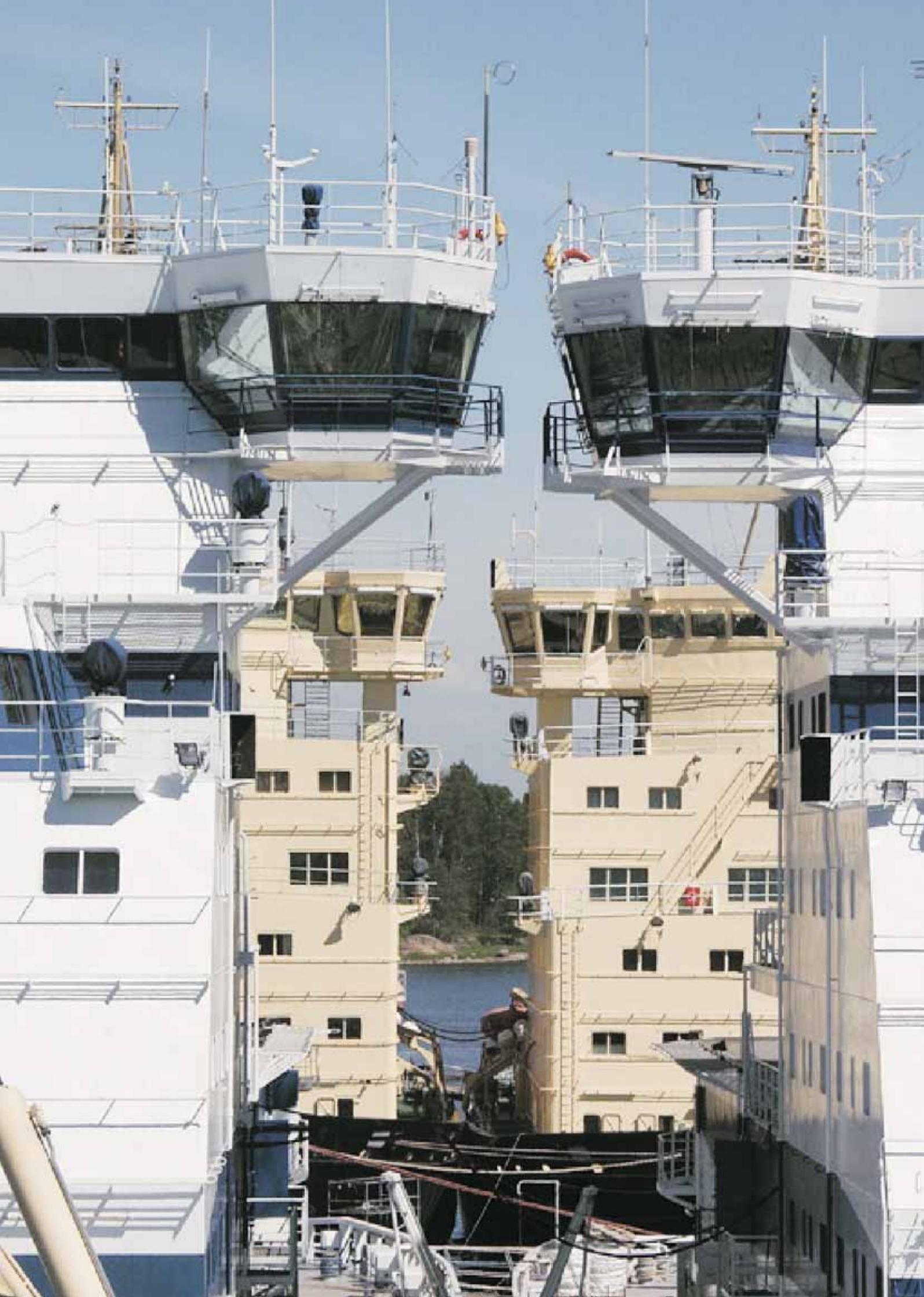




The Shipping Enterprise - Finstaship ANNUAL REPORT FOR 2004



Highlights of 2004

January

- The Shipping Entership - Finstaship - started operations on January 1, 2004.
- Markku Mylly, head of the Finnish Maritime Administration's Shipping Unit, was appointed temporary Managing Director. Four icebreakers were in action during the month.

February

- The Ferry Services Unit moved into new premises in Turku.
- The refitting of the Seili, a fairway vessel, was completed.

March

- Seven icebreakers were in action during March.

April

- Markku Mylly was appointed General Director of the Finnish Maritime Administration. Jukka Suominen, a member of Finstaship's Board of Directors, was appointed temporary President.

May

- All offshore vessels remained in Finland from May 1 onwards Esko Mustamäki, previously Managing Director of FG-Shipping Oy Ab part of the Finnlines Group, was appointed Finstaship's President on May 17.
- The icebreaking season ended on May 23.
- Finstaship's land-based organisation moved from its offices on Porkkalankatu to new premises in Pitäjämäki.
- Towards the end of the month, the Botnica was chartered to Eidesvik Subsea AS of Norway until mid-August.

June

- The summer shutdown for conventional and multi-purpose icebreakers began on June 7.
- The DSND charters of the Fennica and the Botnica ended on June 15.
- Finstaship became a 30% shareholder in the Norwegian marketing company, GVD Maritime AS.

September

- It was decided to select the Port of Helsinki as the standby location for Finstaship's conventional icebreakers, as their offer was the most financially attractive. A letter of intent to this effect was signed with the Port of Helsinki on September 22.

October

- Finstaship's land-based organisation was restructured to better meet the challenges of the company's changing operating environment, with a particular focus on improving the efficiency of the sales and marketing functions. Under the new, customer-oriented organisation, Finstaship's business functions were divided into four units: icebreaking, offshore, fairway maintenance and oil spill response, and ferry services.
- The Fennica left for a submarine exercise in the Irish Sea, on contract to JFS and the British Ministry of Defence. The deployment lasted until the end of October.

November

- The icebreaking season started on November 25, when the Kontio was sent to the northern part of the Gulf of Bothnia to provide icebreaking assistance.
- A lease contract was signed with the Port of Kotka on November 25 covering the stationing of multi-purpose icebreakers at the Polish Quay in Kotka. Finstaship's holding in GDV Maritime As was increased by a further 4 percentage units.
- A lease contract covering the Katajanokka icebreaker dock was signed with the Port of Helsinki on November 29.

December

- A five-year contract was signed with the Finnish Maritime Administration on the Ring Route in the Turku archipelago.
- A pay and conditions agreement was signed between Finstaship and the trade unions.



Managing Director's Review

The Shipping Enterprise – Finstaship – started operating on January 1, 2004 when the business was demerged from the Finnish Maritime Administration (FMA) and set up as a separate state-owned company. Finstaship's first year of operations was characterised by work focused on developing the enterprise's organisation and operating practices.

