping company representatives. For the past two years the Group has also required its suppliers to guarantee the Year 2000 compliance of their products. The Group's own systems have been surveyed and most of the necessary modification work has been done. Finnlines also maintains contact with its main partners and customers to ensure continuity of operations after the change of millennium.

■ In view of these measures the company is confident of its Year 2000 compliance and believes that potential risks are under control.

### Other matters

In August 1997 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. This action is still in progress.

### Prospects

Finland's industrial production is not expected to grow significantly during the current year. Although Finland's export volumes are expected to remain strong, growth appears to have halted, at least for the time being. Nevertheless, strong consumer confidence should keep imports of consumer goods at last year's level, at least during the early part of the year. The significance of the Russian and East Asian situations on economic growth in Europe has been underestimated. The Russian crisis appears to be deeper and to be lasting longer than it was possible to predict last autumn.

■ Finnlines Group's result of operations in 1999 looks likely to be clearly weaker, compared to the previous year, owing to a decline in Finland's economic growth and the slow recovery of Russian transit traffic through Finland.

## Key Indicators

Figures in million Finnish markka	1998	1997	1996	1995	1994
Net turnover <sup>1)</sup>	3,441.6	2,464.8	2,194.9	2,768.0	1,908.8
Associated companies	- 0.7	51.6	-1.7	8.5	26.2
Other operating income	474.8	10.1	120.3	3.5	8.3
Operating profit	950.4	454.6	443.9	370.0	290.0
% of net turnover	27.6	18.4	20.2	13.4	15.2
Profit before extraordinary items	902.4	423.8	403.9	315.3	245.2
% of net turnover	26.2	17.2	18.4	11.4	12.8
Profit before provisions and taxes	902.4	423.8	400.8	318.7	245.2
% of net turnover	26.2	17.2	18.3	11.5	12.8
Profit for the year	624.1	346.7	278.6	215.6	173.0
% of net turnover	18.1	14.1	12.7	7.8	9.1
Total investments as per funds statement	1,541.8	782.3	519.8	618.5	478.8
% of net turnover	44.8	31.7	23.7	22.3	25.1
Return on equity, %	33.3	24.3	23.8	21.8	26.0
Return on investment, %	29.1	17.0	19.1	17.7	17.0
Total assets	4,852.2	3,924.1	3,223.6	3,248.8	2,608.8
Equity ratio, %	44.7	40.5	39.9	32.8	34.2
Equity ratio, adjusted for the market value of the vessels, %	44.7	45.3	41.9	35.4	39.4
Rate of self-financing, %	56.4	62.8	80.7	55.9	60.3
Average number of employees during the year	1,992	1,628	1,550	2,009	1,402
Figures in million euro	1998	1997	1996	1995	1994
Net turnover <sup>1)</sup>	578.8	414.6	369.2	465.5	321.0
Associated companies	- 0.1	8.7	- 0.29	1.43	4.4
Other operating income	79.9	1.7	20.2	0.6	1.4
Operating profit	159.8	76.5	74.7	62.2	48.8
Profit before extraordinary items	151.8	71.3	67.9	53.0	41.2
Profit before provisions and taxes	151.8	71.3	67.4	53.6	41.2
Profit for the year	105.0	58.3	46.9	36.3	29.1
Total investments as per funds statement	259.3	131.6	87.4	104.0	80.5
Total assets	816.1	660.0	542.2	546.4	438.8

<sup>1)</sup> Net turnover has been restructured owing to changes in The Finnish Accounting Act.  
The comparative data for previous years has been adjusted accordingly.

## Share Data

Figures in Finnish markka	1998	1997	1996	1995	1994
Earnings per share (undiluted)	31.75	18.06	14.65	11.11	9.45
Earnings per share without change in deferred tax liability	34.88	20.70	18.17	15.31	12.09
Earnings per share less warrant bond dilution	31.08	17.39			
Shareholders' equity per share	108.41	81.08	66.68	55.14	46.12
Dividend per share	–	5.00	4.00	3.00	2.00
Payout ratio, %	31.5	27.7	27.3	27.0	22.2
Effective dividend yield, %	4.6	2.3	3.5	4.2	2.1
Price/earnings ratio (P/E)	6.9	12.0	7.7	6.4	10.3
Share price on the stock exchange at the year end	218.00	217.00	113.00	71.00	97.00
Market capitalisation at the year end, FIM million	4,355.4	4,231.3	2,166.1	1,361.0	1,859.4
Adjusted average number of shares	19,657,011	19,200,232	19,168,979	19,168,979	18,305,968
Adjusted number of shares on 31 December	19,978,979	19,499,379	19,168,979	19,168,979	19,168,979

Figures in euro	1998	1997	1996	1995	1994
Earnings per share (undiluted)	5.34	3.04	2.46	1.87	1.58
Earnings per share without change in deferred tax liability	5.87	3.48	3.06	0.89	2.03
Earnings per share less warrant bond dilution	5.23				
Shareholders' equity per share	18.23	13.64	11.21	9.28	7.76
Dividend per share	–	0.84	0.67	0.50	0.34
Share price on the stock exchange at the year end	36.66	36.50	19.00	11.94	16.31
Market capitalisation at the year end, euro million	732.5	711.7	364.3	228.9	312.7

### Share performance in 1998

Figures in Finnish markka	January– February	March– April	May– June	July– August	September– October	November– December	January– December
Highest	285	300	353	372	230	238	372
Lowest	208	252	290	188	175	202	175
Average price	244	273	326	302	198	213	255
No. of shares traded, thousands	1,873	1,849	1,604	1,488	1,734	1,421	9,968
Total trading, FIM million	464.3	500.9	526.1	407.9	343.8	301.6	2,544.6

Figures in euro	January– February	March– April	May– June	July– August	September– October	November– December	January– December
Highest	48	50	59	63	39	40	63
Lowest	35	42	49	32	29	34	29
Average price	41	46	55	51	33	36	43
Total trading, euro million	78.1	84.2	88.5	68.6	57.8	50.7	428.0

