Turbulent Waters: Viking Line and the Accession of Estonia to the European Union

Tomi Tervo, Jacques Pelkmans, Aimé Heene
The **Bruges Series on European Business Cases** collects business-oriented case studies which analyze the two-way interaction between the European Union and the world of corporates or non-profit enterprises in Europe.

The Series is meant to promote business education with a European dimension and encourage the use of case methods and discussion on key strategy and business issues which are affected by EU regulation, liberalisations and common policies of the European Union.

**EDITORS**

Prof. Aime Heene (Chair)

Prof. Phedon Nicolaides

Prof. Philippe de Buck

Prof. Jacques Pelkmans

Dr. David Rinaldi

**DISCLAIMER**

Cases are intended to include publicly available data. If, however, the case contains confidential information, an approval has to be obtained from the enterprise. The cases remain intellectual property of the author(s); however, interested organization(s) can contact the European Economic Studies Department of College of Europe to remove sensitive data or to ask permission of reproduction.
Turbulent Waters: Viking Line and the Accession of Estonia to the European Union

Abstract:
The historical shipping routes between Helsinki/Turku, Finland and Stockholm, Sweden have been operated for decades as duopolies with some insignificant fringe competition. Although the traffic to and from Estonia was already lively and its effects were being felt by Viking Line, the Estonian accession in 2004 had a profound effect; it offered an opportunity to cut costs by flagging ships over to Estonia and by introducing Estonian salary levels for the on-board workforce, thus significantly reducing personnel costs. This business case analyses the response of Viking Line to this changing environment.
Table of Contents

Abstract: ....................................................................................................................... 1

Table of Contents ........................................................................................................ 2

1. Introduction ............................................................................................................. 3
   1.1 Participants in the ferry market in 2004 ............................................................... 3
   1.2 Viking Line and its management ....................................................................... 4

2. The Estonian accession and the Freedom of Establishment .................................. 4
   2.1 Tallink: The Emerging Rival ............................................................................. 5
   2.2 Other Competition ........................................................................................... 5

3. Viking Line’s Response ......................................................................................... 6
   3.1 The Helsinki-Tallinn Market ............................................................................ 6
      3.1.1 The new ship ............................................................................................. 7
      3.1.2 Outflagging .............................................................................................. 7
   3.2 A new CEO for Viking Line ............................................................................. 8
   3.3 The Turku-Stockholm Market ........................................................................... 9
      3.3.1 New Ship Order ...................................................................................... 9

4. The Market in 2011 ............................................................................................... 10

5. Conclusions .......................................................................................................... 12

6. Case questions for discussion ............................................................................ 12

References .................................................................................................................. 13

Annexes ....................................................................................................................... 15

   Annex 1: Viking Line’s largest owners as of October 31, 2010 ............................... 15
   Annex 2: The Verdict of the ECJ on Viking Line vs. Finnish Seamen’s Union ........ 16
   Annex 3: Article 87 in TEC and Derogations ......................................................... 17
   Annex 5: The Status of Åland Islands .................................................................... 19
   Annex 6: Ferry routes ............................................................................................ 20
   Annex 7: The region .............................................................................................. 21
1. Introduction

The historical shipping routes between Helsinki/Turku, Finland and Stockholm, Sweden have been operated for decades as duopolies with some insignificant fringe competition. The market is seasonal, with profit mainly being made during the short summer break, whereas during the rest of the year the companies try to achieve break-even levels of activity by offering discounts and various attractions on board.

The revenue model of the ferry companies was originally based on sales of tickets to passengers. However, in the 1980s earnings from on-board entertainment started to become more significant: the experience on board was gaining in importance, and arrival to the port was of less importance, as passengers would settle in for a good sleep after enjoying the leisure and entertainment offerings.

Tax-free sales of alcohol and tobacco between Finland and Sweden, where these goods were extremely expensive, were the key on-board service and created 50% of the turnover. Total on-board sales represented 70% of the turnover.

In 1999, the European Union (EU) decided to abolish duty free sales within the internal market. However, Åland Islands (the richest province in Finland) obtained a special status in the accession negotiations. The condition for continuing tax-free sales on ferries was a stop-over at the Åland Islands.