Creating a business independent of the operations and services provided by the FMA was a challenge for our entire organisation. This process has progressed smoothly, however, and I would like to thank all our people for their efforts in this area.

As part of the creation of an independent Finstaship organisation and business, we moved our offices to new premises in Pitäjänmäki, where we have developed our own infrastructure and systems. The move was also significant in terms of shifting our thinking away from a civil service style of operations to a more commercial, business-driven one.

To give us a secure start, we negotiated one-year contracts for all the services provided to the Finnish Maritime Administration, with options for two further years. These contracts will come to an end in December 2006 at the latest, after which they will be open for competitive bidding in compliance with Finnish procurement legislation. When renewing the contracts for 2005, we introduced some changes based on our experience during 2004. Finstaship believes that it would be a good idea over time to move more towards service-type contracts rather than the charter contracts currently used.

Because of the existing contract portfolio, competitive bidding did not play an important role during our first year of operations. In the autumn, the Finnish Maritime Administration opened up the Ring Route in the Turku archipelago to competitive bidding. A five-year chartering contract was concluded with the FMA for operating the Houtskari – Iniö route.

Finstaship's profitability during our first year of operation met our expectations. Developing our profitability in the future will be a challenge, but we believe that we will be able to reach our targets, as the features, performance, and safety standards of our vessels are excellent. We will continue to make a determined effort to identify new potential customers to increase our utilisation rates, and good results in this respect were obtained in negotiations in our overseas business in particular in 2004.

Finstaship's organisation was restructured on October 1 to take on the challenges of the company's new operating environment, emphasising the needs of the marketplace and cost effectiveness. As part of

this, Finstaship's business functions were divided into four units: icebreaking, offshore, fairway maintenance and oil spill response, and ferry services. Ship operations are the responsibility of the Production Unit. To improve our international marketing in the offshore area, Finstaship took a 30% stake in GDV Maritime AS, based in Norway in June. This holding was increased to 34% in the autumn .

Our four business units are responsible for the development, marketing, and sales of their services, while the Production Unit is responsible for ensuring that we have the vessel capacity we need.

I would like to thank all our customers and other interest groups for the trust that you have shown us during our first year of operations, enabling us to make our 'launch' a true success.

Esko Mustamäki



Icebreaking activities

Finstaship's Icebreaking Business Unit provides icebreaking services in accordance with a contract concluded with the FMA using six conventional icebreakers and three multi-purpose icebreakers. Icebreaking services cover the assistance and towing of vessels in ice, ensuring maritime safety, and providing navigation guidance in Finnish waters and areas covered by co-operation treaties. Finstaship's services are essential to ensuring operations at Finland's 23 winter ports.

Winter 2004

As in 2003, the winter was an average one, according to the Finnish Marine Research Institute. The largest area of ice cover in the Baltic, some 152,000 km², was recorded on March 11.

Icebreaking activities began in the northern Gulf of Bothnia in November 2003 and continued into 2004. Assistance in the Gulf of Finland was first required in January 2004. Only little assistance was needed in the Bothnian Sea, in Kaskinen, where thin ice became packed at the mouth of the harbour as a result of the prevailing winds. Seven of Finstaship's total fleet of nine icebreakers were in

service providing assistance in March. Winter navigation assistance ended at the end of May 2004.

Business activities in 2004 consisted solely of icebreaking contracts with the FMA. All aspects of service and quality met expectations. A customer survey indicated that customers were satisfied with the winter navigation assistance services provided in 2004.

Future prospects

The icebreaking market is expected to undergo major changes over the next few years, and Finstaship intends to play an active part in these developments. The service contract for a multi-purpose oil spill response icebreaker in Finland for operations beginning in December 2007 will be put out to competitive tender in summer 2005.

Finstaship's current icebreaking contracts will remain in force until the end of 2006 at the latest, and Finstaship aims to market its icebreaker capacity both within Finland and overseas, particularly to other countries in the northern Baltic.



Key figures

Turnover	31.8 million euros
Operating days	726

Offshore activities

The operations of the Offshore Business Unit are based around the use of Finstaship's multi-purpose icebreakers – the Fennica, Nordica, and Botnica – outside the icebreaking season.

These multi-purpose icebreakers are very versatile, and equally well-suited to working on the open sea as in ice. Because of their large size and high power, they are capable of operating in extremely poor conditions in a variety of tasks. They are ideally suited to being deployed in oil fields, expedition work, and cable-laying, for example, as well as in underwater construction, as mother ships for pipe-and teleoperators' cable-laying operations, towing, rig maintenance, or installing and maintaining underwater structures.

The commercial year

Finstaship's vessels were available for offshore contracts between May and December 2004. In May, all three vessels were chartered to Finstaship's long-term partner, DSND. When the charters for the Botnica and the Fennica ended in May, the vessels were free for other tasks.

The Botnica, for example, was chartered as a mother ship for surface diving in Norway from the end of May to mid-August, after which she moved to a cable repair project for Shell north-east of the Shetlands, where she remained until November.

The Fennica remained alongside in Rauma until she left for a submarine exercise in October in the Irish Sea arranged by JFS and the British Ministry of Defence. This lasted until the end of October, after which she was placed on the spot market in Scotland. Towards the end of the season, the Fennica also carried out two small jobs for Esso and Conoco Phillips, before returning to Finland at the beginning of December.

The Nordica's charter to DSDN ended in December, after which she went straight back to icebreaking duties.

Marketing

An offshore marketing and support company, GDV Maritime AS, was founded in Norway at the beginning of July. Mr Rune Lyngvi, who previously worked for the Subsea 7 offshore company, was appointed Managing Director.

The offshore market

Competition in the offshore market in 2004 was tough. A number of new and more modern vessels entered the market, while oil companies' investments in oil production proved very conservative. Towards the end of the year, however, the market picked up, with higher demand for vessels and higher charter rates.

After a few quiet years, early 2005 has seen significantly greater interest among oil companies in repair and investment projects. This should see increased demand for vessels. Interest in the Nordica and the Botnica, which are both equipped with large cranes, in particular, was good towards the end of 2004, and Finstaship expects all its vessels to turn in good employment and charter figures for 2005.

Continuing emphasis is being put on higher safety standards in international shipping, and the safety and quality requirements of oil companies, in particular, are becoming more stringent every year. Finstaship is well-equipped to meet these challenges, as the operational capabilities and safety standards of its ships are among the best anywhere in their field.



Key figures

Turnover	10.8 million euros
Operating days	440

Fairway maintenance and oil spill response activities

Together with the Icebreaking Unit, Finstaship's Fairway Maintenance and Oil Spill Response Unit is responsible for maintaining Finland's waterborne traffic infrastructure, and contributing to the overall safety of shipping routes in Finnish waters. Finstaship's nine fairway vessels have been specifically designed for installation, maintenance, and repair duties, and they are also fitted with specialised oil spill equipment.

