

Paloheimo
in 1995



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Paloheimo in brief

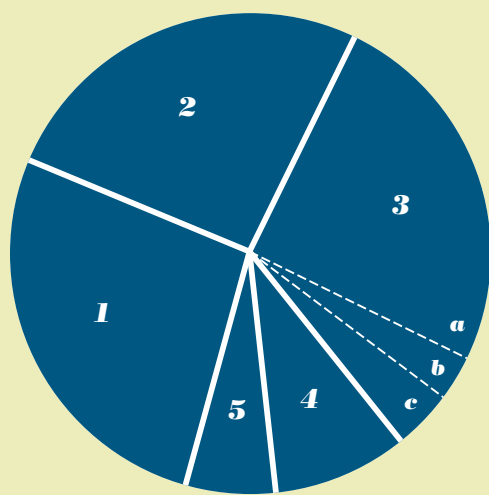
Paloheimo is a highly diversified family-owned company established in 1889. Its main fields are products for the construction industry, sawmill products and the power plant business.

The corporation's backbone is the Paloheimo Group. The Group's main company is Paloheimo Oy, whose parent company is H. G. Paloheimo Osakeyhtiö. The family of Arvi Paloheimo, LL.M., and his sister Elisa Paloheimo own more than 96% of the parent company's shares.

Paloheimo's operations are based on independent Group units. In addition, a large part of the business is done by Paloheimo Oy's affiliated companies.

In 1995 the Paloheimo Group's turnover was FIM 637 million and it employed 840 people on average. Exports and international operations accounted for nearly 50% of consolidated turnover.

The combined turnover of the affiliated companies was FIM 479 million (includes Elnova for the period 1 Nov. - 31 Dec. 1995) in 1995 and they employed an average of 750 people.



The Paloheimo Group's turnover in 1995: FIM 637 million

- 1:** Paloheimo Wood FIM 169 million
- 2:** Paloheimo Power Plant FIM 168 million (10 months)
- 3:** Paloheimo Building Products Section FIM 203 million
 - 3a** Parquets FIM 161 million
 - 3b** Valotila FIM 19 million
 - 3c** Sasmox FIM 23 million
- 4:** Lundia FIM 60 million
- 5:** Others FIM 37 million

The Paloheimo ownership structure*

H.G. Paloheimo Osakeyhtiö

99,85% Paloheimo Oy

| | | |
|----------|------------------------------|----------------------------|
| 95% | Solart Oy | Associated companies |
| 100% | Parqueterie Lemoine SA | |
| ▼ 47,55% | | |
| 47,55% | Paloheimo Iberica SA | |
| 100% | Paloheimo Deutschland GmbH | |
| 100% | Paloheimo B.V. | |
| 100% | Paloheimo SARL | |
| 100% | Lundia Oy | |
| 50% | Fenestra Oy | 60% AIS Parmek |
| 70% | Etelä-Hämeen Kunnossapito Oy | 100% Sasmo AB |
| 50% | Riihimäen Kaukolämpö Oy | 100% Fenestra Fenster GmbH |
| 32% | Verkonrakentaja Wire Oy | 100% Fenestra Palvelut Oy |
| 50% | Uudenmaan Energia Oy | |
| 50% | Uudenmaan Sähköverkko Oy | 100% POY-Sähköverkot Oy |
| 64% | Saastamoinen Oy | 100% Lohjan Verkko Oy |
| ▼ 31,9% | | 100% Vihdin Sähköverkko Oy |
| 24,5% | Sasmox Oy | |

* In February 1996

Paloheimo's products

Lundia

With its endless variety, Lundia is an internationally recognized shelving system. Lundia's popularity is based on its timeless product idea. It can be extended, modified, rounded out...



Windows

On an international yardstick, Paloheimo's affiliated company Fenestra Oy is one of the leading manufacturers of wood-aluminium windows. The international trademark is Fenestra. The company also markets the Steni facade cladding system in Finland and its nearby areas.

Parquets

Paloheimo Parquets comprise a comprehensive range of board and solid parquets for new and renovation building. The best known of the parquet trademarks are Lamella and Lemoine, which are sold in more than 20 countries.



Power plant services

Elnova – the result of a fifty-fifty merger by Paloheimo and Imatran Voima Oy of their holdings in Uudenmaan Energia Oy and Uudenmaan Sähköverkko Oy – ranks amongst Finland's five largest power plants.



Glazed Structures

Valotila is specialized in glass facades and special glazed structures. Nowadays, the bulk of its deliveries go to Russia.



Sawn Timber

Paloheimo's modern sawmill is one of Finland's major privately owned sawmills. Paloheimo has exported sawn timber since 1891.

Wood-gypsumboards

Thanks to their fire-resistance and strength characteristics, the Sasmox building boards have proved to be competitive in a number of market areas.

The Development of Paloheimo's corporate structure

H.G. Paloheimo Osakeyhtiö

1889



Paloheimo B.V.



Paloheimo SARL



Makro Sasmo Oy/talot



Solart Oy 50%

Paloheimo Iberica SA

Fenestra Oy 50%

Etelä-Hämeen Kunnosapito O,



POY-Sähköverkot Oy

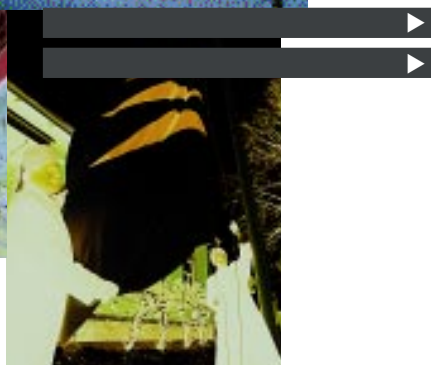
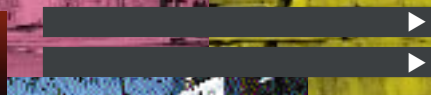
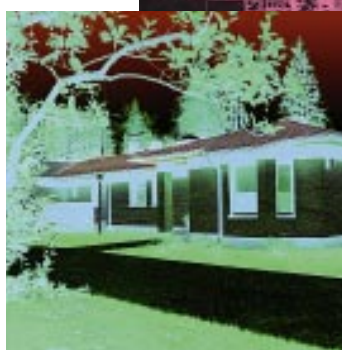


Uudenmaan Sähköverkko Oy 50%

Paloheimo Group



** Saastamoinen Oy:
windows, stairs, houses,
Kuopio Sawmill, plywood
and particle board industry*



Paloheimo's operational structure*



The term Paloheimo designates the Group comprising Paloheimo Oy and its parent company, H.G.Paloheimo Osakeyhtiö, and the subsidiaries.