Therefore, the derogation secured a continuous tax advantage as well as good connections to and from the Islands. It was estimated that the elimination of the derogation would have had dramatic effects on Åland Islands, among others a fall of 40% in passenger traffic.

1.1 Participants in the ferry market in 2004

In 2004 Viking Line and Silja Line shared the ferry market. They competed on roughly equal terms on all routes between Sweden and Finland. Both companies operated daily from Helsinki and twice a day from Turku to Stockholm and vice versa. Their timetables were close to identical, amongst others for safety reasons. Silja Line was slightly more competitive in the high-end segment after the commission of Silja Symphony and Silja Serenade featuring a shopping street inside the ferry. The severe economic depression in the early 1990s had put the two companies under pressure, and new ship orders for operations on routes between Finland and Sweden were not seen as feasible.

---

1 Konsekvenser av att taxfreeförsäljningen avvecklasinom EU, 1998, Sammanfattningen
2 Den Ålandsbaserade sjöfartens ekonomiska betydelse, pp.39
3 Article 28 of 91/680/CEE and Article 28 of Directive 92/12/CEE
4 See Annex 5
5 Den Ålands baserade sjöfartens ekonomiska betydelse, op.cit. pp. 101
6 In case of “man over board” situations, the other ship can help in rescue operations
Possible explanations are the relatively low profitability of the routes, the relatively large investment required in relation to net profit, uncertainty about the taxation environment, and the need to direct investments to the Helsinki-Tallinn (Estonia) route.

1.2 Viking Line and its management

Viking Line is listed on the Helsinki stock exchange, but it is controlled by a few large Åland-based stockholders\textsuperscript{8}. These large investors are known for prudence and cautiousness, which is reflected in the company’s conservative management style. Dick Lundqvist, the CEO of the largest and third largest shareholders, is the long-time chairman of the board, backed by 25\% of voting rights. The board is mostly composed of directors representing large owners.

Viking Line’s CEO from 1990 to 2010, Nils-Erik Eklund, served the company for roughly 40 years. He became a CEO “from within”. He is well connected to the major shareholders, which is not an unusual situation on Åland.

2. The Estonian accession and the Freedom of Establishment

The independence of Estonia in the 1990s, followed by its accession to the Schengen area in 2003 and to the EU in 2004 led to a rapid increase in ferry traffic to and from Estonia\textsuperscript{9}. The underlying reasons are the large differences in standard of living, level of salaries, and the price of alcohol and tobacco between Estonia and other countries in the region. Routes were opened between Helsinki and Tallinn and also between Tallinn and Stockholm.

Tax-free sales have never been a major issue on boats operating to and from Estonia, as the price of alcohol in Estonia is low. The significant impact of the opening up of Estonia was the creation of a substitute for the traditional routes between Finland and Sweden. Viking Line observed a rapid expansion of the market and the emergence of many new competitors. Shorter distances and lower petrol costs for ferry companies were and still are an advantage compared to the routes to Sweden.

Although the traffic to and from Estonia was already lively and its effects were being felt by Viking Line, the Estonian accession in 2004 had a profound effect. The Estonian accession brought with it the full impact of the EU treaties. Especially critical for Viking Line is Article 49 of the Treaty of the European Community (TEC):

“Within the framework of the provisions set out below, restrictions on the freedom of establishment of nationals of a Member State in the territory of another Member State shall be prohibited. Such prohibition shall also apply to restrictions on the setting-up of agencies, branches or subsidiaries by nationals of any Member State established in the territory of any Member State”.\textsuperscript{10}

\textsuperscript{8} See Annex 1
\textsuperscript{9} Den Ålands baserade sjöfartens ekonomiska betydelse, op.cit. pp. 39
\textsuperscript{10} http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12008E049:en:HTML
Thus, the Treaty offered an opportunity to cut costs by flagging ships over to Estonia and by introducing Estonian salary levels for the on-board workforce, thus significantly reducing personnel costs.