In addition to fairway maintenance, Finstaship's fairway vessels also take part in other types of work on the open sea, in Finland's archipelagos, and in ports. The spacious working decks of these vessels mean that offshore buoys can be handled safely; the reach and lifting capacity of these ships' deck cranes is unparalleled on the Finnish market. Most of Finstaship's fairway vessels are also capable of operating in ice, enabling them to be used as harbour icebreakers.

The unit also provides oil spill response services in Finnish waters and in adjacent areas for Finland's Environmental Administration (SYKE).

A busy year

The main tasks of Finstaship's fairway and oil spill response vessels in 2004 included fairway maintenance for the FMA and maintaining readiness for dealing with possible oil spills for Finland's Environmental Administration. The vessels were chartered to the FMA for the entire year.

Two fairway vessels were engaged in fairway maintenance and icebreaking during the winter. The Seili was overhauled and lengthened for oil spill duties in the Gulf of Finland. This work was finished at the end of February and the vessel started fairway maintenance work at the beginning of March.

Urgent repair work on ice-related damage to navigation markers and buoys was started in April and May after the peak of the winter ice season had passed. Once this was completed, work continued on normal fairway maintenance duties.

Two fairway vessels took part in an international oil spill response exercise in Estonia, and in replacing beacons and buoys for the ports of Kalajoki, Kokkola, and Kantvik. The unit also developed a model for a more comprehensive type of maintenance contract to be offered to ports in the future.

Future prospects

The primary focus of Finstaship's fairway maintenance activities into the future will be on developing new business in new customer segments. Activities with current key customers will be developed further. Finstaship also intends improving its competitiveness in terms of its service and pricing policy, and in terms of its overall offering in the modern marketplace.

Finstaship expects to extend its fairway maintenance work, maritime construction, and oil spill response preparedness to customers in Estonia, Russia, and Sweden. In Finland itself, the FMA will open up fairway maintenance to competitive bidding in the next few years. By acquiring faster and lighter additional vessels, such as buoy tenders and working tenders, as well as trucks, trailers, and snowmobiles, Finstaship will be able to respond to this challenge and offer a more competitive and comprehensive range of services than it does today – a development that should improve the utilisation rate of its vessels.



Key figures

Turnover	4.5 million euros
Operating days	1,633

Ferry services

The Ferry Services Unit provides ferry services on a number of routes in the Turku Archipelago, operating 13 vessels, under a contract with the FMA.

Operations are virtually year-round, as vessels can only be replaced by ice roads in particularly harsh winters when the ice cover is sufficiently thick. Finstaship's Ferry Services provides local inhabitants and tourists with reliable, safe transport spring, summer, autumn, and winter. The unit's new role as an independent profit centre within Finstaship has been well-received by both staff and customers.

The unit's archipelago ferries were time-chartered to the FMA during 2004. Due to the mild winter, even the unit's smaller vessels operated all year, which saw the projected minimum hours figures for the unit's vessels exceeded.

Finstaship's ferry contract with the FMA was extended by one year in accordance with the option contained in the contract.

A positive outlook for ferry activities

The Ferry Services Unit moved into new premises in Turku on February 16, 2004.

A new five-year contract period covering the Ring Route through the Turku Archipelago will start in May 2005. In anticipation of this, Finstaship has acquired a new ferry, the Antonia.

The positive public image of Finland's archipelagoes, together with increasing traffic volumes, create good opportunities for future activities. The Ministry of Transport and Communications intends commissioning a special report on the standard of service provided on, and the resources available to ferry connections in the archipelago in the Gulf of Finland. This report is expected to open up opportunities for expanding Finstaship's ferry services.

Ferry services purchased by the Finnish Road Administration will be opened to competitive tender in 2005 at the earliest. The outcome of bidding on these services will have a major impact on the future of Finstaship's Ferry Services Unit.



Key figures

Turnover	5.8 million euros
Passengers transported	215,889
Vehicles transported	91,827

Production services

The Production Services Unit repaired and modernised a number of vessels during 2004, including the Nordica, one of Finstaship's multi-purpose icebreakers, which was docked for an extended period. The final cost of work on the Nordica was higher than originally projected, as repairing the faults discovered during repair work had not been included in the project estimate.

The location of Finstaship's icebreaker base was opened up to competitive tender, and a total of six ports submitted a tender by the deadline. Based on these tenders and port visits, Katajanokka in Helsinki was selected. The new contract, which came into force on April 1, 2005, will last for three years, and includes an option for a further five years, in one-year increments.

An agreement was signed with the Port of Kotka covering the use of part of Kotka's Polish Quay and adjacent land. The agreement will enable Finstaship to station its multi-purpose icebreakers in Kotka outside the icebreaking season, and store special equipment for these vessels alongside.

The agreement will run from December 1, 2004 to March 31, 2008, and includes an option for a further five years, in one-year increments.

The Marine Research Institute opened up the management and maintenance of its marine research

