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Information for shareholders

ORDINARY MEETING OF SHAREHOLDERS

Enso Oy's Ordinary Meeting of Shareholders will be held on Monday, 7 April 1997 beginning at 3.00 pm Finnish time at Marina Congress Center, address: Katajanokanlaituri 6, Helsinki, Finland.

Shareholders wishing to attend the meeting must inform the company's Head Office, address: Kanavaranta 1, Helsinki, Finland, of their intention to do so no later than 4.30 pm Finnish time on 3 April 1997. Notifications may also be sent in writing to Enso Oy, Legal Department, P.O.B. 309, FIN-00101 Helsinki, Finland, or by phoning +358 2046 21210, 2046 21224 or 2046 21245 before the deadline given above.

Shareholders wishing to attend the meeting must be registered in the list of Enso Oy shareholders kept by Finnish Central Securities Depository Ltd on or before 27 March 1997. Shareholders whose shares have not yet been transferred to the book entry system also have the right to attend the meeting provided they were registered in Enso-Gutzeit Oy's share register before 30 September 1993 or in Veitsiluoto Oy's share register before 1 May 1996. At the meeting, such shareholders must present their share certificates or furnish other proof that their shares have not been transferred to a book entry account.

PAYMENT OF DIVIDEND

The Board of Directors proposes to the Ordinary Meeting of Shareholders that a dividend of FIM 1.80 be paid for the financial period ended 31 December 1996. If the proposal is approved, dividend will be paid on 15 April 1997 to shareholders entered in the share register at the record date of 10 April 1997. Shareholders who have not transferred their shares to a book entry account will receive their dividend when their shares have been transferred.

CHANGE OF ADDRESS

Shareholders should notify the book entry register keeping their book entry account of any changes of address or share ownership.

FINANCIAL PUBLICATIONS

During the 1997 financial year, Enso Oy will publish quarterly reviews as follows:

10 March	Financial Report for 1996
1 April	Annual Report for 1996
20 May	Interim Review for January-March 1997
13 August	Interim Review for January-June 1997
18 November	Interim Review for January-September 1997

The Annual Report is available in Finnish, Swedish, English and German, and the Interim Reviews in Finnish and English. The company's Environmental Report is available in Finnish, English and German.

Corporate Communications, Kanavaranta 1,
FIN-00160 Helsinki, Finland.
Tel. +358 2046 21220, fax +358 2046 21267.

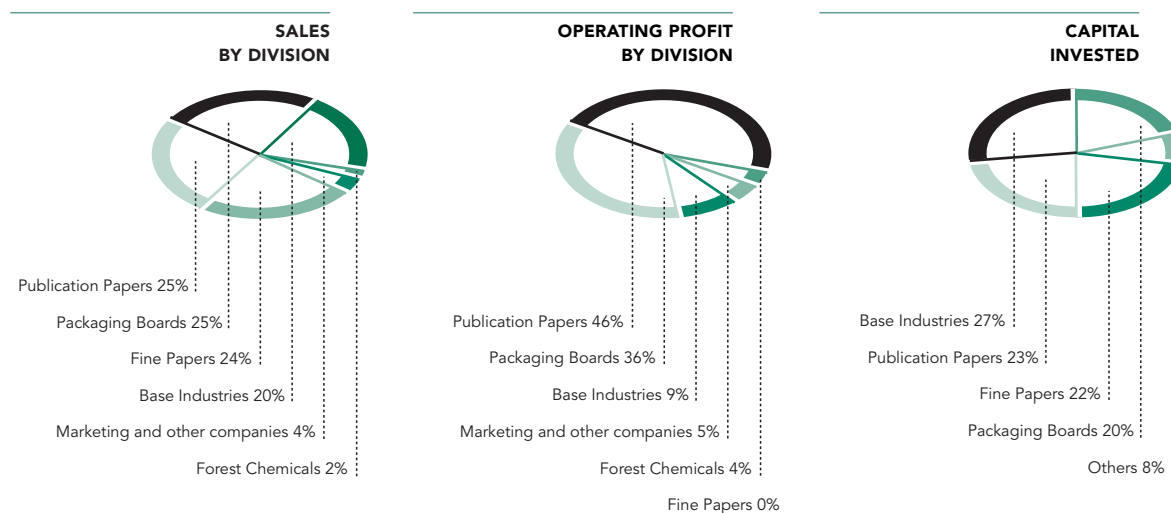
Investor Relations, Kanavaranta 1,
FIN-00160 Helsinki, Finland.
Tel. +358 2046 21242, fax +358 2046 21307.