1 EUR = 5.94573 FIM

## Calculation of Key Ratios

ROE Return on equity, % =	$\frac{\text{Profit before extraordinary items} - \text{taxes for the financial year} - \text{change in deferred tax liability}}{\text{Shareholders' equity} + \text{minority interests (average)}} \times 100$
ROI (Return on invested capital, %) =	$\frac{\text{Profit before extraordinary items} + \text{interest expenses} + \text{other financial items under liabilities}}{\text{Balance sheet total} - \text{interest-free loans (average)}} \times 100$
Equity ratio, % =	$\frac{\text{Shareholders' equity} + \text{minority interests}}{\text{Balance sheet total} - \text{advances received}} \times 100$
Rate of self-financing, % =	$\frac{\text{Funds generated from operations according to funds statements}}{\text{Investments according to funds statements}} \times 100$
Earnings per share (EPS) =	$\frac{\text{Profit before extraordinary items} + / - \text{minority interests of Group profit} + / - \text{change in deferred tax liability} - \text{taxes for the financial year, from which the effect of extraordinary income and charges has been eliminated}}{\text{Average number of shares adjusted by share issue}}$
Shareholders' equity per share =	$\frac{\text{Shareholders' equity}}{\text{Number of shares as on 31 Dec. adjusted for share issue}}$
Dividend per share =	$\frac{\text{Dividend paid for the year}}{\text{Number of shares on balance sheet date}}$
Payout ratio, % =	$\frac{\text{Dividend paid for the year}}{\text{Profit before extraordinary items} + / - \text{minority interests of Group profit} + / - \text{change in deferred tax liability} - \text{taxes for the financial year, from which the effect of extraordinary income and charges has been eliminated}} \times 100$
Effective dividend yield, % =	$\frac{\text{Dividend per share}}{\text{Share price quoted on stock exchange at 31 Dec. adjusted for share issue}} \times 100$
Price /earnings ratio (P/E) =	$\frac{\text{Share price quoted on stock exchange at 31 Dec.}}{\text{Earnings per share}}$



# Shares and Shareholders

## Share capital

Finnlines' 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 one bond with warrants, which was issued to Group management in 1997. The bond totals FIM 100,000 and the loan period is four years, from 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 Finnlines 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. By the end of 1998, 370,000 shares had been subscribed based on this bond. The bond with warrants issued in 1994 matured on 1 June 1998, by which date all 440,000

of the new shares permitted by the terms of the bond had been subscribed. Based on the unexercised warrants of the 1997 bond the number of shares may increase by at most 130,000 and the share capital by at most FIM 1.3 million.

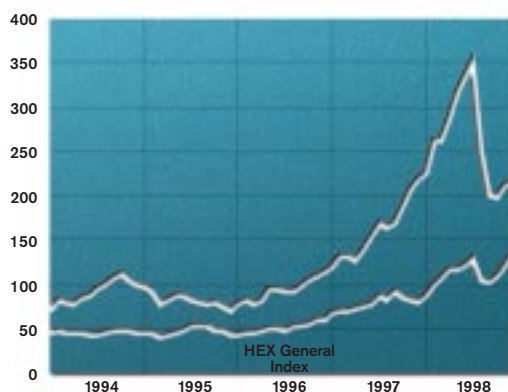
## Share prices and trading

The registered share capital of Finnlines Plc was FIM 199,789,790 divided into 19,978,979 shares of FIM 10 nominal value with equal voting rights. The shares are listed on the HEX Helsinki Exchanges. Altogether 9,967,608 shares were traded during the year, totalling approximately 50 % of the share amount registered at the end of the year. The highest quotation, FIM 372, was in July and the lowest, FIM 175, in October. The market capitalisation on 31 December 1998 was FIM 4,355 million. The company's share is included in the HEX index, ie. among the 20 most traded shares on the HSE.

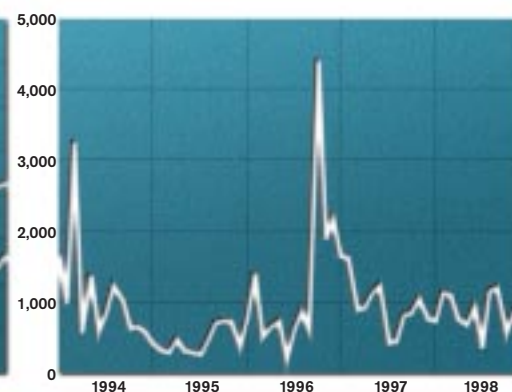
## Shareholder agreements

Finnlines Plc 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 1998

	Number	% of shares/votes
Veikko Laine Oy	2,199,936	11.0
Thominvest Group	2,001,980	10.0
Sampo-Varma Group	1,725,300	8.7
Pension Insurance Company Ilmarinen	1,111,100	5.6
Stora Enso Oyj	1,104,670	5.5
Pohjola Group	969,023	4.9
Varma-Sampo Mutual Pension Insurance Company	727,632	3.6
Dreadnought Finance Oy	535,320	2.7
The Local Government Pensions Institution	465,620	2.3
Thomproperties Oy	361,339	1.8
Foreign and nominee registered	3,860,379	19.3
Other	4,916,680	24.6
<b>Total</b>	<b>19,978,979</b>	<b>100.0</b>
Group management holding	38,000	0.2

### Ownership structure on 31 December 1998

	% of shares	% of shares/votes
Public companies	0.2	5.7
Private companies	10.1	28.1
Financial and insurance institutions	2.5	41.8
Public entities	1.7	15.7
Non-profit associations	5.4	3.8
Households	79.0	4.7
Foreign	1.1	0.1
Unsettled	–	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### Distribution of ownership on 31 December 1998

No. of shares	Shareholders		Shares/votes	
	No.	%	No.	%
1 – 100	1,086	38.1	65,647	0.3
101 – 1,000	1,316	46.1	523,662	2.6
1,001 – 10,000	350	12.3	1,100,508	5.5
10,001 – 100,000	80	2.8	2,518,451	12.6
100,001 – 1,000,000	15	0.5	5,722,929	28.7
1,000,001 –	5	0.2	10,035,996	50.2
Not transferred to book-entry accounts			11,786	0.1
<b>Total</b>	<b>2,852</b>	<b>100.0</b>	<b>19,978,979</b>	<b>100.0</b>

## Profit and Loss Accounts

Figures in FIM million	Group		Parent Company	
	1998	1997	1998	1997
NET TURNOVER <sup>(1)</sup>	3,441.6	2,464.8	228.6	242.8
Associated companies	-0.7	51.6		
OTHER OPERATING INCOME <sup>(2)</sup>	474.8	10.1	518.2	5.4
EXPENSES				
Materials and supplies	292.0	203.2	2.4	4.7
Staff costs <sup>(3)</sup>	529.2	406.2	9.1	9.0
Depreciation				
Goodwill	22.1	4.3		
Other long-term expenditure	5.8	6.8	1.3	1.1
Buildings and constructions	8.8	7.6		
Ships	142.1	72.9	87.2	65.7
Ship shares	11.1	16.5		
Machinery and equipment	55.7	36.1	6.3	6.3
	245.6	144.2	94.8	73.1
Other operating expenses	1,898.5	1,318.3	34.5	24.2
	2,965.3	2,071.9	140.8	111.0
OPERATING PROFIT	950.4	454.6	606.0	137.3
Financial income and expenses <sup>(4)</sup>				
Dividend income	28.5	16.0	28.6	21.7
Interest income from non-current investments	4.8	0.8	4.7	1.7
Other interest income	17.3	8.6	23.0	12.9
Other financial income	1.5	0.1	0.0	0.0
Interest expenses	-79.4	-56.6	-81.5	-60.6
Exchange rate differences	-16.4	2.8	-16.9	-1.9
Other financial expenses	-4.3	-2.5	-3.4	-1.4
	-48.0	-30.9	-45.5	-27.6
RESULT BEFORE EXTRAORDINARY ITEMS	902.4	423.8	560.5	109.7
Extraordinary income and charges <sup>(5)</sup>				
Extraordinary charges				-75.1
Group contribution received			221.9	260.6
Group contribution given			-1.6	0.0
	0.0	0.0	220.3	185.5
RESULT BEFORE PROVISIONS AND TAXES	902.4	423.8	780.8	295.2
Depreciation difference			-156.1	-216.4
Change in voluntary provisions				
Income taxes <sup>(6)</sup>	-214.4	-24.5	-176.7	-20.1
Change in deferred tax liability <sup>(7)</sup>	-61.7	-50.7		
Minority interest	-2.2	-1.9		
PROFIT FOR THE YEAR	624.1	346.7	448.0	58.7