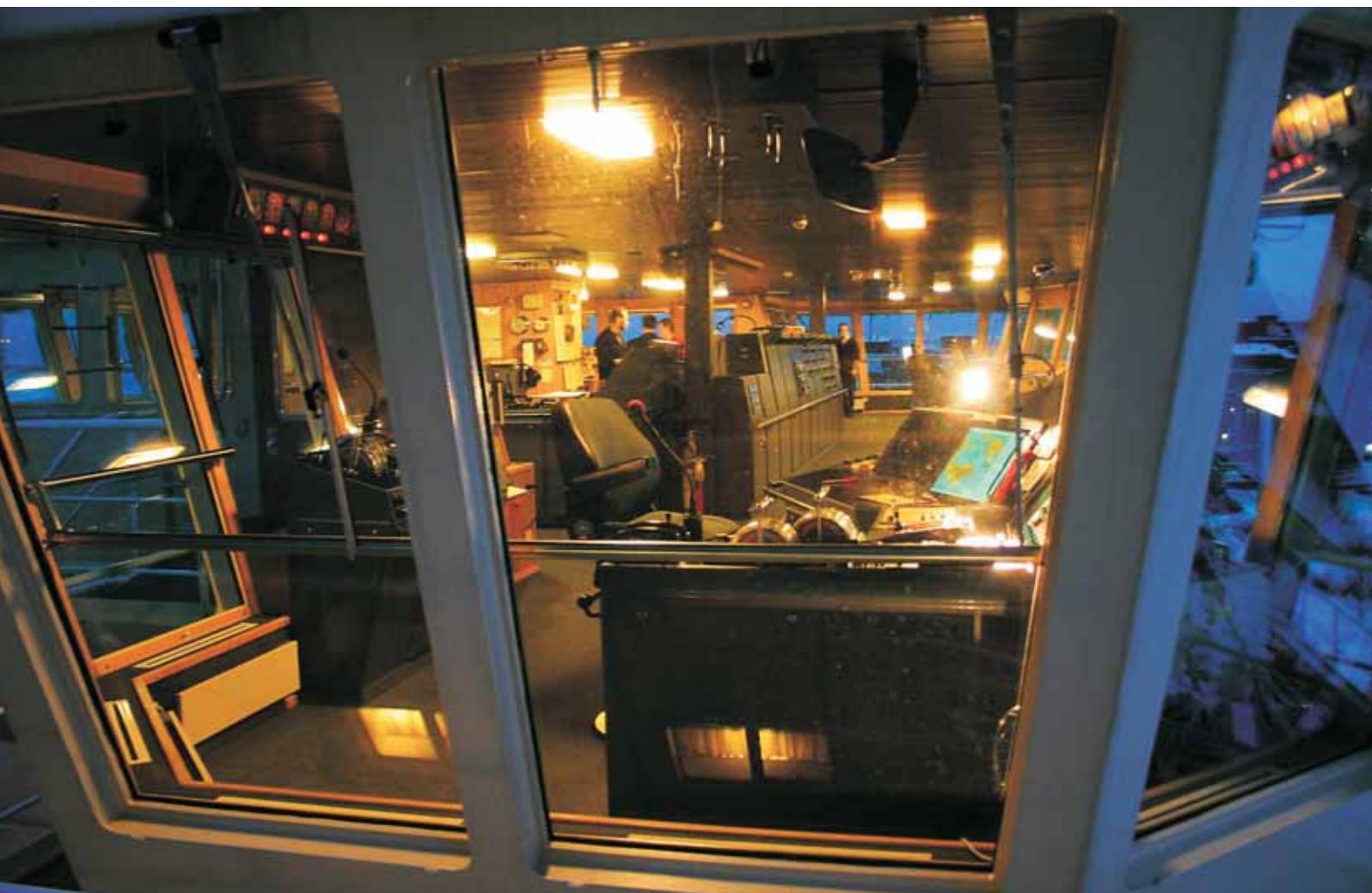
vessel, the Aranda, to competitive bidding in spring 2004. Finstaship won the contract, and a new two-year contract was signed in August. The Marine Research Institute has the option to extend the contract in two one-year increments.

Ship management and staffing services

Finstaship continues to supply ship management and manning services to the FMA, covering the manning, staffing, and management of the FMA's hydrographical survey vessels. This contract will continue until the end of 2005, after which it will continue in one-year increments unless terminated before the start of the new contract period.

Finstaship's contract with the Southern Savo Environment Centre covering the research vessel, the Muikku, was renewed in December 2003. The contract came into effect in January 2004 and will continue until further notice, unless terminated under a three-month termination rule.

Towards the end of the year, preparations began for competitive bidding for a service contract from the FMA and the Finnish Environment Administration by organising Finstaship's initial competitive bidding for icebreakers equipped for environmental protection.



Environment and safety

Responsibility for the environment, consideration for the safety of personnel and vessels, and continuous improvement play an important role in Finstaship's activities. Finstaship complies with the provisions of both the ISM Code and the MARPOL Convention, as well as national guidelines and regulations. All these requirements have been documented in Finstaship's quality system and its manuals covering administration, operations, and safety.

The environment

Finstaship is committed to reducing the impact that its activities imposes on the environment.

All of Finstaship's vessels run on low-sulphur fuel oil. The light fuel oil used has a sulphur content of less than 0.1%, and the heavy fuel oil used, a sulphur content of less than 1%.

Fuel consumption in 2004 totalled, in tonnes:

	Light fuel oil	Heavy fuel oil
Icebreakers	8,764	11,329
Fairway vessels	755	
Ferries	1,683	
Total	11,202	11,329

Combined total 22,531

Computed fuel-related annual emissions in 2004 totalled, in tonnes:

Carbon dioxide CO ₂	71,527
Sulphur dioxide SO ₂	113
Nitrogen oxides NO _x	1,206

Waste management

All solid waste on board Finstaship's vessels is sorted and recycled. Hazardous waste, such as waste oil, is sent for treatment to an appropriate facility. Sewage and bilge water is treated on board before discharge into the sea or into land-based sewage systems. In the case of smaller vessels not fitted with a treatment plant, wastewater is discharged at specified collection points, from which it is sent to an appropriate treatment plant. Improving the efficiency of waste sorting and waste-related record-keeping has been identified as an environmental and safety goal for 2005.

Safety and security

ISPS regulations, a set of international security rules covering vessels and ports, came into force on July 1, 2004. These regulations apply to all passenger vessels in international traffic, cargo vessels with a minimum gross tonnage of 500 tonnes, offshore drilling rigs, and port systems serving international traffic.

Part of the response to the events of September 11, 2001 in the United States, the ISPS regulations provide a systematic framework for improving maritime security.

ISPS regulations require that vessels should be equipped with a permanent ID number, an Automatic Identification System (AIS), and an onboard security alarm system, for example. They also require ports to maintain stricter levels of security and access control.

Finstaship's multi-purpose icebreakers and the Aranda, together with the icebreaker base in Katajanokka and Aranda's berth in Helsinki's Western Harbour, come within the scope of the ISPS regulations.

Security-related efforts in 2004 focused on creating the systems required by the ISPS regulations and having them approved by the FMA by July 1, 2004. All of Finstaship's vessels and port facilities coming within the scope of the regulations were approved by the deadline. The remainder of the year was used to further develop and extend ISPS plans. ISPS security training of vessel crews continued.

No crew member of a Finstaship vessel was involved in a serious accident at work during 2004. A total of 28 minor accidents took place during working hours (nine on fairway vessels and survey expeditions, 19 on icebreakers), 21 of which resulted in absence from work. The most common reason for personal injuries was loss of balance followed by an injury, typically a sprain or a contusion. Absences due to these injuries were normally no more than a couple of weeks in duration, with a few exceptions.



Human resources

Finstaship's aim is to be the leading shipping company in its field in the Baltic, and one of the leading companies in demanding offshore work in other sea areas.

Professional, motivated, and committed personnel is an essential part of Finstaship's efforts in achieving this goal. Our personnel has shown itself capable of facing the challenges the future will bring Finstaship as an independent state enterprise.

Finstaship employed a total of 615 people during 2004, of which 520 were permanent personnel and 472 based at sea. The average age of personnel was 48.4 years.