2.1 Tallink: The Emerging Rival

Due to the lower level of salaries and taxes, Estonian crews are cheaper than Finnish crews. As a result, on routes between Helsinki and Tallinn, Estonian companies have gained a strong foothold. Tallink AS has become a market leader. In a time of easy credit and rapid economic growth in Estonia, Tallink could access financial resources that allowed a rapid expansion of its capacity\textsuperscript{11}, embarking on an aggressive strategy of growth. Tallink has been increasingly profitable every year, and during the financial year 2004-2005, Tallink’s net profit rose to €30 million and its turnover grew with an impressive 24%\textsuperscript{12}. Until this time, Tallink was focused on operating from its home base, Tallinn, but in 2006 it made a major strategic move by purchasing Viking Lines’ main competitor Silja Line from Sea Containers Ltd.\textsuperscript{13} As a result of this €450 million\textsuperscript{14} deal, Tallink Silja turned from being a minor player to a direct competitor. It overtook the overall market leadership in the Baltic Sea.

The importance of the transaction is illustrated by the fact that the total passenger volume transported by Silja Line was larger than that of Tallink\textsuperscript{15}. Silja Lines’ services between Tallinn and Helsinki were excluded from the deal and were divested to a third party who continued to operate them as an independent company. Viking Line was also interested in the acquisition of Silja Line\textsuperscript{16} but failed to win the contest.

2.2 Other Competition

Around 2003 the market for the Helsinki-Tallinn route was an oligopolistic market with diversified companies. In general, ferry companies had to strike a balance between speed and services and reliability. Fast and light ships had the advantage of speed, but could not operate without disruptions caused by the weather. Midsize ships could not traffic in icy conditions, but large, slow ships could offer year-around service. At the extreme end of the spectrum was Copterline, a helicopter service that could take the passenger to Tallinn in less than 30 minutes. Copterline’s reliability turned out to be lowest of them all, as a tragic accident in 2005 ended its operations abruptly.

\textsuperscript{11} www.tallink.com/mainMenu/company/history/ 8 February 2011
\textsuperscript{12} Tallink annual report 2004/2005
\textsuperscript{13} www.tallink.com/mainMenu/company/history/ op.cit
\textsuperscript{14} Helsingin Sanomat: Tallink buys Silja for EUR 450 million and Stock 08 February 2011
\textsuperscript{15} Ibid.
\textsuperscript{16} Ibid.
3. Viking Line’s Response

The accession of Finland and Sweden (1995) to the EU had disrupted the peace for a while, but its effect was successfully mitigated by the special status obtained by Åland. In 2004 life in the archipelago idyll was disrupted again. Traffic to Estonia was increasing, as many customers could buy their alcohol and cigarettes cheaper and faster there—a direct threat to Viking Line, bearing in mind the crucial importance of on-board sales.

3.1 The Helsinki-Tallinn Market

Staying out of the lucrative Estonian market was not a long term option. Viking Line had a fleet composed of large ships, and it could enter the market without new investments. Therefore, the decision to enter the Tallinn market was self-evident. Besides, the company had already operated the route on an irregular basis since the 1990s. Nils-Erik Eklund now decided to launch regular traffic with M/S Rosella. The business model continued to be the same: M/S Rosella would mainly float the night in the Gulf of Finland and then quickly enter Tallinn to pick up the alcohol and head back to Helsinki, while passengers enjoyed heavy drinking and dancing.

The demand, however, changed considerably; fewer and fewer people were interested in spending the entire night on board. Instead, customers increasingly demanded fast, regular connections to go to work in Finland or to buy alcohol supplies in Estonia. At this time the m/S Rosella was almost 30 years old and not fast enough to compete head-to-head against modern ships. Viking Lines’ market share on the route remained low, at only 17.8%. M/S Rosella was making losses due to the fierce competition on the

---

17 Viking Cinderella in Wikipedia, 11 February 2011
18 Commissioned in 1980
19 Viking Line Annual Report 2004-2005
Helsinki-Tallinn route\textsuperscript{20}. The current business model, similar to that of Viking Line’s other routes, was not feasible on the Helsinki-Tallinn route. The management was required to take action.

### 3.1.1 The new ship

The Viking Line board faced a difficult decision in 2005. The company did not have any light, fast ships. It did have large ships and small ships, but none was fast. The situation was clear; business as usual would create losses, thus further reducing the company’s low profitability\textsuperscript{21}. A withdrawal was unthinkable as it would have constituted a withdrawal from the only growth market the company had. Regardless of the unfeasibility of M/S Rosella for its task, Viking Line could not ignore the fact that the traffic to Tallinn had grown 16\% year-on-year compared to 2003/2004\textsuperscript{22}. Eventually, the EU-accession related market changes and the resulting increase in demand forced Viking Line to take action\textsuperscript{23}; the company ordered a new ship, the XRPS, with the goal of raising its market share to 20%.