* In February 1996



Operations in 1995

The good momentum of the Finnish export industry created a positive outlook for 1995. In particular, there were expectations that the growth in exports would also revive domestic consumer demand. It didn't turn out that way. The piling up of debt by the public sector, high real interest rates and prolonged mass unemployment continued to exert a drag on the domestic market.

From the standpoint of Paloheimo's domestic operations, the biggest problem was the low level of construction investments culminating in their virtual collapse in the autumn. New housing starts in Finland fell by 30% and even renovations, which have been notching up in recent years, declined by 20%. The total amount of building construction fell to the lowest level in decades.

Within exports, too, our operating environment deteriorated surprisingly fast. Although there was stable economic growth in our main market, Europe, the market situation became a great deal tighter. Throughout Europe the mechanical forest industry and the construction industry increased their production in excess of demand. Overcapacity led to falling prices and at times to unhealthy price competition. Problems in the export sector were further increased by the foreign exchange advantage enjoyed by our Swedish competitors.

Despite the positive outlook at the start of the year, 1995 turned out to be a difficult year for all our products.

* * *

Prefabricated parquet flooring was in growing supply in continental Europe and in spite of stable demand, this trend led to falling prices. The capital expenditures we have made for marketing and for upgrading the Riihimäki factory will nevertheless improve our competitiveness and the quality of our products. The difficult market situation for prefabricated parquets was naturally also reflected in the market situation for Lemoine's solid parquets. The result for the entire Parquets unit was a loss.

The year for Paloheimo Wood got off to a good start but headed into decline rapidly after the early spring. Since the price of spruce sawn timber fell by a third in a few months and the market came to a standstill, we had to limit output right after the summer months. The price of roundwood did not follow the market price of sawn timber and the unit posted a loss. The grading plant investment carried out in the summer will increase the quality of our products and boost the sawmill's capacity to 200,000 cubic metres.

Lundia Oy was able to increase its sales in Finland by a greater margin than the furniture industry as a whole. Inputs for export operations also brought results. Lundia reported a profit.

The slowdown in the construction market meant that Valotila's net sales were markedly below target and the unit posted a loss. The export orders obtained during the autumn nevertheless pointed to a clear upswing in operations.

The new Electricity Market Act which came into force in the summer will cause - and has already caused - significant changes for Finland's power utility industry. We have carried out long-term development of the operations of Paloheimo Power Plant and achieved a very competitive position within the industry. During the report year we established - on a fifty-fifty basis with Imatran Voima Oy - the companies

Uudenmaan Energia Oy and Uudenmaan Sähköverkko Oy, whose operations got started in November. These companies took over the business operations of Paloheimo Power Plant, POY-Sähköverkot Oy, Vihdin Sähkö Oy and Lohjan Sähkö Oy. The Elnova grouping formed from the new companies will rank among Finland's five largest power plants.

During its ten-month financial year, Paloheimo Power Plant reported a profit that was in line with its budget.

The operations of Fenestra Oy suffered from the fall in the amount of new and renovation building. Since there are no signs of significant growth in demand in Finland, the company decided to wind up its factory in Kausala and concentrate on the production of special glass building products at its factory in Lempäälä. Window production will be concentrated at the factories in Kuopio and Forssa. Fenestra's exports came in over budget. Fenestra Oy's turnover fell nearly 20% below the budgeted target, resulting in a loss for the year.

* * *

Encouraged by the market outlook for 1994, we believed that we would be able further to improve our result during the report year. This didn't happen. The Group's operational result was far short of the budgeted figure, and when the associated companies are included, it ended up in the red.

1996 has started off in a difficult market situation. The economic outlook has turned bleaker for continental Europe, too. Thanks to the measures we have undertaken, we nevertheless expect to improve our financial performance and to post a clear-cut profit.

By dint of our operations over the past year and the structural solutions we have implemented, we have succeeded in improving the Group's equity ratio significantly. This creates a solid foundation for developing our operations.

The changes we have made in our Group structure have been consistent with our strategic planning. We shall seek alone or through alliances to focus our operations on areas where we see the potential for growth and an adequate control of market factors.

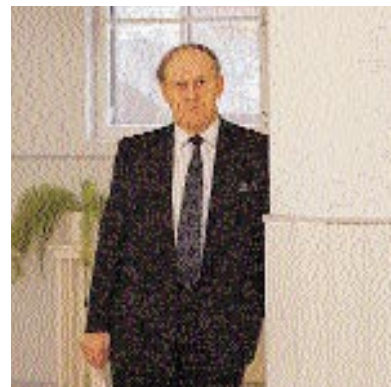
With a view to improving our competitiveness, we have purposefully developed our management system. During the report year we went over from a functional organization to process management. The skills required for process management were indeed put to the test in a market situation that underwent rapid changes. I wish to thank our personnel for the unstinting contribution they have made in difficult conditions.

I believe that the management system we have chosen is a real strength in meeting the continual changes within our operating environment. In developing our organization, our central starting point will continue to be the understanding and taking into account of our customers' needs.

February 1996



Eero Raitio
Managing Director



Parquets

Paloheimo is an experienced manufacturer and marketer of parquet flooring. Lamella board parquets and the Tango patterned parquets that have been developed from them are manufactured at the factory in Riihimäki. Solid wood Lemoine parquets are manufactured in Darney, France. Paloheimo has its own parquet sales companies in Germany and Spain: Paloheimo GmbH and Paloheimo Iberica S.A. In the Netherlands, sales are handled by the Paloheimo Wood sales company, Paloheimo B.V. The Paloheimo Group company Solart Oy is in charge of marketing parquets in Finland. In addition to parquets, its product range includes vinyl, cork and laminated floor coverings.