## Balance Sheets

FIM million	Group		Parent Company	
	1998	1997	1998	1997
ASSETS				
FIXED ASSETS AND OTHER NON-CURRENT INVESTMENTS <sup>(8)</sup>				
Intangible assets				
Goodwill	294.7	5.7		
Other capitalised expenditure	12.4	11.3	2.1	1.8
	307.1	17.0	2.1	1.8
Tangible assets				
Land	49.2	49.2		
Buildings and constructions	128.3	83.6		
Ships	2,581.6	1,876.0	1,682.9	1,735.0
Ship shares	109.5	37.9		
Vessels under construction	53.2	44.3	53.2	44.3
Machinery and equipment	321.1	196.7	58.3	63.1
	3,242.9	2,287.7	1,794.4	1,842.4
Financial assets				
Shares and holdings <sup>(9)</sup>				
Group companies			1,522.0	302.2
Associated companies	3.5	753.7	0.0	696.6
Other shares	40.7	37.7	28.9	28.9
Loans receivable	2.2	3.2	42.0	43.2
	46.4	794.6	1,592.9	1,070.9
CURRENT ASSETS				
Stocks				
Materials and supplies	12.0	13.7	0.0	1.2
Receivables <sup>(10)</sup>				
Trade debtors	282.5	350.2	3.5	5.3
Loans receivables	7.7	1.2		
Prepayments and accrued income	65.2	64.8	15.4	23.2
Other receivables	182.8	68.1	235.7	185.4
	538.2	484.3	254.6	213.9
Investments				
Marketable securities	209.5	50.5	209.5	50.5
Cash at bank and in hand	496.1	276.3	444.2	246.0
	4,852.2	3,924.1	4,297.7	3,426.7
Pledges given <sup>(16)</sup>	1,278.7	1,132.3	1,117.3	917.9

FIM million	Group		Parent Company	
	1998	1997	1998	1997
LIABILITIES				
CAPITAL AND RESERVES <sup>(11)</sup>				
Share capital	199.8	195.0	199.8	195.0
Restricted capital	365.6	310.5	357.3	302.1
Capital part of provisions	788.8	658.2		
Associated companies	50.6	-1.7		
Translation difference	-1.6	3.2		
Non-restricted capital	138.6	69.2	222.3	261.0
Profit for the period	624.1	346.7	448.0	58.7
	2,165.9	1,581.1	1,227.4	816.9
MINORITY INTEREST	3.5	7.1		
PROVISIONS <sup>(12)</sup>				
Accelerated depreciation			1,058.8	902.7
CREDITORS				
Non-current <sup>(13)</sup>				
Notes and bonds <sup>(15)</sup>	300.0	200.0	300.0	200.0
Loans from credit institutions	957.7	1,111.6	945.6	1,079.5
Pension loans	46.1	43.6	46.1	28.3
Other non-current liabilities	14.2	3.9	0.1	50.1
Deferred tax liability on provisions <sup>(12)</sup>	369.0	306.8		
	1,687.0	1,665.9	1,291.8	1,357.9
Current <sup>(14)</sup>				
Notes and bonds <sup>(15)</sup>	100.0		100.0	
Loans from credit institutions	151.9	188.5	139.2	176.3
Pension loans	14.7	3.3	9.1	2.1
Trade creditors	202.5	166.5	4.5	0.9
Accruals and deferred income	408.8	250.5	167.5	34.6
Other creditors	117.9	61.2	299.4	135.2
	995.8	670.0	719.7	349.1
	4,852.2	3,924.1	4,297.7	3,426.7
Contingent liabilities <sup>(16)</sup>	35.0	35.4	0.0	0.0
Pension liabilities <sup>(16)</sup>	0.0	1.1		

## Funds Statements

FIM million	Group		Parent Company	
	1998	1997	1998	1997
<b>SOURCE OF FUNDS</b>				
Funds generated from operations				
Operating profit before depreciation	950.4	454.6	606.0	137.3
Adjustments to operating profit	245.6	144.2	94.8	73.1
Financial income and expenses	-48.0	-30.9	-45.5	-27.6
Other income and expenses			220.3	260.6
Taxes	-276.1	-75.2	-176.6	-21.0
Minority interest in profits	-2.2	-1.9		
<b>Total funds generated from operations</b>	<b>869.7</b>	<b>490.9</b>	<b>699.0</b>	<b>422.3</b>
Sales of fixed assets	748.3	16.6	697.2	0.2
Change in minority interest	-3.6	-1.2		
Translation difference	-1.6	3.2		
Increase in shareholders' equity, share issue	59.9	29.6	59.9	29.6
Increase in non-current liabilities	288.7	644.8	166.8	566.5
<b>TOTAL SOURCE OF FUNDS</b>	<b>1,961.4</b>	<b>1,183.9</b>	<b>1,622.9</b>	<b>1,018.6</b>
<b>APPLICATION OF FUNDS</b>				
Investments				
Buildings and structures	53.5	7.6		
Ships	856.6	396.3	44.1	425.6
Ship shares	82.7			
Shares and holdings	49.0	316.5	1,220.4	312.0
Other fixed assets	189.0	61.9	2.9	1.4
Goodwill	311.0	0.0		
<b>Total investments</b>	<b>1,541.8</b>	<b>782.3</b>	<b>1,267.4</b>	<b>739.0</b>
Associated companies; change in shareholders' equity	49.8	51.6		
Decrease in non-current liabilities	189.0	265.3	163.1	228.6
Dividend paid	97.5	76.7	97.5	76.7
Change in net working capital	179.0	8.1	94.9	-25.7
<b>TOTAL APPLICATION OF FUNDS</b>	<b>1,961.4</b>	<b>1,183.9</b>	<b>1,622.9</b>	<b>1,018.6</b>
<b>CHANGE IN NET WORKING CAPITAL</b>				
Cash at bank and in hand, increase	220.0	38.1	198.4	28.9
Other financial assets, increase	211.8	-22.9	-1.2	0.3
Stocks, increase	-1.7	1.4	198.4	-78.9
Current liabilities, increase/decrease	-251.1	-8.4	-300.7	24.0
<b>NET WORKING CAPITAL</b>	<b>179.0</b>	<b>8.1</b>	<b>94.9</b>	<b>-25.7</b>

# 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.

■ 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 1998, items allocated to land totalled FIM 6.6 million, to buildings and constructions FIM 3.3 million, to ships FIM 311.6 million and to ship shares FIM 12.6 million. The items allocated to buildings and constructions 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 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 capital and reserves.