The XRPS was a combination of a traditional cruise ship and a fast ship like the Super SeaCats with year-around service capability, with an idea akin to a WW1 era battlecruiser: bigger than anything that was faster, while faster than anything that was bigger. This combination of speed and comfort was a carefully considered concept to address the changing market situation\textsuperscript{24}.

However, Tallink was a step ahead of Viking Line. In 2007 and 2008 respectively it commissioned M/S Star and M/S Superstar, two ships with the same passenger capacity than Viking XRPS, but faster\textsuperscript{25}. Additionally, Tallink launched a new schedule with an increased number of daily crossings.

### 3.1.2 Outflagging

Viking Line continued to explore other options to combat Tallink, its rising rival. Pressure was growing to neutralize Tallink’s cost advantage due to cheaper labor by reflagging ships to Estonia and subsequently recruiting local labor. The Finnish labor force was strongly unionized, and the Seamen’s Union was especially known for its aggressive behavior.

Although this strategy risked Viking Lines’ long-term relationships with the trade unions, the company’s net profit in 2004/2005 tumbled to below €1 million from levels between €13 million and €23 million during the four years prior\textsuperscript{26}. Viking Line stated that in order to maintain cost efficiency, named as a cornerstone of its strategy, its crew costs should not exceed those of competitors\textsuperscript{27}. The board knew that if it could check the cost advantage of Tallinn, it would probably emerge as a winner in the contest, as it would still be in possession of the better image and better customer relationships in Finland and in

\textsuperscript{20} Case C-438/05 of the ECJ, paragraph 9
\textsuperscript{21} See annex 4: ROE 2,2\% in 2004/2005
\textsuperscript{22} VL Annual report 2004/2005 pp. 12
\textsuperscript{23} Ibid. pp. 6
\textsuperscript{24} Finnguide 12 December 2005
\textsuperscript{25} Tallink homepage/fleet
\textsuperscript{26} Annual report 2004/2005, 02 April 2011
\textsuperscript{27} Ibid., pp.20, 02 April 2011
Sweden. In the end, the board decided to move forward; it notified the Finnish Seamen’s Union (FSU) that it would reflag the ship to Estonia to be able to exploit the more favorable conditions vis-à-vis the employees in Estonia and would not be bound by the Finnish Collective Bargaining Agreement\textsuperscript{28}.

The FSU threatened with a strike, even though it had a valid contract with the employer side. Viking Line believed that the strike would be illegal as it would de facto constitute an attempt to prevent an establishment of the company’s operations in another member country - a right specifically protected in the EU treaties. The matter was taken to a national court. The national court decided to refer the case to the Court of Justice of the European Union. The referring national court asked whether strike action or collective action could limit the freedom of establishment. The Court of Justice ruled that strike action could be an impediment to the freedom of establishment but it could be justified if it was necessary to protect the rights of workers and then only if the restriction was proportional.

As a result of the court case, “Social Europe” had gained a victory, while the Lundqvist and Blostreamerlund families, the ultimate decision makers at Viking Line, had to withdraw: M/S Rosella was never reflagged to Estonia. M/S Rosella would stay in place for another 3 years defending Viking Line’s market share. Subsequently, both the M/S XRPS and the M/S Rosella were flagged to Sweden.

\subsection*{3.2 A new CEO for Viking Line}

The stagnation of the company, with virtually no growth on the horizon and with large looming investments, prompted the Viking board of directors to consider the need for new ideas. The two-decade-long reign of Nils-Erik Eklund was announced to end in March 2010, and Viking Line launched the search for a new CEO in late 2008\textsuperscript{29}. In May 2009 it announced the appointment of Mikael Backman as the new CEO. Backman had previously worked for the Royal Caribbean ship lines, and the idea was to gain new ideas and insight into Viking Line’s operations\textsuperscript{30}.

Backman was expected to bring ideas on how to attract North American customers to the ships, but also on the more advanced service concept that is in use in the Caribbean. The sale of on-board services, as opposed to the sale of on-board goods, would be a new concept for the Baltic market. The appointment of a new CEO with deep know-how in on-board services points to the direction that Viking Line was trying to increase its sales by expanding its on-board services.