Management group:

Markku Aaltonen, Chairman
Timo Hiekkaranta
Jari Pajala
Ismo Sihvonen
Pertti Ruohosalo
Eero Terävä
Anneli Tuominen

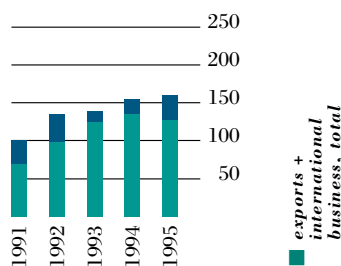
Turnover, FIM million

161

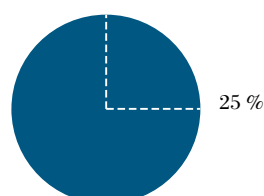
Personnel, average

260

Trend in turnover and exports (FIM million)



Share of Group turnover



The demand for prefabricated parquets remained stable in continental Europe, but the competitive situation became tighter and the price level fell. The latter part of the year in particular was difficult for Finnish manufacturers in this industry. The supply of parquets in Europe grew, and Swedish manufacturers enjoyed a price advantage over their Finnish competitors owing to a cheaper Swedish krona.

Weakened competitiveness meant that the manufactured volumes of Lamella board parquet fell from the previous year's figure of more than 850,000 square metres. The manufacture of Lemoine solid parquets nevertheless grew somewhat in spite of production cutbacks, reaching nearly 500,000 square metres. Altogether, sales of Paloheimo's parquets were below budget and the unit's profitability declined. The result for the year was a loss.

In Germany, the most important market area for Lamella board parquet, quantitative objectives were achieved thanks to new customer relationships. In Spain and in Portugal sales developed according to the targets set.

The market trend for solid parquets was the same as that for prefabricated parquets. Changes did not take place in total demand, but there was increasing price competition. The weak price level, especially in Spain, weakened Lemoine's profitability. The country is the most important single market area for Lemoine's solid parquets.

In Finland the total market for board and solid parquets contracted and there was very keen price competition. Increased export deliveries to the Baltic countries and Russia somewhat compensated for the weak demand in Finland. Lamella retained its share of more than a fifth of the Finnish market for board parquets in spite of the fall in overall demand. Sales of the other product groups of Solart Oy, which handles the marketing of parquets in Finland, were in line with expectations.

Investments in quality and customer service

The production of Lamella board parquets in Riihimäki was enhanced through an extensive programme of investments in automation and information technology. Thanks to these investments, the even quality of the parquets can be controlled more precisely than ever before, and with small technical improvements the annual output can be raised to 1.5 million square metres. The kilning of sawn timber at the factory was overhauled, as was the gluing of parquet boards and the lay-up of finished pieces.

In order to improve its customer service, the unit renewed and diversified its main marketing and sales tools. A new operations control system that will greatly increase the effectiveness of customer service was also introduced. As director *Markku Aaltonen* sees it, "The investments have meant a big improvement in our delivery capabilities and operations. In addition to higher output, we are now able to ensure the high and even quality of Lamella products better than ever before. Improvements in customer-oriented service and production efficiency will significantly increase our competitiveness."



Lamella board parquets create a beautiful and durable, genuine wood floor. Their high standing all over Europe is based on superior quality backed up by modern manufacturing technology and a 40-year backlog of knowledge and skills.

Lundia

Lundia's main product is the Lundia wooden shelving system. Lundia sells its products in Finland through its own and franchising stores as well as via its network of distributors. Export operations are divided between subcontracted manufacturing and sales through distributors. Most of Lundia's wooden shelving is made at the furniture factory in Riihimäki.

Management group:

Vesa Vihavainen, Chairman
Raimo Ainola
Gustaf Lindberg
Ilkka Nevanen
Seppo Viljanen

Turnover, FIM million

60

Personnel, average

121

Sales of Lundia shelving systems in both Finland and on the export market grew.

In Finland the slight revival in consumer demand was a shot in the arm for the furniture and office interiors trade. The field reported growth of 8%, whereas a year earlier the market contracted by 7%. Sales of Lundia products in Finland outpaced the industry as a whole, by a good fifth.

On the domestic market, the growth in Lundia's sales to companies and distributors were above budget. Lundia stores, too, increased their sales, though slightly less than forecast. The bulk of the Lundia shelving systems sold to households are handled by the company's four own stores. Total sales in Finland rose to FIM 42 million.

Although Lundia's exports grew, the growth figures fell somewhat short of the targeted level. Expectations, especially of rising sales in Japan, proved to be overoptimistic.

Thanks to the good sales trend and the enhancement of production, Lundia posted a profit.

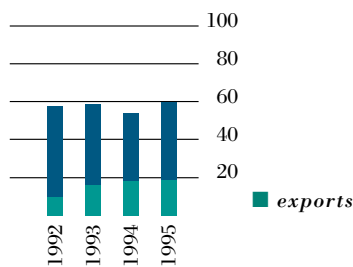
New markets and product development

Lundia continued its efforts to open up new export markets.

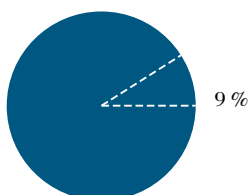
"Sales of our products, especially in the United States, have got off to a good start. Our expectations for Japan, too, are positive, despite some initial difficulties. In addition to new markets, we shall naturally seek to strengthen our position on the export markets with which we are already familiar," sums up *Vesa Vihavainen*, managing director of Lundia Oy. Lundia's most important single export market area is Denmark.

Apart from increasing exports, Lundia Oy has spent time and money on renewing its product range and on developing completely new products. Amongst the concrete results of this development effort are a new kind of office furnishing system.

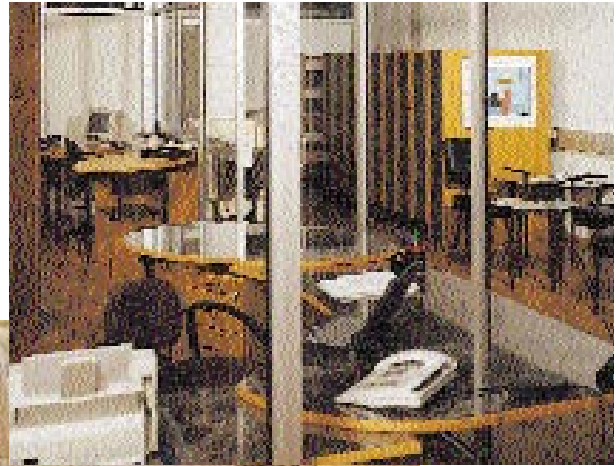
Trend in turnover and exports (FIM million)



Share of Group turnover



The classical application of a Lundia wooden shelving system: a bookshelf. In addition to its popularity in international sales, the brown-lacquered shelving system has achieved an important market position in Finland.