■ 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 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.

### 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

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 deferred tax liability on the closing day is shown separately in the balance sheet under non-current liabilities.

### 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.

### 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.

### Depreciation

Depreciation according to plan is calculated 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 to 20 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	5 to 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.



# Notes to the Financial Statements

FIM million, unless otherwise stated.

## 1 Net turnover

	Group	
	1998	1997
Shipping and Sea Transport Services	3,034.9	2,008.5
Port Operations	537.9	532.4
Eliminations	- 131.2	- 76.1
Total	3,441.6	2,464.8

## 2 Other operating income

	Group		Parent Company	
	1998	1997	1998	1997
Profit on sale of BTL shares	467.2		517.0	
Other profits on sale of fixed assets	5.9	8.4	1.2	5.4
Rental income	1.7	1.7		
Total	474.8	10.1	518.2	5.4

## 3 Staff and staff costs

Group personnel during the year averaged the following:

Staff	Group		Parent Company	
	1998	1997	1998	1997
Shore personnel				
Shipping and Sea Transport Services	489	405	19	18
Port Operations	883	809		
	1,372	1,214	19	18
Sea personnel				
Shipping and Sea Transport Services	620	414		
Total	1,992	1,628	19	18

The Group employed 1,375 persons on shore at the beginning of the year and 1,332 at the end. The corresponding figures for sea personnel were 631 and 614.

Staff costs	Group		Parent Company	
	1998	1997	1998	1997
Wages and salaries	413.5	308.9	6.4	6.5
Pension costs	62.9	46.3	1.7	1.7
Other employee costs	52.8	51.0	1.0	0.8
Total	529.2	406.2	9.1	9.0

### Personnel costs of management

Managing directors and Board members	7.6	6.0	3.3	2.7
Bonuses				

## 4 Financial income and expenses

	Group		Parent Company	
	1998	1997	1998	1997
Financial income from non-current investments				
Dividends received from				
Group companies			4.5	4.2
Associated companies				
Other	28.5	16.0	24.0	17.5
Total	28.5	16.0	28.5	21.7
Interest income from non-current investments				
Group companies			4.7	1.5
Other	4.8	0.8		0.2
Financial income from non-current investments, total	33.3	16.8	33.2	23.4

4 <b>Financial income and expenses</b> (continued)	Group		Parent Company	
	1998	1997	1998	1997
Other interest received				
Group companies			3.6	4.1
Other	17.3	8.6	19.4	8.8
Total	17.3	8.6	23.0	12.9
Interest income and financial income, total	50.6	25.4	56.2	36.3
Interest expenses and other financial expenses				
Group companies			9.6	7.8
Other	74.9	56.6	71.9	52.8
Total	74.9	56.6	81.5	60.6
Financial income and expenses, total	- 24.3	- 31.2	- 25.3	- 24.3
<b>5 Extraordinary income and charges</b>	Group		Parent Company	
	1998	1997	1998	1997
Writedown of subsidiary shares				- 75.0
Group contributions received			221.9	260.5
Group contribution given			- 1.6	
Total			220.3	185.5
<b>6 Income taxes</b>	Group		Parent Company	
	1998	1997	1998	1997
Taxes for financial year	- 212.1	- 46.2	- 174.3	- 42.8
Taxes on extraordinary items		21.0		21.0
Taxes for previous years	- 2.3	0.7	- 2.3	0.7
Total	- 214.4	- 24.5	- 176.6	- 21.1
<b>7 Change in deferred tax liability</b>	Group			
	1998	1997		
Changes				
In depreciation difference				
Other long-term expenses	- 0.2	0.5		
Buildings	- 1.6	3.6		
Vessels	207.1	214.4		
Ship shares	7.3	- 21.9		
Machinery and equipment	7.7	32.9		
In voluntary provisions	- 0.1	- 48.3		
Total	220.2	181.2		
Change in deferred tax liability (28 %)	- 61.7	- 50.7		
<b>8 Fixed assets</b>	Group		Parent Company	
	1998	1997	1998	1997
Goodwill				
Acquisition cost on 1 Jan.	41.9	41.7		
Increases	311.0	0.2		
Decreases				
Acquisition cost on 31 Dec.	352.9	41.9		
Accumulated depreciation	36.1	31.9		
Accumulation depreciation on decreases				
Depreciation for period	22.1	4.3		
Book value on 31 Dec.	294.7	5.7		
Other non-current term expenditure				
Acquisition cost on 1 Jan.	58.3	53.0	9.3	8.5
Increases	6.9	5.3	1.5	0.8
Decreases	- 10.0			
Acquisition cost on 31 Dec.	55.2	58.3	10.8	9.3
Accumulated depreciation on 1 Jan.	47.0	40.2	7.5	6.4
Accumulation depreciation on decreases	- 10.0			
Depreciation for period	5.8	6.8	1.3	1.1
Book value on 31 Dec.	12.4	11.3	2.0	1.8

**8 Fixed assets (continued)**

	Group		Parent Company	
	1998	1997	1998	1997
Land areas				
Acquisition cost on 1 Jan.	49.2	49.2		
Increases				
Decreases				
Acquisition cost on 31 Dec.	49.2	49.2		
Buildings and constructions				
Acquisition cost on 1 Jan.	83.6	130.0		
Increases	108.3	7.6		
Decreases	- 6.8	- 1.4		
Acquisition cost on 31 Dec.	185.1	136.2		
Accumulated depreciation on 1 Jan.	52.3	46.3		
Accumulation depreciation on decreases	- 4.3	- 1.3		
Depreciation for period	8.8	7.6		
Book value on 31 Dec.	128.3	83.6		
Ships				
Acquisition cost on 1 Jan.	2,295.1	1,893.5	1,936.1	1,544.8
Increases	847.7	401.6	35.1	381.3
Decreases				
Acquisition cost on 31 Dec.	3,142.8	2,295.1	1,971.2	1,936.1
Accumulated depreciation on 1 Jan.	419.1	346.2	201.1	135.4
Accumulation depreciation on decreases				
Depreciation for period	142.1	72.9	87.2	65.7
Book value on 31 Dec.	2,581.6	1,876.0	1,682.9	1,735.0
Ship shares				
Acquisition cost on 1 Jan.	88.8	178.7		
Increases	82.7			
Decreases		89.9		
Acquisition cost on 31 Dec.	171.5	88.8		
Accumulated depreciation on 1 Jan.	50.9	74.7		
Accumulation depreciation on decreases		- 40.3		
Depreciation for period	11.1	16.5		
Book value on 31 Dec.	109.5	37.9		
Machinery and equipment				
Acquisition cost on 1 Jan.	389.6	364.6	82.7	83.0
Increases	182.1	40.0	2.1	0.6
Decreases	- 18.0	- 15.0	- 2.4	- 0.9
Acquisition cost on 31 Dec.	553.7	389.6	82.4	82.7
Accumulated depreciation on 1 Jan.	192.9	171.8	19.6	13.9
Accumulation depreciation on decreases	- 16.0	- 15.0	- 1.8	- 0.6
Depreciation for period	55.7	36.1	6.3	6.3
Book value on 31 Dec.	321.1	196.7	58.3	63.1
Investments				
Shares and holdings				
Group companies				
Acquisition cost on 1 Jan.			302.2	377.1
Increases			1,219.8	0.2
Decreases				75.1
Acquisition cost on 31 Dec.			1,522.0	302.2
Book value on 31 Dec.			1,522.0	302.2
Associated companies				
Acquisition cost on 1 Jan.	753.7	392.3	696.6	388.0
Increases		361.4		363.8
Decreases	750.2	753.7	696.6	55.2
Acquisition cost on 31 Dec.	3.5	0.0	0.0	696.6
Book value on 31 Dec.	3.5	753.7	0.0	696.6