Backman started his tenure at Viking Line in a very unconventional way. For the first 6 months he worked as a trainee in bars, shops, check-in, i.e. all the major non-technical functions in order to learn about the company, its workers, and customers\textsuperscript{31}. This has surely earned him the respect of the employees.

\begin{footnotesize}
\begin{itemize}
  \item Case C-438/05 op.cit. Paragraph 18  
  \item Taloussanomat 29 October 2008  
  \item Viking Line press release 07 May 2009  
  \item The author has personally talked to many Viking Line employees and asked about their experiences during many trips on Viking Line
\end{itemize}
\end{footnotesize}
3.3 The Turku-Stockholm Market

Since the commissioning of Silja Europe in 1993, no new ships had been introduced on the routes between Helsinki/Turku and Stockholm. The competitor Tallink was highly leveraged after the acquisition of Silja Line in 2005 and had focused its investments on its primary markets, ship routes to and from Estonia. Its debtors eventually took over control as a consequence of the financial crisis in 2009. The financial crisis also had another significant impact on the environment – the order stock in the Finnish shipyards would be running out in 2010\textsuperscript{32}, thus threatening the existence of the Finnish shipbuilding cluster.

3.3.1 New Ship Order

Mikael Backman spotted an opportunity to gain an advantage over Tallink Silja. In June 2009, shortly after his appointment was announced, he stated that “if we are ever going to order a new ship, now is the time”. At this time Viking Line’s decision making was a bit diffuse, as Backman, although nominated to become the CEO and employed by the company, was not yet officially the CEO.

The management team thought that it could put considerable pressure on the political leadership in a situation where unemployment was rising and the global shipbuilding market was coming to a standstill. Providing work for the community around Turku would also be seen to be favorable by its customer base and to improve the company’s image. The competitive advantage created by the ship could be assumed to last at least a few years as Tallink, due to financial difficulties, would not be able to respond this time.

The new order was worth €240 million\textsuperscript{33}, a considerable investment to a company which, during the five previous years, had had an average net profit of €17 million\textsuperscript{34}. The investment was equal to the net profit of 14 years. The main owners were hesitant, fearing that the dividend stream would dry out. The Viking Line board decided to look for broader support for the project, and opened negotiations with the Finnish government\textsuperscript{35}, at the same time engaging a Korean shipyard to ask for another offer in order to put more pressure on the authorities.

As the order stock in the Finnish shipyards was running out as a result of the financial crisis\textsuperscript{36}, the government finally yielded to Viking Line’s demands and approved a subsidy package as detailed below. Although Article 107 TFEU prohibits in principles subsidies (state aid), it also allows under certain conditions aid to shipbuilding.

\textsuperscript{32} Helsingin Sanomat 14 October 2010
\textsuperscript{33} Kauppalehti 29 June 2009
\textsuperscript{34} Viking Line press release 22 December 2010
\textsuperscript{35} Taloussanomat 5 April 2011
\textsuperscript{36} Helsingin Sanomat 14 October 2010 op.cit.
As a result, the following types of aid were allowed by the European Commission to be granted to Viking Line$^{37}$:

2. Innovation subsidies, “just under €10 million”.
3. Offering loan guarantees or interest subsidies.
4. The deal should be completed by the summer of 2010.

This represented a subsidy of roughly 20% of the price of the ship. However, Mikael Backman, attentive to Viking Line’s cautious major owners, pressed STX Finland, the owner of Turku shipyard, heavily in price negotiations and eventually walked away from the deal in June 2010$^{38}$. It looked like the days of the Finnish shipbuilding cluster were numbered.

Finally, in October 2010, STX Finland agreed to Viking Line’s conditions. Mikael Backman signed the deal (including a letter of intent for another ship), on condition that the subsidies, as promised by the minister of Economic affairs Mr. Mauri Pekkarinen, could be obtained$^{39}$. The deal was confirmed by the Finnish government in December, but remained conditional to the approval of the European Commission (EC), as the environment-related state-aid package required EC approval$^{40}$.