Paloheimo Wood

Paloheimo Wood is a major Finnish producer and marketer of sawn and planed timber. It has its own sales offices in the Netherlands and France: Paloheimo B.V. in Utrecht and Paloheimo SARL in Versailles. Paloheimo Wood's sawmill production is concentrated in Riihimäki, Finland.

Management group:

Eero Raitio, Chairman
 Kai Merivuori
 Ahti Pietarila
 Jorma Sarparanta
 Anneli Tuominen
 Esko Tynkkynen
 Heikki Vihtonen

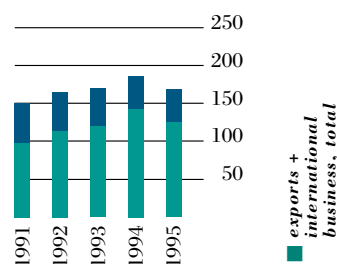
Turnover, FIM million

169

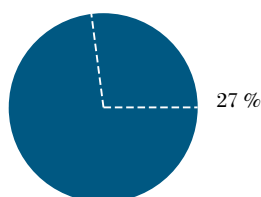
Personnel, average

129

Trend in turnover and exports (FIM million)



Share of Group turnover



The demand for spruce sawn timber in Europe remained fairly high and stable, but a considerable change took place on the supply side: increased sawmill output in Germany and especially in the Nordic countries led to substantial oversupply. The price competition caused by this oversupply caused prices to plummet. Over a half-year period, prices fell by about a third.

The competitiveness of the Finnish sawmill industry was further weakened by the low value of the Swedish krona, which is the traditional currency for invoicing Nordic sawn timber. Although the prices of roundwood in Finland began to decline in the autumn, the fall in prices was too small and slow to restore the price competitiveness of the sawmills. The profitability of the sawmill industry in Finland was generally weak.

Paloheimo Wood adjusted its production in line with demand. Output of the sawmill and planing mill were limited in the autumn. The volumes fell short of the budgeted level by a wide margin. The drop in production amounts from the previous year was nevertheless only 10%. The lower capacity utilization at the sawmill and the slow turnover of capital tied up in roundwood weakened the profitability of Paloheimo Wood. The good result for the first months of the year nevertheless somewhat compensated for the negative earnings trend in the latter part of the year. The operational result for the entire year was a loss.

Improvements in quality and cost-efficiency

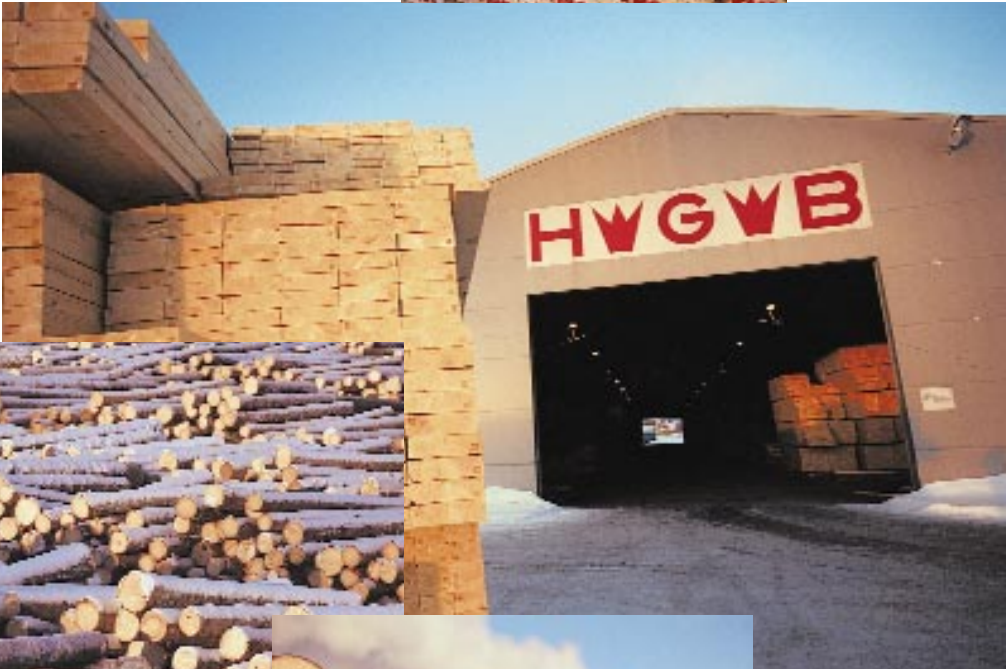
To increase the efficiency of production and improve competitiveness, Paloheimo Wood carried out major investments, which at the same time will improve the end-user quality of the products.

The largest single capital expenditure was a new sorting line for the grading plant. It will enable sawn timber to be delivered to the customer sawed precisely to specification and sorted for even quality. At the same time, the investment will boost the capacity level of the sawmill to 200,000 cubic metres.

"The capital expenditures carried out aim to increase the productivity of the sawmill. But even more important than boosting capacity is the improvement in cost efficiency and quality. These competitive factors will gain increasing emphasis on the keenly contested European market," judges *Eero Raitio*, Paloheimo Oy's managing director.

Paloheimo Wood has also improved its cost effectiveness by concentrating exclusively on producing spruce sawn timber. The sawmill is supplied with roundwood by UPM Kymmene's Forest Department.

*Paloheimo has exported
sawn timber for 105 years
now and operates today
one of Finland's largest
privately owned sawmills.*



Valotila

Valotila supplies aluminium and steel-framed glazed roofing, glass facades and interior glass panels as well as special glazed structures. Its two fabrication facilities are located in Alavus and Oulu. Project management and design functions are centrally handled in Hyvinkää. Valotila Oy was merged with Paloheimo Oy on 31 December 1995.

Management group:

Reijo Leino, Chairman
Timo Nurminen
Kari Pyhähuhta
Anneli Tuominen

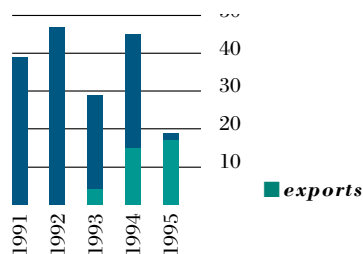
Turnover, FIM million

19

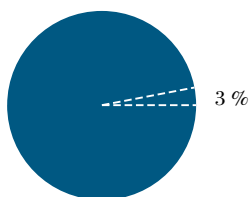
Personnel, average

70

Trend in turnover and exports (FIM million)



Share of Group turnover



After a first part of the year that went in line with objectives, Valotila's operating environment began to weaken, beginning in early autumn. The backlog of orders was small and already agreed projects were deferred. The unit's deliveries declined substantially, with net sales falling by more than 50%. The result was markedly below the budgeted figure and negative.