Physical and mental capabilities

Despite the fairly high average age of employees, Finstaship has a dynamic human resource capability. We have invested in preventive measures and treatment and rehabilitation, where appropriate, to maintain and improve this capability. Reducing the number of absences due to sickness is an ongoing

priority. These absences totalled 11,347 days, or 18.8 days per employee, in 2004.

Further improving the workplace environment and people's ability to cope with their work and the responsibilities it brings will be a challenge in the near future. Progress in this area will be reviewed using annual workplace environment and well-being surveys.

Competence development

Continuous training and job rotation are used to ensure the ongoing development competence and skills of Finstaship personnel. In-house training highlights the importance of commitment, understanding common values, and individual action in achieving Finstaship's common goals. A total of 807 work days were spent on training outside the company.

Finstaship aims to ensure that its HR development work takes full and coordinated account of changes in personnel and the additional requirement this brings with it in terms of training.



Financial statements as of December 31, 2004

Board of Directors' review

The Shipping Enterprise's (marketing name Finstaship) first year of operation met expectations, and provides a good foundation for the further development of the enterprise's activities.

The shipping company activities of the FMA were transferred as of January 1, 2004 to the Shipping Enterprise which has committed itself to providing and developing its services within a commercial framework. This change has brought an improved degree of transparency to the true cost of the services provided by the enterprise.

The enclosed financial statements for 2004 are the first to be produced by the Shipping Enterprise as a state-owned company. As a result, it has been impossible to provide directly comparable figures for previous years when operations were under FMA jurisdiction. This also impacted the Shipping Enterprise's objectives for 2004, which were defined on the basis of previous FMA conditions.

Objectives for 2004

Service and operational targets

The Shipping Enterprise's service and operational targets were set by Parliament based on a proposal drafted by the Financial Committee of the Council of State.

The targets for 2004 were as follows:

- The Shipping Enterprise shall ensure the provision and development of services within its field within a commercial framework.
- The Shipping Enterprise shall be required to offer oil spill response and icebreaking services throughout Finland.

The Shipping Enterprise reached the service and operational goals set by the Parliament by ensuring icebreaking services in the Finnish sea areas in compliance with the service level requirements set by the FMA

Fairway vessels shall be on continuous standby to respond to oil spills throughout Finland under the terms of the Shipping Enterprise's agreement with the Finnish Environment Administration.

Financial targets

The following financial targets and operating guidelines were set for the Shipping Enterprise on the basis of a presentation by the Ministry of Transport and Communication:

- A profit target of 1.5 million euros and an initial revenue target of 5% of fixed assets, or 0.9 million euros.
- Financial statements shall be itemised transparently and the figures for overseas activities and ferry traffic shall be presented separately.
- The Shipping Enterprise's Board of Directors is responsible for drawing up risk evaluation, risk

analysis, and risk management principles for the company's overseas business activities, for presentation to the Council of State in conjunction with discussion of the enterprise's financial statements.

- The report appended to the State budget for 2005 presents the volume, profitability, and other key figures for the Shipping Enterprise's overseas activities, together with a comprehensive risk analysis, within the constraints imposed by the requirements of commercial confidentiality.
- The Council of State will decide the proportion of the Shipping Enterprise's target profit of 1.5 million euros to be entered as income in the State budget when the enterprise's financial statements are approved.

The Shipping Enterprise recorded a profit of 1,123,970.80 euros for 2004. A turnover of 10.8 million euros was recorded on overseas activities, nearly 2 million euros less than projected, resulting from the termination of contracts concluded during the FMA era. The profit was above-target, however, at 1.9 million euros. A separate report has been produced covering the risks associated with the enterprise's overseas activities.

Transfer of assets and definition of equity capital as of January 1, 2004

Based on a presentation by the Ministry of Transport and Communications, the Council of State decided the assets to be transferred to the Shipping Enterprise, its entry as equity capital and other capital, and other financial arrangements on October 21, 2004.

Only those assets administered by the FMA essential to the business activities of the Shipping Enterprise were transferred to the company. These assets were valued at 184.8 million euros. A total of 18.7 million euros was entered as equity capital, 86 million euros as liabilities granted by the State by way of a loan, 8.1 million euros as accrued expenses, and 72 million euros as other equity capital.

The year in brief

	million euros
Turnover	53.3
Operating income	4.4
Net profits	1.1
Cash flow from business operations	11.5
Return on investment	2.6%

All of the Shipping Enterprise's business units reached the targets set for them and were profitable. The Shipping Enterprise remitted 4.3 million euros to the State in 2004 as part payment on its loan, and 3.4 million euros in interest. In addition, part of the profit for the year will be entered as income for the State.

Turnover and result

The Shipping Enterprise's turnover in 2004 totalled 53.3 million euros. Operating income for the year was 4.4 million euros, and net profit 1.1 million euros.

As a large number of the enterprise's vessels were employed on existing contracts to customers, there was little room for concluding new contracts that would have increased the company's turnover in 2004. The Shipping Enterprise's performance was shaped both by the nature of its contracts and by measures taken by the company itself. Under these contracts, customers were largely responsible for sourcing fuel, which reduced turnover invoiced through the enterprise by several million euros.

Under the accounting principles adopted by the Shipping Enterprise, wage costs reduced turnover and enhanced profit performance. Wage costs were eliminated both from turnover and personnel costs, which reduced the Shipping Enterprise's turnover by 4.2 million euros and increased its net profit by 0.5 million euros.

The Shipping Enterprise booked depreciation based on the business activities of its vessels. Compared to calculations made in 2003 before the Shipping Enterprise was created, this reduced the book value of profits by 2.7 million euros during 2004.

Investments

Investments in capital assets during 2004 totalled 0.7 million euros. These were mainly concentrated on onboard navigation and communication equipment designed to enhance the safety of operations and the Shipping Enterprise's competitiveness.

Financing

The Shipping Enterprise's financial position during the year was good. A total of 4.3 million euros of the loan received from the State during the start-up of the Shipping Enterprise was repaid as planned

leaving 81.7 million euros of this loan outstanding at the end of the year. Net financing costs for the year were 3.3 million euros. The Shipping Enterprise did not make use of its authorisation to borrow a further 10 million euros, and the enterprise does not have any other long-term debts in addition to the State loan referred to above.

Personnel

The Shipping Enterprise employed an average of 615 personnel in 2004. As of the end of the year, the enterprise had 520 permanent employees, 472 of whom were shipboard crew. The difference between the average number of employees and the number of permanent employees at the end of the year was due to the hiring of temporary and substitute employees. The average age of the personnel was 48.4 years. Further details on personnel matters will be included in the personnel report to be published later.

Organisation

The Shipping Enterprise's land-based organisation moved into new premises on June 1, 2004. The costs incurred as part of this move have been booked under other costs.