The key advantages gained by introducing a new ship can be listed as follows:

1. Customer curiosity for a new ship can initially create more demand
2. Environmental edge: a better image for the company and lower fuel consumption
3. Speed: facilitates a slightly longer stay in harbor, and customers need not be disturbed as much with cleaning at night during the cruise
4. Makes Viking Line the premium market player, with a good chance to entice the high-end segment

4. The Market in 2011

The business of Viking Line in 2011 continues to be business as usual. On most routes, the ferries are sales and entertainment centers, and transport is secondary.

In duopolistic competition, price increases are immediately mirrored in lost market share, as these prices are easily comparable, regardless of the fact that Viking Line and other actors operate loyal customer programs.

It is theoretically possible to enter the market between Finland and Sweden by transferring ships from abroad, but the market is not large enough for three major ferry lines, so such entry would result in a

$^{37}$ see Annex 3
$^{38}$ Uusi Suomi, 3 June 2010
$^{39}$ Ibid
$^{40}$ Ibid
price war. A key condition of entry is the existence of attractive, unused opportunities. The ferry market with its low growth and low profitability is not lucrative for new entrants.

On the routes Helsinki-Mariehamn-Stockholm and Turku-Mariehamn-Stockholm, Viking Line and Tallink Silja are sharing the market on an equal basis.

In traffic to Tallinn, Viking Line’s market share is clearly weaker, as this is Tallink’s home market. The market share of 24.7% means that Viking Line managed to reach and exceed its goal of 20% market share on the route, regardless of the increased competition by Tallink. Both companies have won market share from small competitors, increasing market concentration. Increased market shares cannot be occupied without providing fast, regular traffic with multiple turns. Tallink has a competitive advantage due to lower crew costs.

In the cruise market from Stockholm or from Åland Islands, Tallink Silja is not present. Instead, Viking Line faces local competition from Eckerö Lines and Birka Lines.

On the route Turku-Mariehamn-Stockholm, the introduction of the new ferry (or ferries) is likely to lead to large changes in market share for the benefit of Viking Line.

The Russian market is expected to open up in the near future, providing more opportunities for growth.

The following figure presents Viking Line’s market shares\(^1\) in 2011.

\(^1\) Viking Line annual report 11/2009-10/2011
5. Conclusions

Viking Line’s current business model is conditional on the continuation of favorable circumstances. The tax derogation for Åland Islands is essential for the company’s business. It is important to interact both on the provincial and national levels to maintain the status quo in terms of a favorable regulatory environment. European-level cooperation is not feasible due to the unique tax conditions of Åland Islands. Cooperation on other issues, such as environmental standards or freedom of establishment, might be feasible on an international or EU level.

Viking Line faced difficult times during and immediately after the accession of Estonia to the EU, which brought intense competition and a new kind of customer demand. The company is trying to meet this challenge by capturing more market share and by selling more to current clients on board.

Although its actions have been more reactionary than visionary, the company has successfully defended its market position. However, it has failed to take the opportunity to become the market leader and now faces competition by a more cost-efficient rival, Tallink. This oligopolistic competition is likely to keep margins low in the future. The low profit margin, combined with an ageing fleet, is a problem. Luckily, Viking Line has some competitive advantages over Tallink Silja, and one of these advantages is a strong balance sheet\textsuperscript{42}. Viking Line has survived without major problems, and even exploited the global recession in ordering a long-awaited new ship. Thus, Viking Line might yet emerge as a market leader in its core markets upon the introduction of the new ship(s).

6. Case questions for discussion

1. What do you consider to be the most important changes that Viking Line is facing?
2. What exactly did the management do to respond to these changes?
3. How successful do you consider these responses to be? Why?
4. What else could have been done? Would this have been more successful? Why?

\textsuperscript{42} See annex 4.; the net debt is negative
References

Company Information


Viking Line Financial Reports


Press Releases

http://www.vikingline.fi/yritysinfo/lehdistotiedotteet/090507_vd.asp

Internet Sources

Ferry Facts http://www.faktaomfartyg.se/silja_serenade_1990.htm

The Finnish Trade Unions Representation to the EU


Newspapers

Finnguide

Viking XRPS – A New Concept on Helsinki-Tallinn Route, 12 December 2005
http://www.finnguide.fi/AviationIndustry/aviation_airlines_news_05.asp?a=440&o=40
Helsingin Sanomat Tallink buys Silja for EUR 450 million and Stock, 16 June 2006
http://www.hs.fi/english/article/Tallink+buys+Silja+Line+for+EUR+450+million+and+stock/1135220258428