The order book nevertheless grew considerably towards the end of the year. In addition, the number of advance tenders requested grew to an exceptionally high level.

In a very short time, Valotila has been able to establish its position firmly on the hotly contested building market in Moscow and other areas of Russia. In gaining this position, not only has Valotila improved its own core competences, but it has also acted in close cooperation with Fenestra Oy. Although the volume of operations in Finland was small, the deliveries had a significant value as references. Valotila has participated in a number of the best known office and commercial building projects in the Greater Helsinki area. These include the new office buildings of Nokia Corporation and ICL as well as the Spektri office centre.



Valotila's most important delivery projects in Russia have been, among others, the head office complex of Gazprom, Unicom Bank and the so-called Japan Office Building (in the photograph) in Moscow, the Lenexpo Exhibition Hall in St Petersburg and the head office of Orel Bank in Orel.

Sasmox

Sasmox Oy manufactures and markets fire-resistance graded building boards and special products developed from them: fire protection boards for steel structures, floor panels, acoustical panels and other pre-finished decorative boards as well as the Linear wall system. All these products are based on Sasmox wood-gypsum boards. The company's board factory is in Kuopio, Finland. At the end of 1995, Paloheimo Oy owned 33% of Sasmox Oy, and Saastamoinen Oy had a 30% interest.

Thanks to the favourable trend in exports, the volume of Sasmox's operations nearly doubled and its profitability improved.

Export deliveries exceeded the budgeted level by a substantial margin, with exports accounting for 65% of net sales. Deliveries to Germany showed the biggest growth, accounting for a third of the volume of exports. Other important export market areas were Scandinavia and Great Britain.

Building board deliveries to Finland also came in over budget. Despite the fall in construction activity, the company's turnover grew because flooring boards, acoustical panels and other pre-finished decorative boards increased their market share. Deliveries of basic building boards, notably for use as prefabricated units for houses and industrial buildings, remained at a low level, though in line with the budget.

The substantial growth in exports improved the board factory's capacity utilization and the profitability of Sasmox's operations as a whole. The operational result was nevertheless negative.

Management group:

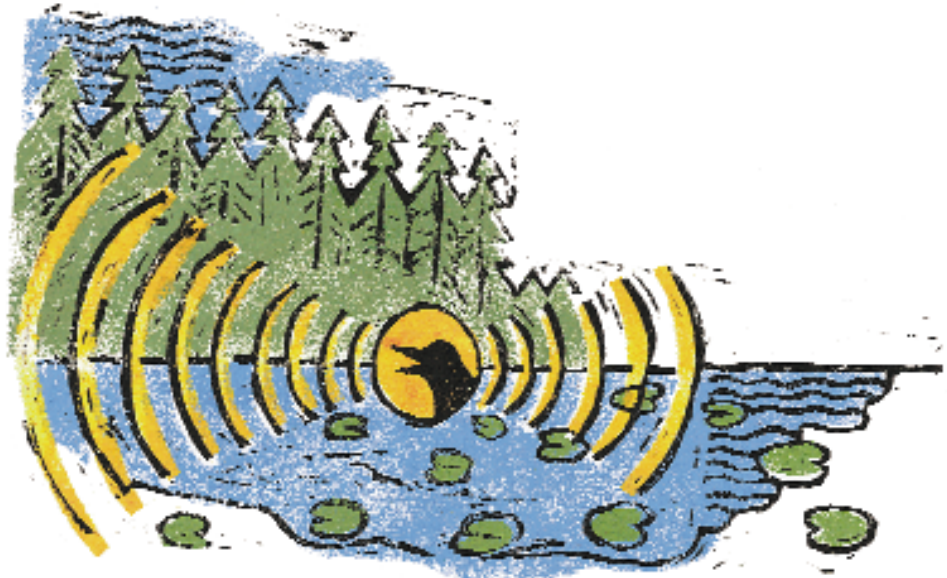
Kalervo Nurmi, Chairman
Markku Riihimäki
Otto Väänänen

Turnover, FIM million

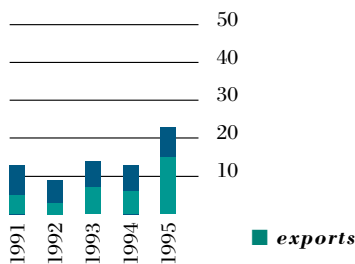
23

Personnel, average

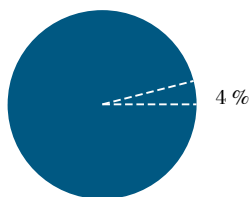
41



Trend in turnover and exports (FIM million)



Share of Group turnover



Special applications have been developed from Sasmox wood-gypsum-boards. Notably, they have been used as acoustical boards for walls and ceilings, such as in the music auditorium of the Sibelius Academy Course Centre. The auditorium's floors are made from Paloheimo's Tango patterned parquet.



Elnova comprises Uudenmaan Energia Oy and Uudenmaan Sähköverkko Oy with their subsidiaries. These are the electric power companies owned by Paloheimo Oy and Imatran Voima Oy (IVO) on a fifty-fifty basis. Uudenmaan Energia Oy is responsible for the sale of electricity and Uudenmaan Sähköverkko Oy for network services. The companies began their operations on 1 November 1995. Elnova ranks as one of Finland's five largest power utilities. Annual sales of electricity total some 1,500 GWh and turnover amounts to about FIM 500 million.

**Paloheimo Power Plant
(up to 31 October 1995)**

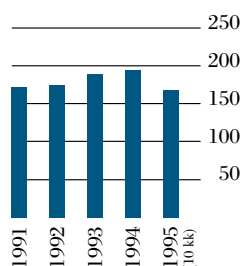
Turnover, FIM million

168

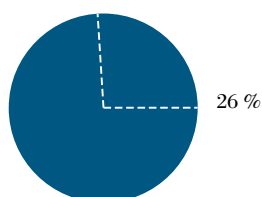
Personnel, average

63

Turnover trend, FIM million



Share of Group turnover



Elnova

The volume of electricity sales by Paloheimo Power Plant (up to 31 October 1995) was slightly smaller than forecast. The nearly 5% growth registered in the previous year declined to the level of the long-term average, about 1% annual growth. The unit's positive earnings were in line with the budget - mainly thanks to lower-than-forecast electricity procurement costs.