As of the beginning of October 2004, the Shipping Enterprise restructured its organisation, to better serve its customers and increase the efficiency of its operative reporting, into four units: icebreaking, offshore, fairway maintenance and oil spill response activities, and ferry services.

Management

Mr Markku Mylly served as temporary President of the Shipping Enterprise from the beginning of the year until March 31, 2004. After Mylly's appointment as General Director of the FMA, Jukka Suominen, of the Shipping Enterprise's Board of Directors, took over as temporary President. Esko Mustamäki was appointed President as of May 17, 2004.





Front row from left: Veijo Hiukka, Esko Mustamäki, Hannu Hautakangas and Kai Valtari
 Back row from left: Harri Kuningas, Juhani Ahonius, Matti Latvalahti, Håkan Gustafsson, Atso Uusiaho, Paavo Immonen, Matti Lakeus and Heino Kovanen

As of October 1, the enterprise's Management Team consisted of:

Esko Mustamäki	President
Juhani Ahonius	Senior Vice President, Head of Production Services
Håkan Gustafsson	Senior Vice President, Head of Offshore Activities
Hannu Hautakangas	Senior Vice President, Corporate Controller
Veijo Hiukka	Senior Vice President, Head of Ferry Services
Paavo Immonen	Senior Vice President, Personnel and Group Services
Matti Lakeus	Senior Vice President, Head of Financial Services
Atso Uusiaho	Senior Vice President, Head of Icebreaking Activities
Kai Valtari	Senior Vice President, Head of Fairway Maintenance and Oil Spill Response Activities

Heino Kovanen represented personnel at Management Team meetings.

Quality and safety

The following managers are responsible for ensuring the enterprise's compliance with international and national regulations as well as its quality and safety policies:

Harri Kuningas	Quality Manager
Matti Latvalahti	Safety Manager



Front row from left: Ulrika Larpes, Esko Pyykkönen, Antti Vehviläinen and Kirsti Pionius
 Back row from left: Henry Lindelöf, Jukka Suominen, Lauri Ojala, Tapio Nurminen, Esko Mustamäki and Paavo Immonen

Board of Directors

The Shipping Enterprise's Board of Directors was appointed by the Council of State on December 4, 2003 for a three-year period ending on December 31, 2006. The Board comprises the following members:

Chairman:	Antti Vehviläinen, M.Sc. (Econ.), MBA
Deputy chairman:	Esko Pyykkönen, M.Sc. (Econ.)
Members:	Ulrika Larpes, LL.M
	Henry Lindelöf, M.Sc. (Administr.)
	Lauri Ojala, Ph.D. (Econ.)
	Kirsti Pionius, M.Sc. (Econ.)
	Jukka Suominen, M.Sc. (Econ.)
Personnel representative:	Tapio Nurminen
Deputy personnel representative	Teemu Alstela

Auditors

Finstahip's auditors for were Chartered Accountants Tuokko Tilintarkastus Oy, with APA Yrjö Tuokko and CPFA Martin Eklund as the principal auditors.

Development of business activities

In line with its underlying business plan, Finstaship offers icebreaking and fairway maintenance services for general shipping needs, together with specialised offshore and marine construction services. In addition, Finstaship provides ferry services and ship management services.

Finstaship's current core competencies cover expertise in demanding winter shipping conditions, advanced ship technology, vessel development, and marine engineering.

Finstaship is in the process of shifting away from a production-oriented mode of operations towards a more customer-oriented one. As a result, the volume of the enterprise's activities will no longer be measured solely in terms of charter days but also in terms of the performance of its services in the future. This process has now started and will require training, together with a new approach to customer relationships.

Risk management and continuity planning are new elements in Finstaship's management matrix. Risk management is being given particularly attention in respect of offshore activities, and will be further developed to cover all of Finstaship's business areas. Finstaship's insurance cover takes appropriate account of the company's risk management needs and contractual obligations. No significant insurance-related events took place during 2004.

Events in 2005

Finstaship secured the employment of its multi-purpose icebreaker, the Nordica, over the summer by concluding a charter contract with a British company, Subsea 7, at the beginning of February 2005. Valued at some USD 5 million in 2005, this contract includes options for 2006 and 2007. Following a quiet offshore year in 2004, the contract supports projections indicating that the offshore market is picking up.

The process of opening up Finstaship's business activities to competitive tender started at the beginning of 2005. Finstaship won the maintenance contract for the Kokkola fairway area after the FMA's Bothnian Bay Maritime District put it up for tender. This two-year contract is worth just under 0.5 million euros annually.

Finstaship acquired the Antonia, an archipelago ferry, from Stockholm in February 2005 to operate the Ring Route in the Turku archipelago between 2005 and 2009. The acquisition will increase transport capacity on this route by some 50%.

A contract was concluded with the Norwegian company, Eidesvik Subseas AS, at the end of February 2005 covering the lease of Finstaship's multi-purpose icebreaker, the Fennica, for seabed modelling work off the Indian coast. The charter will last for between three to five months, and is valued at approximately USD 4 million.



Future prospects

All the services provided by Finstaship will gradually become subject to open competition during a three-year transition period. During this period, the majority of Finstaship's services will be sold on the basis of negotiated contracts, as part of efforts to develop a commercial market for fairway maintenance and icebreaking services.

Current contracts generate a large part of Finstaship's turnover today. The mild start to the winter poses the greatest risk to turnover in 2005, as it will probably see a decrease in the number of active icebreaking days compared to 2004.

Finstaship's largest business not covered by its negotiated agreements is its offshore activities. The offshore market has developed positively since autumn 2004, which has been reflected in increased interest in the services of the company's multi-purpose icebreakers and improved charter rates. The current order book is clearly better than that

Profit and loss account

January 1-December 31, 2004

	2004 Euro	%
TURNOVER	53,329,009	100.0
Other income from operations	16,396	0.0
Materials and services		
Materials, accessories, and goods		
Purchases during the year	5,701,546	10.7
Decrease (-) or increase (+) in inventory	-109,169	-0.2
External services	5,823,134	10.9
	11,415,511	21.4
Personnel costs		
Salaries and fees	19,023,795	35.7
Personnel overheads		
Pension costs	3,128,991	5.9
Other personnel overheads	1,055,386	2.0
	23,208,172	43.5
Depreciation and write-offs		
Planned depreciation	10,144,245	19.0
Other operating costs	4,166,374	7.8
OPERATING INCOME	4,411,103	8.3
Financing profits and costs		
Profits from investments of other permanent assets		
Other interest and financing profits	155,121	0.3
Interest costs	3,440,000	6.5
Other interest and financing costs (-)	2,253	0.0
	3,287,131	6.2
NET PROFITS	1,123,971	2.1