Crisis in Shipbuilding Industry Threatens to Engulf Turku Region, 14 October 2010
http://www.hs.fi/english/article/Crisis+in+shipbuilding+industry+threatens+to+engulf+Turku+region/1135260894350

Viking Line Order New Ship from Turku Shipyard, 26 October 2010
http://www.hs.fi/english/article/Viking+Line+to+order+new+ship+from+Turku+shipyard/1135261181090

Kauppalehti Uuden kaluston tilaamisen aika on nyt, 18 June 2009
http://www.kuppalehti.fi'/yritykset/yritysuutiset/?oid=2009/06/23383&ext=rss

Nya Åland Vill sluta med olaglig försäljning av snus, 25 January 2009
http://www.nyan.aland.fi/ledaren/?news_id=39945

Taloussanomat Viking Line etsii uutta toimitusjohtajaa, 25 October 2008

Viking Line: “Pekkarisen alainen lupasi tuen” 5 April 2011
http://www.talouselama.fi/uutiset/article523479.ece?service=mobile

Uusi Suomi Viking Line perui - duunarit vaihtava alaa, 3 June 2010

Ålandstidningen Leif Sevon: Utflaggning onödig , 21 February 2008
http://www.alandstidningen.ax/article.con?iPage=1&id=7154

Research Papers

Bäckström, Birger 1998: Konsekvenser av att taxfree försäljningen avvecklasinom EU, Swedish government special research assignment, available at
http://www.regeringen.se/content/1/c4/24/65/bbe782bd.pdf

Lindström, Bjarne 2010: Den Ålandsbaserade sjöfartens ekonomiska betydelse, ASUB, available at
Annex 1: Viking Line’s largest owners as of October 31, 2010

<table>
<thead>
<tr>
<th>Major owners by 31/10/2009</th>
<th>Number of shares</th>
<th>Ownership %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ångfartygs Ab Alfa</td>
<td>1 645 500</td>
<td>15.2%</td>
</tr>
<tr>
<td>Ab Rafael</td>
<td>1 476 944</td>
<td>13.7%</td>
</tr>
<tr>
<td>Rederi Ab Hildegaard</td>
<td>1 104 803</td>
<td>10.2%</td>
</tr>
<tr>
<td>Lundqvist Ben</td>
<td>290 000</td>
<td>2.7%</td>
</tr>
<tr>
<td>Sundman Per-Sune</td>
<td>287 880</td>
<td>2.7%</td>
</tr>
<tr>
<td>Eklund Nils-Erik</td>
<td>243 365</td>
<td>2.3%</td>
</tr>
<tr>
<td>Sviiberg Marie-Louise</td>
<td>227 165</td>
<td>2.1%</td>
</tr>
<tr>
<td>Mattson Rafael (dödsbo)</td>
<td>171 820</td>
<td>1.6%</td>
</tr>
<tr>
<td>Ålands ömsesidiga försäkringsbolag</td>
<td>118 525</td>
<td>1.1%</td>
</tr>
<tr>
<td>Lundqvist Dick</td>
<td>118 000</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

Top 10 ownership 52.5%
Annex 2: The Verdict of the ECJ on Viking Line vs. Finnish Seamen’s Union

Article 43 EC is to be interpreted as meaning that, in principle, collective action initiated by a trade union or a group of trade unions against a private undertaking in order to induce that undertaking to enter into a collective agreement, the terms of which are liable to deter it from exercising freedom of establishment, is not excluded from the scope of that article.

2. Article 43 EC is capable of conferring rights on a private undertaking which may be relied on against a trade union or an association of trade unions.

3. Article 43 EC is to be interpreted to the effect that collective action such as that at issue in the main proceedings, which seeks to induce a private undertaking whose registered office is in a given Member State to enter into a collective work agreement with a trade union established in that State and to apply the terms set out in that agreement to the employees of a subsidiary of that undertaking established in another Member State, constitutes a restriction within the meaning of that article.