Combined operations

In November 1995, the functions of Paloheimo Sähkölaitos and POY-Sähköverkot Oy were transferred to the new companies Uudenmaan Energia Oy and Uudenmaan Sähköverkko Oy. Their other owner, Imatran Voima Oy (IVO), transferred the business operations of Lohjan Sähkö Oy and Vihdin Sähkö Oy to the new companies. The result is a new grouping named Elnova.

Uudenmaan Energia Oy buys electricity from electricity producers and sells it to end customers. The company has more than 100,000 customers. According to the new Electricity Market Act, the company can operate anywhere in Finland.

Uudenmaan Sähköverkko Oy is a company that sells electricity transmission services. Its main customer is Uudenmaan Energia Oy, but it can use its network to transmit electricity generated by other power utilities. The transmission company's distribution area extends to 27 municipalities in Southern Finland. The largest of them are Hyvinkää, Karjaa, Lohja, Riihimäki and Vihti.

Towards a new operational culture

The new Electricity Market Act that came into force in Finland in the summer 1995 in part deregulated the sale of electricity and did away with the power companies' traditional regional exclusive sales rights. According to the new legislation, among other things, the owners of power networks must make their networks available to various sellers of electricity on equal terms. For the power plants, this has meant turning electricity sales and network operations into separate functions, at least for bookkeeping purposes.

Paloheimo Power Plant was the first company in Finland to spin off its electricity transmission functions, turning them into a separate company, POY-Sähköverkot Oy, already in the autumn 1994. The establishment in 1992 of the Verkonrakentaja Wire Oy (see the next page) was also geared to this new kind of power plant environment, which is more competitive and customer-oriented.

"The establishment of Elnova together with Imatran Voima is a very logical continuation of the long-term development of our operations. Although the volumes of the functions are now at a completely new level, bigness in itself is not the main goal. We are now able to achieve better cost efficiency than before, and this will improve our profitability and the price competitiveness of our customer services," sums up Managing Director *Erkki Puheloinen*. Previously Erkki Puheloinen was head of the Paloheimo Power Plant unit and is now the managing director of Uudenmaan Sähköverkko Oy.

Verkonrakentaja Wire Oy

Turnover, FIM million

16

Personnel, average

30



Verkonrakentaja Wire Oy is a company that is specialized in contracting for electricity and lighting grids. It began operations in 1992.

Wire was primarily responsible for the network services required by Paloheimo Power Plant. The volume of the company's operations was slightly smaller than forecast. A third of the turnover came from work contracted out to companies outside the Paloheimo Group. The profitability of operations improved.

The consolidation of the electricity distribution functions of Paloheimo Oy and Imatran Voima Oy (IVO), expanded the operations of Wire significantly. At the beginning of February 1996, Wire Oy took over the network building and maintenance operations of Uudenmaan Sähköverkko Oy's subsidiaries, Lohjan Verkkö Oy and Vihdin Sähköverkko Oy.

The arrangement meant that the operations and personnel of Wire Oy nearly quadrupled. The turnover estimate for 1996 is FIM 60 million. The previous owners of Wire Oy, Paloheimo Oy (65%) and RTA-Yhtiöt (35%) sold half of their shares in Wire to IVO International Ltd, which is part of the IVO Group. After the deal, Paloheimo's holding in the company is 32% and that of RTA-Yhtiöt 18%.

Riihimäen Kaukolämpö Oy

Turnover, FIM million

21

Personnel, average

2

Riihimäen Kaukolämpö Oy (Riihimäki District Heating Company) sells heating energy in the area of the town of Riihimäki. Most of the heating energy it sells is obtained from the production plants of Paloheimo and Ekokem Oy.

The sales volumes of heat and natural gas fell slightly due to the mild winter. Sales of heating totalled 160 GWh and sales of natural gas amounted to 2.2 million cubic metres. Thanks to the cost effectiveness of operations, the price of the district heating that the company sells is among the cheapest in Finland.

Riihimäen Kaukolämpö Oy is owned fifty-fifty by Paloheimo Oy and the Town of Riihimäki.

Etelä-Hämeen Kunnossapito Oy

Turnover, FIM million

18

Personnel, average

53

Etelä-Hämeen Kunnossapito Oy (Southern Häme Maintenance) provides maintenance services for Paloheimo's business units and other companies in the Riihimäki economic area. The company was established in 1993.

Etelä-Hämeen Kunnossapito succeeded in increasing the volume of its operations and it exceeded its budgeted turnover target: growth on the previous year was 20%. The diversification of the company's clientele also proceeded satisfactorily.

Paloheimo Oy owns 70% of the company's shares and Imatran Voima Oy's subsidiary IH-Kunnossapito Oy owns 30%.

Fenestra Oy

Fenestra Oy is amongst the leading Nordic suppliers of wood-aluminium and wooden windows. The company is also a major player by international standards. It has three production plants: window factories in Forssa and Kuopio as well as a factory in Lempäälä that makes solid glass. Fenestra Oy has three subsidiaries, Fenestra Fenster GmbH in Germany, Sasmo AB in Sweden and AS Parmek in Estonia. In Russia the company has sales offices in Moscow and St Petersburg. Paloheimo Oy and Rakennustoimisto A. Puolimatka Oy (presently PMA-Yhtymä Oy) established Fenestra Oy in 1992 by transferring their window businesses to the new company, which was owned on a fifty-fifty basis.

Management group:

Timo Aalto, Chairman
Timo Laitinen
Jorma Nenonen
Kyösti Ollikainen
Markku Puustinen
Jukka Sipilä
Jari Kaunisto, Secretary

Turnover, FIM million

306

Export and international business, FIM million

74

Personnel, average

665

Fenestra Oy's operating environment weakened owing to the lower-than-anticipated volume of new building and renovations in Finland.

New housing production in Finland fell by 30%, to about 18,000 housing units. The amount is the smallest in the post-war period. Renovations, too, declined substantially, by about 20%. The exceptional reduction in renovations in 1995 was due to the previous year's peak demand, largely as a result of the enactment of a value added tax in Finland. On average, renovations grow by 5% annually in Finland and they account for about half of the total value of building construction.