Balance sheet

	31.12.2004 Euro	1.1.2004 Euro
ASSETS		
PERMANENT ASSETS		
Immaterial goods		
Immaterial rights	65,633	87,881
	65,633	87,881
Material goods		
Land and water areas	175,995	176,463
Buildings and structures	530,533	707,401
Machinery and vessels	173,088,589	182,316,966
Other material goods	84,186	84,186
	173,879,305	183,285,018
Invest-ments		
Other shares and equities	3,827	0
TOTAL, PERMANENT ASSETS	173,948,764	183,372,901
CURRENT ASSETS		
Inventories		
Materials and goods	1,488,149	1,378,980
Shortterm receivables		
Accounts receivable	3,685,006	
Other receivables	370,724	
Prepaid expenses and accrued income	626,884	
	4,682,615	0
Cash in hand and at bank	3,203,143	0
TOTAL, CURRENT ASSETS	9,373,908	1,378,980
TOTAL ASSETS	183,322,673	184,751,880

Balance sheet

	31.12.2004 Euro	1.1.2004 Euro
LIABILITIES		
EQUITY CAPITAL		
Capital stock	18,700,000	18,700,000
Other equity capital	72,016,649	72,016,649
Net profit for the year	1,123,970	
TOTAL, EQUITY CAPITAL	91,840,620	90,716,649
MANDATORY RESERVATIONS		
LIABILITIES		
Long-term		
Loan from the State	77,400,000	86,000,000
Short-term		
Loan from the State	4,300,000	
Accounts payable	1,523,901	
Other liabilities	2,044,273	
Accrued liabilities and deferred income	6,213,877	8,035,230
	14,082,056	8,035,230
TOTAL, LIABILITIES	91,482,052	94,035,230
TOTAL LIABILITIES	183,322,673	184,751,880

Financial statement

	1.1.–31.12.2004 Euro
Cash flow from operations	
+ Payments received from sales	49,644,002
+ Payments received from other revenue from operations	16,395
- Payments for operating costs	-38,129,153
= Cash flow from operations before financial items and tax	11,531,244
- Interest and charges paid for other financial operating costs	-3,442,253
+ Interest received from operations	134,261
= Cash flow from operations (A)	8,223,252
Cash flow from investments	
- Investments in material and immaterial goods	-720,109
=Cash flow from investments (B)	-720,109
Cash flow from financing	
- Repayments of long-term loans	-4,300,000
=Cash flow from financing (C)	-4,300,000
Change in cash flow (A+B+C)increase(+)reduction(-)	3,203,143
Liquid assets at the beginning of the year	0
Liquid assets at the end of the year	3,203,143

Notes to the accounts

1. Accounting principles

2004 was the Shipping Enterprise - Finstaship's first accounting year.

The accounts for 2004 were prepared in compliance with the Law on State Enterprises (20.12.2002) and the Council of State Decree on Accounting and Final Accounts of State Enterprises (26.2.2004).

No consolidated annual accounts were prepared, as Finstaship has no subsidiaries. Finstaship owns 34% of GDV Maritime AS, a Norwegian-based company marketing multi-purpose vessels on the international market.

The fee component of management services was taken into account when calculating the company's turnover. Salaries and other costs invoiced to customers in connection with management services are booked as adjustment items. The holidays and associated days-off of crew on board management service vessels are not included in Finstaship's liabilities and have been booked as liabilities and receivables.

2. Valuation principles

Receivables and liabilities denominated in foreign currencies have been valued according to the exchange rate on the date the books were closed.

Inventories have been valued at their acquisition cost or their anticipated sale price.

Assets in the Shipping Enterprise - Finstaship's opening balance on January 1, 2004 have been

booked at the value specified in the Council of State decision. Capital assets acquired during 2004 have been valued according to their acquisition cost. Planned depreciation based on financial lifetime has been made on capital assets.

2.1 Planned depreciation

Capital assets have been entered in the balance sheet using the acquisition cost principle, with the appropriate reductions made for planned depreciation. Planned depreciation has been calculated on a straight-line basis linked to assets' financial lifetime.

Depreciation time

Immaterial goods	5 years
Buildings	10-20 years
Fleet	
Icebreakers	30-40 years
Other vessels	16-30 years
Communication and navigation equipment	5 years
Computer hardware	3 years
Other machines and equipment	5-10 years

2.2. Pensions

The statutory pension cover of employees is provided by the State Treasury.

Pension costs are booked as costs in the year they accrue.

3. Notes to the profit and loss account

3.1. Turnover according to market area and business sector

	2004
Market area	
Finland	42,590,150
EU countries	1,778,483
North Sea area	8,960,375
	<hr/> 53,329,008

Business sector

Icebreaking	31,816,143
Multi-purpose icebreakers	10,820,238
Ferry services and other turnover	5,683,009
Fairway maintenance and oil spill response activities	4,530,409
Vessel maintenance services and other turnover	479,210
	<hr/> 53,329,008

3.2. Depreciation and write-offs

Planned depreciation	
Depreciation on immaterial rights	-23,870
Depreciation on buildings and structures	-176,868
Depreciation on vessels	-9 840,654
Depreciation on special equipment	-26,643
Depreciation on machinery and equipment	-14,040
Depreciation on vehicles	-6,492
Depreciation on other equipment	-55,678
Total, depreciation and write-offs	<hr/> -10,144,245

3.3. Personnel

Average number of employees during the year	
Office staff	45
Maritime staff	570
Total	<hr/> 615

3.4. Personnel costs

Personnel costs		To be invoiced	Total
Salaries	21,619,470	2,595,675	19,023,795
Pension costs	3,653,269	524,277	3,128,991
Overheads	1,203,669	148,283	1,055,385
	<hr/> 26,476,408	<hr/> 3,268,235	<hr/> 23,208,172

Value of fringe benefits paid to crews in 2004 618,771

Final accounts not yet confirmed by the Council of State.