That restriction may, in principle, be justified by an overriding reason of public interest, such as the protection of workers, provided that it is established that the restriction is suitable for ensuring the attainment of the legitimate objective pursued and does not go beyond what is necessary to achieve that objective.
Annex 3: Article 87 in TEC and Derogations

“Save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favoring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market”

Derogations:

2. The following shall be compatible with the internal market:

1) aid having a social character, granted to individual consumers, provided that such aid is granted without discrimination related to the origin of the products concerned;

2) aid to make good the damage caused by natural disasters or exceptional occurrences;

3) aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany, in so far as such aid is required in order to compensate for the economic disadvantages caused by that division. Five years after the entry into force of the Treaty of Lisbon, the Council, acting on a proposal from the Commission, may adopt a decision repealing this point.

3. The following may be considered to be compatible with the internal market:

1 aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment, and of the regions referred to in Article 349, in view of their structural, economic and social situation;

2 aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State;

3 aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest;

4 aid to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Union to an extent that is contrary to the common interest;

5 such other categories of aid as may be specified by decision of the Council on a proposal from the Commission.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales, EUR M</td>
<td>406.0</td>
<td>436.0</td>
<td>475.4</td>
<td>470.7</td>
<td>569.9</td>
</tr>
<tr>
<td>Operating income, EUR M</td>
<td>13.6</td>
<td>32.8</td>
<td>23.3</td>
<td>17.3</td>
<td>16.1</td>
</tr>
<tr>
<td>– as % of sales</td>
<td>3.4%</td>
<td>7.5%</td>
<td>4.9%</td>
<td>3.7%</td>
<td>2.8%</td>
</tr>
<tr>
<td>Income before taxes, EUR M</td>
<td>14.2</td>
<td>33.8</td>
<td>19.8</td>
<td>14.4</td>
<td>14.4</td>
</tr>
<tr>
<td>– as % of sales</td>
<td>3.5%</td>
<td>7.7%</td>
<td>4.2%</td>
<td>3.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Return on equity (ROE)</td>
<td>7.8%</td>
<td>16.6%</td>
<td>9.2%</td>
<td>6.5%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Return on investment (ROI)</td>
<td>9.7%</td>
<td>21.5%</td>
<td>10.6%</td>
<td>6.3%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Equity/assets ratio</td>
<td>57.6%</td>
<td>61.7%</td>
<td>42.8%</td>
<td>41.6%</td>
<td>44.8%</td>
</tr>
<tr>
<td>Debt/equity ratio (gearing)</td>
<td>-21.6%</td>
<td>-22.6%</td>
<td>54.9%</td>
<td>48.2%</td>
<td>24.6%</td>
</tr>
<tr>
<td>Gross capital spending, EUR M</td>
<td>18.8</td>
<td>26.4</td>
<td>148.1</td>
<td>30.6</td>
<td>8.7</td>
</tr>
<tr>
<td>– as % of sales</td>
<td>4.6%</td>
<td>6.0%</td>
<td>31.2%</td>
<td>6.5%</td>
<td>1.5%</td>
</tr>
<tr>
<td>Average number of employees</td>
<td>2,900</td>
<td>2,911</td>
<td>2,994</td>
<td>3,091</td>
<td>3,087</td>
</tr>
<tr>
<td>– of whom, shipboard employees</td>
<td>2,182</td>
<td>2,178</td>
<td>2,232</td>
<td>2,314</td>
<td>2,319</td>
</tr>
<tr>
<td>– of whom, land-based employees</td>
<td>718</td>
<td>733</td>
<td>762</td>
<td>777</td>
<td>768</td>
</tr>
<tr>
<td>Salaries etc, EUR M</td>
<td>99.4</td>
<td>103.0</td>
<td>112.7</td>
<td>115.1</td>
<td>141.6</td>
</tr>
</tbody>
</table>
Annex 5: The Status of Åland Islands

“Åland acceded to the European Union in 1995, as an autonomous region of Finland. Its special status in the organization is regulated by Protocol No 2 annexed to the Finnish Act of accession. This document contains certain derogations from the application of EU law on Åland, including concerning the limitations pertaining to the right to domicile and the right of trade.

The derogations allowed the continuation of tax – free sales on ferry traffic to and from Åland. Ferry traffic and tourism have a great importance for the Ålandic economy.

These derogations make the Åland Islands a unique example among the EU members, as only a few territories have been granted permanent derogations from the EU primary law”. 43

Annex 6: Ferry routes
Annex 7: The region

http://www.worldatlas.com/aatlas/infopage/balticsea.htm