The sharp fall in demand forced Fenestra to make significant adjustments in its operations. The company reduced its production capacity by consolidating the manufacture of windows, moving all these functions to its factories in Kuopio and Forssa. The factory in Lempäälä is focusing on the manufacture of insulation panels and Superglass panels. The sales and administration organization was also streamlined in line with demand.

Exports, however, developed better than anticipated and the deliveries of Steni facade elements increased .

The volume and profitability of Fenestra's operations fell markedly short of the budgeted level and the result was a loss.

Small series production and low-energy windows

In addition to downsizing actions, Fenestra also developed its competitiveness through new improvements in its production facilities and products. The most important machinery investments were made at the window factory in Forssa. Thanks to a new production line, series manufactured in short runs have become more competitive than before. Because of the good demand for Superglass windows, the production capacity for solid glass panels at the Lempäälä factory trebled. Fenestra is now largely self-sufficient in manufacturing the special glass panes it requires.

"These measures are our answer to two of the main market challenges. We have improved our price competitiveness also in window deliveries for small projects, which often call for a customized approach. Secondly, we have reinforced our position as a supplier of increasingly energy-efficient windows. For example, the sales of Superglass windows have substantially exceeded the forecast. They were delivered for more than a hundred projects. In general, the energy economy of our windows is a decisive advantage also in several export market areas," says Fenestra Oy's managing director, *Timo Aalto*. One of these areas is Japan, where Fenestra's exports rose considerably.

Fenestra's most important single expenditure for further developing its international operations was the acquisition of a majority holding in the Estonian company AS Parmek, which is Estonia's leading window manufacturer. AS Parmek manufactures wood-aluminium windows for the Estonian market and the entire Baltic area as well as for Russia and other countries.



Fenestra's product development has concentrated, among other things, on highly energy-efficient windows. Windows based on so-called Superglass technology represent the most progressive solutions in the field. Thanks to Fenestra's new production technology, the manufacture of Superglass windows also for small projects is now very competitive.

Paloheimo Group

Financial Statements for 1995

The ownership structure of the Paloheimo Group changed in the summer 1995, when H.G. Paloheimo Osaakehtiö redeemed for the company 1,155 shares owned by minority shareholders. Following the redemption, Kolsan Tiilitehdas Oy became the parent company of H.G. Paloheimo Osaakehtiö and at the same time of the entire Paloheimo Group. Plans call for merging H.G. Paloheimo Osaakehtiö with Kolsan Tiilitehdas Oy during 1996. The Paloheimo family owns 100% of Kolsan Tiilitehdas Oy.

The following companies are included in the consolidation:

| Company | Field of business |
|--|---|
| KOLSAN TIILITEHDAS OY | Securities trading |
| H.G. PALOHEIMO OSAKEYHTIÖ | Agriculture and restaurant operations |
| PALOHEIMO OY | Building products, mechanical forest industry, electricity and heating distribution |
| MONNINSEUDUN SÄHKÖVERKKO OY (previously POY-Sähköverkot Oy) | Electricity transmission |
| PARQUETERIE LEMOINE S.A. | Parquet factory in France |
| PALOHEIMO IBERICA S.A. | Parquet sales company in Spain |
| PALOHEIMO DEUTSCHLAND GMBH | Parquet sales company in Germany |
| SOLART OY | Sales company for floor coverings in Finland |
| PALOHEIMO B.V. | Sawn timber sales company in the Netherlands |
| PALOHEIMO SARL | Sawn timber sales company in France |
| VALOTILA OY | Glazing structures |
| LUNDIA OY | Marketing and manufacture of Lundia shelving systems |
| VERKONRAKENTAJA WIRE OY | Construction of electricity and lighting grids |
| ETELÄ-HÄMEEN KUNNOSSAPITO OY | Maintenance operations |
| SASMOX OY | Wood-gypsum boards |
| SAASTAMOINEN OY | Property holding company |
| REAL ESTATE COMPANIES | |
| Associated companies: | |
| FENESTRA OY GROUP | Windows |
| RIIHIMÄEN KAUKOLÄMPÖ OY | District heating utility |
| UUDENMAAN ENERGIA OY | Electric power distribution |
| UUDENMAAN SÄHKÖVERKKO OY | Electricity transmission |

Elnova (Uudenmaan Energia Oy and Uudenmaan Sähköverkko Oy with their subsidiaries) began operations on 1 November 1995 when Paloheimo and Imatran Voima combined their power plant operations to form a new business entity. Paloheimo Oy and Imatran Voima Oy own the new companies on a fifty-fifty basis.

Turnover, financial result and financing

The Group's turnover was FIM 636.8 million (FIM 680.1 million in 1994). Exports and international operations accounted for FIM 303.1 million, or 48%, of the consolidated turnover.

*The turnover of the product groups was as follows:
(Turnover of the electricity utilities in 1995: 10 months)*

| FIM million | 1995 | 1994 | Change% |
|-------------------------|-------------|-------------|----------------|
| PARQUETS AND | | | |
| OTHER FLOOR COVERINGS | 160.8 | 155.1 | + 3.7 |
| SAWN AND PLANED TIMBER | 168.7 | 185.4 | - 9.0 |
| ELECTRICITY AND HEATING | 167.5 | 195.1 | - 14.1 |
| LUNDIA FURNISHINGS | 60.1 | 54.0 | + 11.3 |
| GLAZING STRUCTURES | 19.1 | 45.3 | - 57.8 |
| WOOD-GYPSUM BOARDS | 23.4 | 12.5 | + 187.2 |
| RENTAL INCOME (SOY) | 13.8 | 12.3 | + 12.2 |
| OTHER | 23.4 | 20.4 | + 13.7 |
| TOTAL | 636.8 | 680.1 | - 6.4 |

The Group's operating profit before depreciation was FIM 70.4 million, a decrease of FIM 55.6 million on the previous year. The operating profit before depreciation was weakened by the reorganization of the power plant business as well as the slack earnings trend of the Paloheimo Wood and Parquets units. The depreciation according to plan for the financial year was FIM 52.1 million, in addition to which write-downs of FIM 36.4 million were made on fixed assets. Capital expenditure on fixed assets totalled FIM 51.8 million. Net financial expenses amounted to FIM 24.6 million, or 3.9% of turnover. Write-downs of FIM 2.2 million were made on shares and holdings.

Extraordinary income consists mainly of gains on the sale of fixed assets.

Extraordinary expenses comprise costs from commitments made in previous years for loss-making or wound-up businesses as well as consolidation differences arising in mergers.