8 Fixed assets (continued)	Group		Parent Company	
	1998	1997	1998	1997
Other				
Acquisition cost on 1 Jan.	37.7	31.0	28.9	25.6
Increases	3.0	6.7		3.3
Decreases				
Acquisition cost on 31 Dec.	40.7	37.7	28.9	28.9
Book value on 31 Dec.	40.7	37.7	28.9	28.9
Loans receivable				
Group companies			41.9	40.2
Associated companies				
Other	2.1	3.3		3.0

9 Shares and holdings	Number	Holding %	Nominal value	Book value
Holdings in subsidiaries, e.g.,				
Domestic				
Finn carriers Oy Ab, Helsinki	1,000,000	100.0	100.0	100.0
FG-Shipping Oy Ab, Helsinki	1,000,000	100.0	10.0	10.0
Oy Finnlink Ab, Naantali	34,650	100.0	0.4	23.0
Finnfellows Oy Ltd, Helsinki	500,000	100.0	5.0	5.0
Finnsteve Oy Ab, Helsinki	14,400	100.0	1.4	89.9
Oy A,E,Erickson Ab, Turku	420,000	100.0	4.2	21.5
Strömsby-Invest Oy Ab, Kirkkonummi	8,448	60.0	8.4	10.0
Optar Oy, Helsinki	3,576	100.0	3.6	1.8
Metropolitan Port Oy Ab, Helsinki	750	100.0	0.8	0.3
Oy Intercarriers Ltd, Helsinki	51	51.0	0.2	0.2
Kantvikin Satama Oy, Kirkkonummi	2,400	30.0	1.2	2.4
Baltic Bulk Services Oy Ab, Helsinki	500	100.0	0.5	0.9
Railship Oy Ab, Helsinki	100,000	100.0	10.0	1.2
Foreign				
Poseidon Schiffahrt AG, Lübeck, Germany	2,000	100.0	DEM 2.0	1,215.0
FCRS-Shipping Ltd, Cayman Islands	50,000	100.0	USD 0.05	0.0
FG-Waggon Limited, Cayman Islands	100	100.0	USD 0.01	0.0
FG-Finance S.A.H., Luxemburg	15,913	100.0	LUF 166.5	23.5
FG Schiffahrts-Beteiligungsgesellschaft MbH, Germany	2	100.0	DEM 0.05	0.0
Railship AG, Switzerland	5,000	100.0	CHF 4.3	42.0
Finn carriers GmbH, Germany	50	100.0	DEM 0.05	0.1
Finn carriers AB, Sweden	1,000	100.0	SEK 0.1	0.1
Finn carriers A/S, Norway	500	100.0	NOK 0.5	0.3
Norsteve A/S, Norway	50	100.0	NOK 0.05	1.8
Fennia Shipping Ltd, Cayman Islands	50,000	100.0	USD 0.05	0.2
Ab Finnlines Ltd, Sweden	600	100.0	SEK 0.06	0.6
Finnlines (Cyprus) Ltd, Cyprus	1,000	100.0	CYP 0.001	0.0
Finnmanagement Ltd, Cayman Islands	100	100.0	USD 0.001	0.0
Finn carriers N.V., Belgium	6,400	100.0	BEF 4.0	0.6
Finnwest N.V., Belgium	5,000	66.6	BEF 25.0	2.7
				1,553.2
of which subsidiaries' holdings in Group companies				- 31.2
Total				1,522.0
Associated companies, e.g.,				
Domestic				
North Euroway Oy, Kouvola	30	50.0	0.3	0.8
Foreign				
Finanglia Ferries Ltd, UK	175,000	50.0	GBP 0.2	1.6
Teamlines GmbH & Co., Germany		31.8		2.6
Werv. gesellschaft Teamlines GmbH, Germany		31.8		0.1
Total				3.5

9 <b>Shares and holdings</b> (continued)	Number	Holding %	Nominal value	Book value
Other shares				
Domestic				
Steveco Oy, Kotka	5,732	19.1	5.7	24.5
Helsingin Puhelinyhdistys, Helsinki	310			0.8
Helsingin Puhelin Oyj, Helsinki	3,120			0.2
Other companies (30)				8.9
Foreign				
Other companies (5)				6.2
<b>Total</b>				<b>40.6</b>

10 <b>Receivables</b>	Group		Parent Company	
	1998	1997	1998	1997
Receivables from Group companies				
Trade debtors			3.5	5.3
Loan receivables				
Other receivables			235.7	184.2
Prepayments and accrued income			0.3	
<b>Total</b>			<b>239.5</b>	<b>189.5</b>
Receivables from others				
Trade debtors	282.5	350.2		
Loan receivables	7.7	1.2		
Other receivables	182.8	68.1	0.1	1.2
Former valuation item				10.9
Prepayments and accrued income	65.2	64.8	15.0	12.3
<b>Receivables, total</b>	<b>538.2</b>	<b>484.3</b>	<b>254.6</b>	<b>213.9</b>

11 <b>Shareholders' equity</b>	Group		Parent Company	
	1998	1997	1998	1997
Share capital on 1 Jan.	195.0	191.7	195.0	191.7
Share issue	4.8	3.3	4.8	3.3
Share capital on 31 Dec.	199.8	195.0	199.8	195.0
Premium reserve on 1 Jan.	302.1	275.8	302.1	275.8
Share issue	55.2	26.3	55.2	26.3
Premium reserve on 31 Dec.	357.3	302.1	357.3	302.1
Reserve fund 1 Jan.	8.3	4.8		
Transfer of retained earnings		3.6		
Reserve fund 31 Dec.	8.3	8.4		
Other restricted equity on 1 Jan.	565.4	505.5	557.1	497.1
Adjustment for associated companies before previous year's result	- 1.7	0.0		
Of previous year's result	52.4	- 1.6		
Translation difference	- 0.1	- 0.1		
Adjustment for associated company 31 Dec.	50.6	- 1.7		
Capital part of provisions before previous year's result	658.2	484.3		
Of previous year's result	130.7	173.9		
Other adjustment item	- 0.1			
Equity in provisions on 31 Dec.	788.8	658.2		
Translation difference on 31 Dec.	- 1.6	3.2		
Other non-restricted equity before previous year's result and translation difference	69.2	43.0	261.1	200.5
Of previous year's result	163.6	106.3	58.7	137.2
Translation difference	3.3	0.1		
Transferred to restricted equity		- 3.6		
Dividend paid	- 97.5	- 76.6	- 97.5	- 76.6