The year in brief

		1996 ¹⁾	1995 ¹⁾
Sales	FIM mill.	25 660	28 026
Change on previous year	%	-8.4	17.9
Exports and overseas operations	%	83.2	83.3
Operating profit	FIM mill.	2 706	4 933
% of sales	%	10.5	17.6
Profit after financial items	FIM mill.	1 665	3 523
% of sales	%	4.1	4.6
Return on investment (ROI)	%	8.2	13.9
Return on equity (ROE)	%	8.9	24.3
Interest-bearing net liabilities	FIM mill.	17 363	17 664
Equity ratio	%	42.1	39.3
Gearing ratio	%	106.1	115.1
Earnings per share	FIM	4.50	10.52
Dividend per share	FIM	1.80	2.02
Equity per share	FIM	52.60	49.34
Market capitalization	FIM mill.	11 492	7 029 ²⁾
Investment	FIM mill.	2 962	2 070
Average number of employees		19 094	19 298

¹⁾ Pro forma information

²⁾ Enso-Gutzeit Oy



- The market was difficult
- Fall in prices hit profitability
- Financial result satisfactory
- Equity ratio improved to 42.1%

- Forest chemicals relinquished in line with Group strategy
- New fine paper machine at Oulu will start up on schedule
- Synergy benefits will be gained from merger



Forest industry profitability in 1996 was well below that for 1995, when the industry reaped record profits.

However, by the end of 1995 the markets for chemical pulp and fine papers had already embarked on a steep decline that saw pulp prices almost halved in the space of six months. Forest industry profits fell to roughly the same extent.

Enso Oy, which was formed through the merger of Enso-Gutzeit Oy and Veitsiluoto Oy on 1 May 1996, performed satisfactorily in a year of considerable uncertainty. The programmes introduced at the Group's units at the beginning of the decade to improve efficiency and reduce costs have better equipped Enso to deal with all stages of the business cycle, however unstable.

Enso's financial result was also assisted by the synergy benefits accruing from the merger. Specialization of production, joint procurement of raw materials and energy, joint product marketing and transport, and combined R&D work mean savings of around FIM 400 million.

The two merging companies have integrated quickly and in an excellent spirit. The fact that there were very few overlapping functions helped considerably.

The forest chemicals businesses of Forchem Oy and Enso Paperikemia Oy were sold as part

of the Group's restructuring. The price of around FIM 1 billion has improved the equity ratio and

yielded Enso a profit of over FIM 600 million, a third of which was allocated to the accounts for 1996. Although 1996 was a year of instability for the forest industry, the resources of the new Enso Group allowed the Oulu paper machine investment to be financed under the normal investment programme.

COMPETITIVE EDGE THROUGH QUALITY AND ENVIRONMENTAL POLICY

Enso's strategic targets are growth, international expansion of production, and a stronger balance sheet. Another goal is for the three main businesses - publication papers, packaging boards and fine papers - to be among Europe's three biggest manufacturers in their respective fields.

In line with its quality and environmental policies, Enso processes wood-based raw materials - both primary and recycled fibre - into useful, safe products. Our entire production chain is constantly being developed in accordance with the principles of sustainable development. Enso also requires all those who supply its raw materials and services to comply with these same principles.

Enso's Board of Directors has decided that all the Group's units should be prepared for

EMAS certification by the end of 1998. In November 1996, Enocell Oy became the first Finnish forest industry unit to be registered under this environmental management scheme.

ADDITIONAL SHAREHOLDER VALUE

It is the management's job to ensure that Enso generates the kind of profits that will secure growth in the value of its shares and enable the company to pay dividends.

All proposed investments and company acquisitions must satisfy certain criteria to ensure that funds are channelled into projects that will bring added value. The units are continuing with programmes focusing on cost-effectiveness and making more efficient use of operating capital.

Providing the incentive to work towards specific targets requires that the personnel be rewarded in a way that supports management and recognizes results. Accordingly, it was decided during 1996 to develop this kind of results-based incentive scheme.

The goal of Enso's dividend policy is to secure a satisfactory dividend for its shareholders at all stages of the business cycle. As far as possible, shareholders will receive 30-50 per cent of the earnings per share in the form of annual dividend. The size of the dividend will depend not just on the financial result but also on the business cycle, the targets set for strengthening the balance sheet and the company's need for development.