The Group's operational result calculated with depreciation according to plan but net of exceptional items, appropriations and taxes was a loss of FIM 20.3 million (profit of FIM 29.0 million in 1994).

The Group's accounting result for the financial year was a profit of FIM 133.5 million. Taxes for the financial year are FIM 22.5 million.

Interest-bearing loans totalled FIM 407.2 million at the end of the year (FIM 520.8 million in 1994). The amount of loans declined by FIM 113 million. Liquid assets increased by about FIM 138 million.

The Group's equity ratio rose to 37.6% (25.1% in 1994). Saastamoinen Oy and Sasmox Oy weaken the Group's equity ratio by about 10 percentage points.

The Group employed 841 people on average (826 people in 1994).



Paloheimo Group

Kolsan Tiilitehdas Oy

Consolidated Income Statement (FIM 1,000)

01.01.–31.12.1995

01.01.–31.12.1994

| | | |
|--|-----------------|-----------------|
| TURNOVER | 636,771 | 680,050 |
| Product inventories, increase (+) or decrease (-) | 4,524 | - 9,376 |
| Production for own use (+) | 908 | 93 |
| Other income from operations | 7,421 | 7,351 |
| Expenses: | | |
| Materials, supplies and goods: | | |
| Purchases during the financial year | 364,818 | 355,102 |
| Increase (-) or decrease (+) in inventories | - 4,576 | 9,818 |
| External services | 11,743 | 21,079 |
| Personnel expenses | 156,814 | 143,153 |
| Rents | 6,199 | 7,747 |
| Other expenses | <u>44,255</u> | <u>15,177</u> |
| Total expenses | 579,252 | 552,076 |
| OPERATING PROFIT BEFORE DEPRECIATION | 70,370 | 126,042 |
| Depreciation on fixed assets and other long-term expenditure | 88,497 | 64,132 |
| Amortization of goodwill | 4,795 | 1,454 |
| OPERATING PROFIT (LOSS) | - 22,921 | 60,456 |
| Financial income and expenses | | |
| Dividend income | 125 | 89 |
| Interest income on long-term investments | 8,211 | 9,864 |
| Interest income on short-term investments | 2,637 | 2,549 |
| Other financial income | 819 | 111 |
| Exchange rate differences (+/-) | 814 | - 17,826 |
| Share of the results of associated companies | - 22,585 | - 1,163 |
| Interest expenses | 34,306 | - 40,203 |
| Other financial expenses | - 2,880 | - 2,333 |
| Write-offs on investments | <u>- 2,228</u> | <u>- 12,628</u> |
| Financial income and expenses, total | - 49,392 | - 61,541 |
| PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS, APPROPRIATIONS AND TAXES | - 72,314 | - 1,085 |
| Extraordinary income and expenses: | | |
| Extraordinary income | 320,917 | 1,209 |
| Extraordinary expenses | <u>- 31,138</u> | <u>- 22,958</u> |
| Extraordinary income and expenses, total | 289,779 | - 21,750 |
| PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES | 217,465 | - 22,835 |
| Difference between booked depreciation and depreciation according to plan, increase (+) or decrease (-) | - 55,844 | 11,265 |
| Voluntary reserves, increase (+) or decrease (-) | 8,394 | 122 |
| Direct taxes: | | |
| For the financial year | - 22,470 | - 1,903 |
| For previous years | <u>- 107</u> | <u>22</u> |
| NET PROFIT (LOSS) BEFORE MINORITY INTEREST | 147,438 | - 13,328 |
| Minority interests in net profit (loss) | 13,927 | - 8,568 |
| CONSOLIDATED NET PROFIT (LOSS) FOR THE YEAR | 133,511 | - 4,759 |

Consolidated Balance Sheet (FIM 1,000)

31.12.1995

31.12.1994

| | <i>Assets</i> | <i>Assets</i> |
|---|---|---|
| FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS | | |
| Intangible assets | | |
| Intangible rights | 110 | 1776 |
| Goodwill | 0 | 8,976 |
| Consolidated goodwill | 6,564 | 8,018 |
| Other long-term expenditure | <u>3,167</u> | <u>5,055</u> |
| | 9,841 | 23,825 |
| Tangible assets | | |
| Land and water areas | 98,760 | 97,503 |
| Buildings and constructions | 163,962 | 152,607 |
| Machinery and equipment | 104,008 | 233,607 |
| Other tangible assets | <u>8,210</u> | <u>16,402</u> |
| | 374,940 | 500,119 |
| Fixed asset, securities and other long-term investments | | |
| Shares and holdings | 24,729 | 16,208 |
| Loan receivables and other investments | <u>35,873</u> | <u>40,290</u> |
| | 60,602 | 56,498 |
| VALUATION ITEMS | 1,109 | 2,933 |
| INVENTORIES AND FINANCIAL ASSETS | | |
| Inventories | 100,830 | 88,700 |
| Receivables | 126,789 | 163,223 |
| Financial asset securities | 152,082 | 42,726 |
| Cash in hand and at the banks | <u>77,136</u> | <u>48,408</u> |
| | 903,329 | 926,432 |
| | <i>Liabilities and Shareholders' Equity</i> | <i>Liabilities and Shareholders' Equity</i> |
| SHAREHOLDERS' EQUITY | | |
| Restricted equity | | |
| Share capital | 3,500 | 660 |
| Building fund | 357 | 0 |
| Reserve fund | 7,782 | 6,105 |
| Revaluation fund | <u>61,059</u> | <u>61,085</u> |
| | 72,698 | 67,850 |
| Non-restricted equity | | |
| Retained earnings | 23,288 | 41,321 |
| Net profit (loss) for the year | <u>133,511</u> | <u>- 4,760</u> |
| | 156,799 | 36,561 |
| MINORITY INTEREST | 5,121 | - 9,312 |
| MEMBERSHIP AND CONNECTION FEES | 2,880 | 73,996 |
| UNTAXED RESERVES | | |
| Accumulated difference between booked depreciation and depreciation according to plan | 92,322 | 36,478 |
| Voluntary reserves | 11,632 | 18,468 |
| Obligatory reserves | 269 | 4,809 |
| VALUATION ITEMS | 0 | 4,722 |
| LIABILITIES | | |
| Long-term | 319,486 | 450,342 |
| Short-term | <u>242,122</u> | <u>242,518</u> |
| | 903,329 | 926,432 |

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