11 Shareholders' equity (continued)	Group		Parent Company	
	1998	1997	1998	1997
Other non-restricted equity on 31 Dec.	138.6	69.2	222.3	261.1
Profit for the period	624.1	346.7	448.0	58.7
Of which from associated companies	- 50.4	52.4		
Capital part of provisions	159.1	130.7		
Transferred to other non-restricted equity	515.4	163.6		
Total shareholders' equity on 31 Dec.	2,165.9	1,581.1	1,227.4	816.9
Of which distributable	652.6	286.7	670.3	319.9

12 Depreciation differences and provisions	Group	
	1998	1997
Depreciation difference		
Other long-term expenses	0.2	0.5
Buildings	17.4	18.3
Vessels	1,190.3	984.2
Ship shares	7.6	0.3
Machinery and equipment	102.5	92.2
Total	1,318.0	1,095.5
Voluntary provisions		0.1
Group total before provision	1,318.0	1,095.6
Deferred tax liability (28 %)	369.0	306.8
Minority interests	- 1.0	
Share of shareholders' equity of which	948.0	788.8
share of provisions	788.9	658.2
share of the year's result	159.1	130.6

13 Non-current liabilities (over 5 years)	Group		Parent Company	
	1998	1997	1998	1997
Loans from credit institutions	334.2	460.0	334.2	458.7
Pension loans	12.6	33.5	12.6	21.2
Total	346.8	493.5	346.8	479.9

14 Current liabilities	Group		Parent Company	
	1998	1997	1998	1997
Group companies				
Advances received				
Trade payables				
Bills				
Other liabilities			82.8	67.4
Accruals and deferred income			0.6	0.5
Other				
Bond	100.0		100.0	
Loans from financial institutions	151.9	188.5	139.2	176.3
Pension loans	14.7	3.3	9.1	2.1
Trade payables	202.5	166.5	4.5	0.9
Accruals and deferred income	408.8	250.5	166.9	34.1
Other liabilities	117.9	61.2	216.6	67.8
Current liabilities, total	995.8	670.0	719.7	349.1

### 15 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 +1.2 %	bullet, unsecured
100,000,000	16.6.95–16.6.2000	8.50 %	bullet, unsecured
200,000,000	16.6.98–16.6.2003	5.00 %	bullet, unsecured
100,000	10.3.97–3.3.2001	BoF's base rate –1 %	bullet, management bond

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 FIM135.36.

### 16 Pledges and liabilities

	Group		Parent Company	
	1998	1997	1998	1997
On own account				
Mortgages on land areas and buildings	12.2	33.9		
Mortgages on ships	1,211.7	1,032.1	1,062.5	857.8
Mortgages on ship shares		6.2		
Mortgages on machinery	54.8	60.1	54.8	60.1
On other companies' account				
Guarantees	1.4	1.8		
Other own liabilities				
Liabilities from pension commitments		1.1		
Other liabilities	33.6	33.6		
Liabilities from derivative contracts	926.4	1,228.7	926.4	1,228.7
<b>Total</b>				
Mortgages on land and buildings	12.2	33.9		
Mortgages on ships	1,211.7	1,032.1	1,062.5	857.8
Mortgages on ship shares		6.2		
Mortgages on machinery	54.8	60.1	54.8	60.1
Guarantees	1.4	1.8		
Pension liabilities		1.1		
Other liabilities	33.6	33.6		
Liabilities from derivative contracts	926.4	1,228.7	926.4	1,228.7
Leasing liabilities				
One year after reporting year	6.4	18.3		15.7
On subsequent years	0.7	1.4		

## Proposal of the Board of Directors

According to the consolidated balance sheet on 31 December 1998:

Profit from previous years	FIM	976,441,747.32
Profit from the financial year	FIM	624,069,213.57
<b>Non-restricted equity, total</b>	<b>FIM</b>	<b>1,600,510,960.89</b>
of which disposable	FIM	652,554,657.26

According to the Parent Company's balance sheet on 31 December 1998:

Profit from previous years	FIM	222,268,648.39
Profit from the financial year	FIM	448,044,670.46
<b>Non-restricted equity, total</b>	<b>FIM</b>	<b>670,313,318.85</b>

The Board of Directors proposes that a dividend of FIM 5.00 per share plus a bonus dividend of FIM 5.00, making a total FIM 10.00, per each 19,978,979 shares, i.e. a total of FIM 199,789,790 be paid out of the profit for the year and that the residual balance be transferred to retained earnings.

Helsinki, 11 February 1999

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 10 March 1999 are registered as shareholders in the list kept by the Finnish Central Securities Depository. The dividend payment date is 17 March 1999.



## Auditors' Report

We have audited the accounting records, the financial statements and administration of Finnlines Plc for the financial year 1998. 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 of 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, 11 February 1999

SVH Pricewaterhouse Coopers Oy  
Authorized Public Accountants

Christer Antson  
Authorized Public Accountant

# Group Management



**Antti Lagerroos**  
President and CEO  
Finnlines Plc

## Corporate Administration, Finnlines Plc



**Patrik Flinck**  
Vice President  
Chief Controller



**Kari Savolainen**  
Vice President  
Information Technology



**Lars Trygg**  
Vice President  
Legal Counsel



**Seija Turunen**  
Vice President  
Chief Financial Officer

## Business Operations



**Asser Ahleskog**  
Finn carriers Oy Ab  
President



**Gunther Ranke**  
Poseidon Schiffahrt AG  
President



**Christer Backman**  
Oy Finnlink Ab  
President



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



**Esko Mustamäki**  
FG-Shipping Oy Ab  
President

# Board of Directors and Auditors

## Board of Directors

### Chairman

#### **L.J. Jouhki**

(1998–2001)  
Thomesto Trading Companies Ltd  
Member of the Board since 1989

### Deputy Chairman

#### **Jukka Härmälä**

(1997–2000)  
President and CEO  
Stora 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**

(1998–2001)  
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**

(1998–2001)  
President  
Master of Science (Econ.)  
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 Pricewaterhouse Coopers Oy**

Authorized Public Accountants  
Principal Auditor  
Christer Antson, MSc (Econ.),  
Authorized Public Accountant

### Deputy Auditor

#### **Anneli Lindroos**

MSc (Econ.),  
Authorized Public Accountant

## Passenger Services

At the beginning of 1998 Finnlines took possession of the Poseidon Schiffahrt AG shipping company along with its two roro passenger vessels. Approval by the EU and German competition authorities for this acquisition paved the way for starting full-scale development of passenger services. The first action was to bring this service in all vessels up to the same level of quality. The adoption of a single booking and pricing



All cabins in the ships sailing on the Lübeck route have a floor area of about 20 m<sup>2</sup> and offer a view of the sea.