The Board of Directors' proposed dividend of FIM 1.80 per share for 1996 is based on these principles and on 40 per cent of the earnings per share.

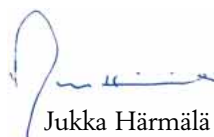
MARKETS STRENGTHENING

November 1997 will mark 125 years since the Kotka sawmill founded by Hans Gutzeit went into operation. Following a complete overhaul, the Kotka sawmill celebrates 1997 by once again being Finland's most modern sawmill.

Programmes are continuing at the different units to improve competitiveness, profitability and customer satisfaction in accordance with the ENSO STAR total quality management model. This spring will see the completion of Oulu's paper machine no. 7, which is currently Enso's most important investment. With its two modern, high-capacity paper machines, the Oulu mill will be Europe's most efficient fine paper production unit.

The period of slow growth on Enso's main markets is expected finally to come to an end during 1997. Although the prospects for the Group's products are still variable, demand is expected to strengthen, and a better market balance will be achieved for several products.

To secure the forest industry's competitiveness in the coming European economic and monetary union, it is vital that decisions made in 1997 support the restrained trend in domestic costs.



Jukka Härmälä
President & CEO

Shares and shareholders

SHARE CAPITAL

Under Enso Oy's Articles of Association, the company's issued share capital may be not less than FIM 2 500 000 000 and not more than FIM 10 000 000 000. The share capital may be increased or reduced within these limits without amendment to the Articles of Association. The company's fully paid-in share capital at 31 December 1996, as entered in the Trade Register, was FIM 3 110 908 300.

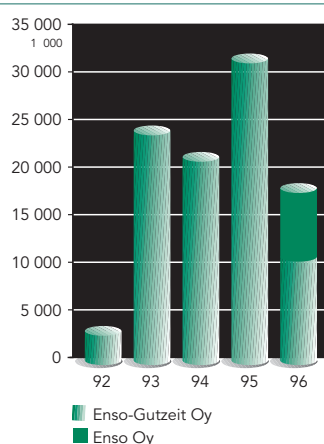
The formation of Enso Oy's share capital as a result of the merger, together with share exchange ratios and eliminations, is shown on page 11. Under the terms of the merger agreement, Enso Oy shares were not issued against Veitsiluoto Oy shares owned directly by Enso-Gutzeit Oy.

SHARES

The company has two series of shares in issue: Series A and Series R. These make up the company's share capital as follows:

Series A	179 769 430 shares
Series R	131 321 400 shares
Total	311 090 830 shares

SHARE TRADING,
SERIES A



All shares have a nominal value of FIM 10 and all carry equal rights to receive dividend. The difference is in the voting rights carried by the shares: at shareholders' meetings, holders of Series A shares are entitled to one vote per share, whereas holders of Series R shares are entitled to one vote for every ten shares held. However, every shareholder has at least one vote. In the event of an increase in the company's share capital, Series A shares carry entitlement to subscribe Series A shares and Series R shares to subscribe Series R shares.

The company's shares are kept in a computerized book entry system.

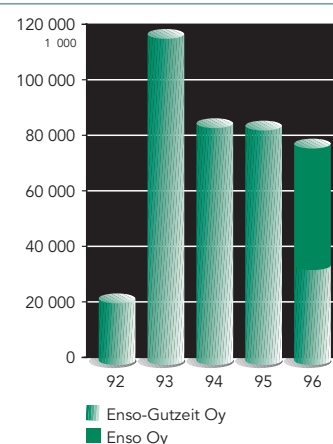
SHARE LISTINGS

Enso-Gutzeit Oy's shares have been listed on the Helsinki Stock Exchange since 1916 up to 30 April 1996. Enso Oy's shares have been listed since 2 May 1996.

BOARD'S AUTHORITY TO RAISE THE SHARE CAPITAL

The Board of Directors has no current authorization to issue shares or to issue convertible bonds or bonds with equity warrants.

SHARE TRADING,
SERIES R



STATE OWNERSHIP

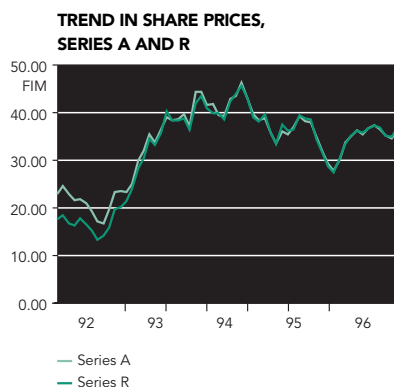
The Finnish State owns 44.1% of the company's shares and 61.0% of the voting rights generated by the shares. In June 1995, the Finnish Parliament authorized the Council of State to reduce the State's interest in Enso. However, the State must be in possession of more than one-third of all the company's shares and the voting rights generated by the shares. Reducing the State's interest below one-third requires that Parliament's decision be amended.