Key figures

Turnover, million euros	53,3
Operating profit, million euros	4,4
- % of turnover	8,3
Profit for the year, million euros	1,1
- % of turnover	2,1
Equity capital, million euros	91,8
Equity ratio, % ¹⁾	50,1
Gearing, % ²⁾	85,5
Interest-bearing liabilities, million euros	81,7
Return on capital investment (ROCE), % ³⁾	2,6
Return on equity capital, % ⁴⁾	1,2
Gross investments, million euros	0,8
- % of turnover	1,4
Total balance sheet assets, million euros	183,3

1) Equity capital/total balance sheet assets

2) (Interest-bearing liabilities – cash in hand and at bank)/Equity capital

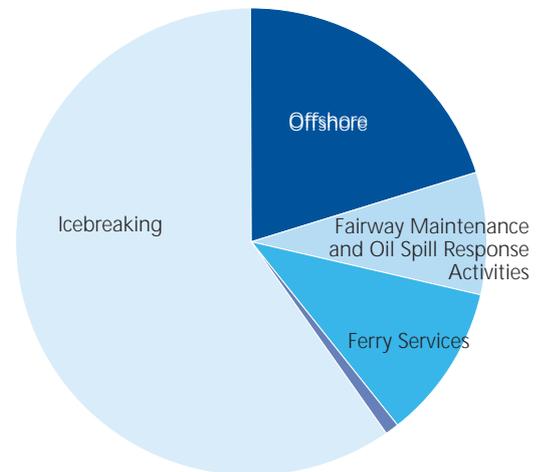
3) (Profit + interest costs)/capital invested as of the end of year (total assets – non-interest-bearing liabilities)

4) Net profit for the year/Equity capital at the end of year

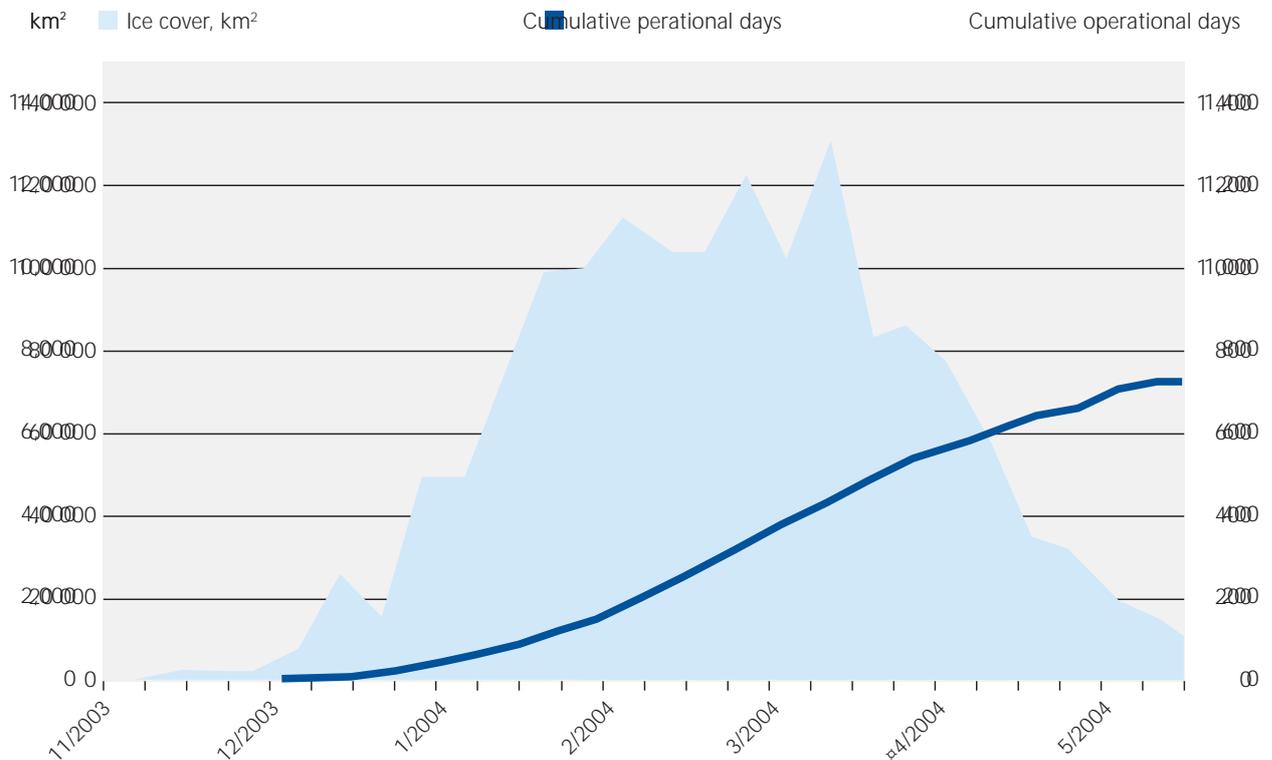
The final accounts and complete notes can be consulted at Finstaship's office.

Turnover per business area in 2004

	million euros
Icebreaking Activities	31.8
Offshore Activities	10.8
Ferry Services	5.7
Fairway Maintenance and Oil Spill Response Activities	4.5



Ice cover and operational days in the 2003-2004 season



Proposal for the application of funds by the Board of Directors

Finstaship's Board of Directors proposes that 340,000 euros of the net profit of 1,123,970.80 euros for 2004 shall be entered as income, and that the remainder, 783,970.80 euros, shall be entered in the profit and loss account of previous years. Parliament set a target income of 935,000 euros for the State budget from Finstaship's activities in 2004.

Helsinki, March 10, 2005

Antti Vehviläinen
Chairman

Esko Pyykkönen
Deputy Chairman

Ulrika Larpes

Kirsti Piponius

Henry Lindelöf

Jukka Suominen

Lauri Ojala

Tapio Nurminen
staff representative

Esko Mustamäki
President

Auditors' report

We have audited Finstaship's accounts, financial statements, and corporate governance for 2004 (January 1 to December 31, 2004). The financial statements prepared by the Board of Directors and the President include the annual report, income statement, balance sheet, and notes, complete with financial analysis.

We have conducted the audit in accordance with generally accepted auditing standards. The accounts and the principles of preparation, content, and presentation of the financial statements have been audited to an extent sufficient to give reasonable assurance that the financial statements are free from material misstatement. In our corporate governance audit, we have examined the activities of the Board of Directors and the President to determine that they legally comply with the regulations in the State Enterprise Act and legislation covering Finstaship.

In our opinion

- the accounts have been maintained in accordance with the rules and good accounting practice,
- the financial statements have been prepared in accordance with the rules and provisions governing the preparation of financial statements,
- the financial statements complete with appendices and the annual report give correct and adequate information on the operations, finances, financial development, and financial responsibilities of Finstaship,
- the corporate governance of Finstaship has been handled in accordance with the relevant legislation and regulations, as well as decisions by Parliament, the Government, and the Ministry of Transport and Communications, and other governing decisions,
- the internal monitoring and auditing of Finstaship have been properly arranged.

We recommend the approval of the financial statements and the proposal on the application of profits made by the Board of Directors in the Annual Report.

Helsinki, March 14, 2005

Yrjö Tuokko
APA

Martin Eklund
CFPA

Vessels 31.12.2004

Aura



Aurora



Falkö



Jurmo II



Rosala II



Vilken



Kaita



Kivimo



Bergö



Finnö



Fiskö



Ursus



Botnica



Fennica



Nordica



Otso



Kontio



Urho



Sisu



Voima



Apu



Seili



Letto



Linja



Sektor



Kummeli



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Oili 2



Oili 3



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