Sailing on a cargo vessel can be a refreshingly new and relaxing experience.

system made sales substantially easier, while the organisation was developed to take greater account of customer needs as well as efficiency.

■ The combi-ro-ro vessels Finn hansa, Finnpartner, Finntrader, Transeuropa and Translubeca are now well established on the Helsinki–Lübeck/Travemünde route and are used by almost 40,000 passengers a year. Finnlines, which has plied this route for about 40 years, will soon introduce new capacity to traffic between Finland and Germany which can more than double passenger volume. Two new ro-ro-passenger vessels Finnclipper and Finneagle will be added to the fleet in 1999. Each has 187 cabins with accommodation for 440 passengers. The concept of combined passenger-

cargo transport makes it possible to provide daily departures also for passengers. Once the new vessels are in service the number of weekly departures will increase to twenty-two.

■ Most passengers have so far been car travellers to Continental Europe but an increasing number are cruise passengers as well as business and other groups.

#### **Volume in 1998**

**38,200 passengers and  
16,000 passenger vehicles.**

#### **Volume in 1997**

**35,385 passengers and  
14,411 passenger vessels.**



#### **m/s Finn hansa, m/s Finntrader, m/s Finnpartner, m/s Transeuropa**



















Length: 183 m  
Beam: 28.7 m  
Speed: 21 knots  
Number of passengers: 114  
Lane metres: 3,200 m  
Construction: 1994-1995









#### **m/s Finnclipper, m/s Finneagle**

Length: 188.3 m  
Beam: 28.7 m  
Speed: 22 knots  
Number of passengers: 440  
Lane metres: 2,500 m  
Construction: 1999

## Fleet on 31 December, 1998

	GT/Lane metre, year of delivery
 ANTARES *	19,963/2,090, 1988
 FINNSAILOR *	20,783/1,790, 1987/96
AMBER	6,620/1,278/1,590, 1991
FINNOAK	7,850/1,590, 1991/98
 FINNBEAVER	5,972/1,016, 1991
FINNSEAL	7,395/1,212, 1991
 BORE SEA	5873/1,032, 1990
 ASTREA *	9,528/827, 1991
AURORA	20,391/2,170, 1982
FINNMERCHANT *	21,195/2,170, 1982
 OIHONNA *	20,203/2,170, 1984
BALTIC EIDER	20,865/2,170, 1989
TRANSBALTICA *	21,224/2,170, 1990
 INOWROCLAW	14,786/1,403, 1980
FINNFOREST	15,525/2,100, 1978
FINNBIRCH	14,059/2,100, 1978
 TRANSNORDICA	8,188/1,268, 1977
 FINNARROW *	25,996/2,400, 1996
 FINNRIVER	20,172/1,812, 1979
FINNROSE	20,169/1,812, 1978
 FINNFELLOW *	14,297/1,130, 1973/89
FINNMAID *	13,730/1,200, 1972/89
FINNHANSA *	32,531/3,200, 1994
 FINNPARTNER *	32,534/3,200, 1995
FINNTRADER *	32,534/3,200, 1995
TRANSEUROPA *	32,533/3,200, 1995
 FINNMASTER *	11,839/1,480, 1973
SEATERN	11,889/1,480, 1973
 FINNPINE *	8,996/1,184, 1984
 POLARIS	7,950/610, 1988
SWAN HUNTER	8,407/1,068, 1993
 TRANSRUSSIA *	8,432/1,048, 1977
 TRANSFINLANDIA *	19,524/2,240, 1981
 TRANSLUBECA *	24,727/2,100, 1990

		GT/Lane metre, year of delivery
	TRENDEN	3,826/-, 1989
	WINDEN	3,826/-, 1989
	RAILSHIP I *	17,864/1,800, 1975/79
	RAILSHIP II *	20,077/1,950, 1984
	RAILSHIP III *	20,729/1,975, 1990
	FINNFIGHTER	12,582/-, 1978
	TOFTON	12,409/-, 1980
	WESTON	12,409/-, 1979
	NOMADIC POLLUX	14,013/-, 1977
	NOMADIC PATRIA	14,013/-, 1978
	MENOMINEE	9,261/-, 1967
	PARA-DUO	2,826/-, 1984/92
	PARA-UNO	2,826/-, 1992
	MEGA/MOTTI	768/186 DWT, 1974/93 5,165/8,212 DWT, 1993

Altogether 48 vessels, of which 17 managed by FG-Shipping

\* Owned by Group companies

25 time-chartered small tonnage vessels on average during the year, e.g.:


PINTA	2.200/2.850 DWT
P-type	1.522/1.650 DWT
LADOGA-type	1.600/1.850 DWT

#### Other ships managed by FG-Shipping (industrial transport)

BOARD	9,066/14,100 DWT, 1987
BOTNIA	9,066/13,995 DWT, 1987/91
BULK	9,066/14,100 DWT, 1987
KALLA	9,066/14,100 DWT, 1986
TASKU	9,066/14,100 DWT, 1986
KEMIRA	5,582/8,250 DWT, 1981
RAUTARUUKKI	1,562/445 DWT, 1986
STEEL	1,562/430 DWT, 1987/91

Vessels in Group service + managed by Group, total	56
+ Small tonnage vessels on average	25
TOTAL	81

#### Newbuildings

	FINNCLIPPER *	30,500/2,450, 1999
	FINNEAGLE *	30,500/2,450, 1999

\* To be owned by Group companies

## Environmental Report

Finnlines Group aims to link Finland with the rest of Europe using efficient and appropriate sea transport services, while at the same time minimising the load imposed by its logistics chain on the environment.

■ The Group's environmental activities are based on the interest in the environment felt by the Group and its personnel. Its goal is to provide sea transport services which are both economical and environmentally sustainable. Environmental issues are taken into consideration in all the Group's operations as well as its strategic decision-making. The Group places especially high priority on minimising the environmental impacts of new operations and investments. It also closely monitors legal requirements, as well as the needs and wishes of society and its customers, seeking to fulfil these requirements in an ecologically sound manner.

■ The Group has paid close attention to safety, energy economy and transport system efficiency for several decades. In the 1990s these issues were categorised within the Group's environmental policy.

■ In the Finnlines Group environmental action is taken by its subsidiaries, which are individually responsible for reducing the environmental impact of their activities. During 1998 the subsidiaries systematically evaluated the environmental impacts of their operations and the possibilities to reduce these impacts, making use of existing safety and quality systems. The subsidiaries also have various ongoing environmental action programmes as well as training schemes for personnel.

■ An important element in the Group's environmental activities during 1998 was cooperation with its customers, which included direct discussion on ways of promoting ecological values in sea transport operations. An environmental calculation system was developed during the year to







monitor vessel and liner traffic emissions in relation to total traffic volume.

■ The problem of noise, an issue which has arisen in several ports, was another area given attention during 1998. Ships, port operations and road transport all create noise. The problem was analysed by conducting measurements in individual ports. The information was used to evaluate practical steps to reduce noise levels and these steps will be taken after further analysis.

■ FG-Shipping has a Safety and Environmental Management System, based on the international ISM code. Part of this system is a new waste management system developed in 1998. The purpose of the safety management system is to prevent safety risks before they arise, and to minimise the effects of an accident, should one occur. The vessels managed by FG-Shipping are equipped with effective purification systems for both oily bilge waters and wastewater from toilets. Ship waste is sorted into hazardous waste, mixed waste and recyclable waste and removed for processing as appropriate. Toxic paints are not used on ship hulls.

■ Finn carriers aims to receive environmen-

tal certification according to ISO 14001 standards in spring 1999. Its principal environmental objectives are to minimise energy consumption by making transport planning more efficient in economically sustainable ways, and to gradually reduce hazardous atmospheric emissions by choice of fuel and other technical means.

■ Concrete action to achieve these goals includes taking environmental aspects into consideration in transport planning and day-to-day transport operations. The Group will further intensify cooperation in environmental matters with customers and suppliers.

Examples of technical action include selective catalytic reactors in the Finnclipper and Finneagle vessels, due to enter service during 1999. Nitrogen oxide emissions can be reduced by approximately 90 % using these reactors. The sulphur content in the fuel used by the Group's vessels has fallen steadily in recent years. Further reductions of sulphur oxides are planned in port areas by gradually adopting the use of auxiliary engines using fuels with low sulphur content. This could reduce sulphur emissions in ports by up to 80 % per vessel.

■ Finnsteve and A. E. Erickson have also started to evaluate and develop their environmental activities. Finnsteve, for example, has made a comprehensive environmental impact assessment of its port operations and official requirements. Special priority is given in stevedoring to working methods, waste management and the chemical substances used in repair workshops.

**Examples of environmental action taken by Finnlines Group in its sea transport operations:**

**Continuous development:**

- Technical improvements in vessels and cargo handling towards fuel economy and reduced emissions
- More environmentally friendly transport systems by focusing on: use of capacity available on outward/return routes, concentration of port solutions, ensuring economical size of vessels and port operations
- Development of vessel and port safety, risk prevention
- Efficient planning of transports

**In the 1970s:**

- Oily sludge taken to ports
- Ship waste taken to ports

**In the 1980s:**

- Biological purification of toilet waste
- Adoption of solvent-free epoxy paints for hulls in place of toxic paints
- Waste management plans for ports

**In the 1990s:**

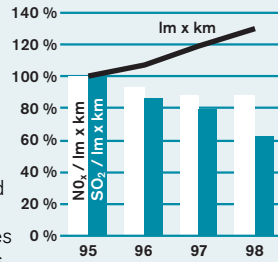
- Environmental management systems
- Environmental impact assessments
- ISM Safety Management System adopted on vessels
- Catalytic converters in main engines of new Finnclipper class vessels
- Waste management systems incorporated in vessels
- Halons replaced with carbon dioxide
- Freons collected and sent for processing

**Main environmental aspects of Finnlines Group:**

- Operational safety
- Consumption of fossil fuels
- Emissions from vessels and port equipment
- Wastewater
- Solid waste
- Noise

**Change in specific emissions of Finn carriers liner traffic**

lm = lane metre of cargo  
 km = distance sailed by vessel  
 NO<sub>x</sub> = Nitrogen oxides  
 SO<sub>2</sub> = Sulphur oxides



**Principal atmospheric emissions caused by sea transport operations:**

Type of emission	Impact	Reduction method
CO <sub>2</sub> – carbon dioxide	“greenhouse” gas	Reduced fuel consumption = more efficient transportation
SO <sub>2</sub> – sulphur dioxide	Acid rain, weathering	Use of low-sulphur fuels
NO <sub>x</sub> – nitrogen oxides	Eutrophication, irritation of respiratory tracts, oxidation	Catalytic converters or reduction of combustion temperatures e.g. using water spraying

**The environmental performance of liner traffic is monitored as follows:**

**Energy consumption**

- kWh/lm x km (lm = lane metre)
- Full capacity utilisation on outward and return journeys
- Proportion of empty transport units (containers, wagons, trucks)
- Conformity to agreed timetable.

**Atmospheric emissions**

- SO<sub>x</sub>, NO<sub>x</sub>, CO<sub>2</sub>, CO, HC, particles/lm x km

**Environmental awareness**

- Development of environmental management system
- Training in environmental matters
- Incorporation of environmental considerations in customer service and transport planning
- Monitoring of special situations

**Waste treatment**

- Treatment of wastes (incl. hazardous waste) and wastewater

**Environmental objectives of offices**

## Addresses

<b>Finnlines Plc</b>	Lönnotinkatu 21 P.O. Box 182 FIN-00121 Helsinki	phone +358 10 554 40 telefax +358 10 554 4425 www.finnlines.fi
<b>FG-Shipping Oy Ab</b>	Lönnotinkatu 21 P.O. Box 406 FIN-00121 Helsinki	phone +358 10 216 40 telefax +358 10 216 4243
<b>Finn carriers Oy Ab</b>	Porkkalankatu 7 P.O. Box 197 FIN-00181 Helsinki	phone +358 10 343 50 telex 1001743 fcrs fi telefax +358 10 343 5200 www.finn carriers.fi
<b>Poseidon Schiffahrt AG</b>	Grosse Altefähre 20–22 Postfach 1934 D-23507 Lübeck	phone +49 (0)451 15070 telefax +49 (0)451 72811
<b>Railship Oy Ab c/o Finn carriers Oy Ab</b>	Porkkalankatu 7 P.O. Box 197 FIN-00181 Helsinki	phone +358 10 343 50 telex 1001743 fcrs fi telefax +358 10 343 5200
<b>Oy Intercarriers Ltd c/o Finn carriers Oy Ab</b>	Porkkalankatu 7a P.O. Box 197 FIN-00181 Helsinki	phone +358 10 343 5400 telex 123114 icrs fi telefax +358 10 343 5680
<b>Oy Finnlink Ab</b>	Satamatie 11 FIN-21100 Naantali	phone +358 10 436 7620 telefax +358 10 436 7680
<b>Finnsteve Oy Ab</b>	Saukonkuja 5 P.O. Box 225 FIN-00181 Helsinki	phone +358 10 565 60 telefax +358 9 685 7253 www.finnsteve.fi
<b>Oy A.E. Erickson Ab</b>	Huolintakatu 5 P.O. Box 38 FIN-20101 Turku	phone +358 10 233 7555 telex 62166 tship fi telefax (02) 230 3115



# FINNLINES

Finlines Plc Lönnrotinkatu 21 P.O. Box 182 FIN-00121 Helsinki  
Phone +358 10 554 40 Telefax +358 10 554 4425 [www.finnlines.fi](http://www.finnlines.fi)