SHAREHOLDERS

At the end of 1996, the company had 17 942 registered shareholders. Non-Finnish nationals held 15.3% of the shares at the end of the year.

At the end of 1996, the members of the Supervisory Board, the members and deputy members of the Board of Directors and the President and Senior Executive Vice President together owned 11 224 company shares, 7 205 of which were Series A shares. These shares carry 0.0% of the total voting rights.

Enso's pension foundation and pension fund owned no Enso Oy Series A or Series R shares at the end of the year. Enso's profit-sharing plan owned 315 140 Series A shares and 114 000 Series R shares.

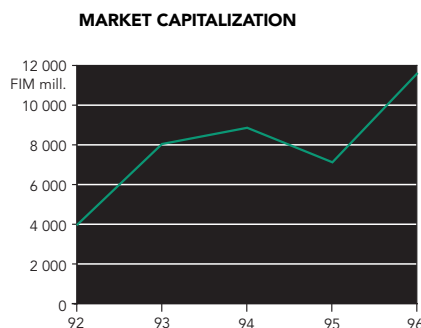


TRADING IN COMPANY SHARES

Quotations for Enso Oy's shares rose during 1996. The increase in relation to Enso-Gutzeit Oy's Series A and R shares was 27.9% for Series A shares and 28.6% for Series R shares. These compare with a rise in the Helsinki Stock Exchange HEX share index of 46.5%.

On 30 April 1996, Enso-Gutzeit's Series A shares were quoted at FIM 37.70 and Series R shares at FIM 38.30. For Series A shares, the highest quotation was FIM 38.30 on 26 April and the lowest FIM 26.10 on 17 January 1996. The highest quotation for Series R shares was FIM 38.80 on 26 April and the lowest FIM 26.20 on 17 January. By 30 April 1996, trading in Enso-Gutzeit Oy shares totalled 10 199 250 Series A shares and 31 431 587 Series R shares.

On 2 May 1996, Enso Oy's Series A shares were quoted at FIM 37.50 and Series R shares at FIM 38.00. For Series A shares the highest quotation was FIM 38.50 on 11 December 1996 and the lowest FIM 33.60 on 12 November 1996. The highest quotation for Series R shares was FIM 39.20 on 10 December and the lowest FIM 33.80 on 13 November. Enso Oy shares traded during the eight months May to December totalled 7 106 015 Series A shares and 43 539 461 Series R shares. The market capitalization at the end of the year was FIM 11 492 million.



Main shareholders

Share register at 31 Dec. 1996	Series A 1 000	Series R 1 000	% of shares	% of votes
Finnish State	115 596	21 484	44.1	61.0
Social Insurance Institution	23 825	3 739	8.9	12.5
Sponda Oy		12 604	4.1	0.7
Unicarta Oy	5 999	4 193	3.3	3.3
Pension-Varma Mutual Insurance Company	5 762	415	2.0	3.0
Nova Life Insurance Company Ltd	1 927	2 403	1.4	1.1
Industrial Insurance Company Ltd	2 964	800	1.2	1.6
Asset Management Company Arsenal-SSP Ltd	678	2 944	1.2	0.5
Local Government Pensions Institution	2 087	870	0.9	1.1
Merita Bank Ltd		2 543	0.8	0.1
Mutual Insurance Company Kaleva	400	2 000	0.8	0.3
Insurance Company Sampo Pensions Ltd		1 970	0.6	0.1
Sampo Insurance Company Ltd	700	900	0.5	0.4
Yritys-Sampo Insurance Company	300	1 000	0.4	0.2
Sitra National Fund for Research and Development	800	200	0.3	0.4
Shares held in nominees' names, total	2 315	45 114	15.3	3.6
Other (17 927 shareholders)	16 416	28 142	14.3	10.1
Total	179 769	131 321	100.0	100.0

BREAKDOWN OF SHARE OWNERSHIP at 16 Jan. 1997 ENSO A	no. of shareholders	% of shareholders	no. of shares	% of shares
1 – 100 ¹⁾	2 513	27.8	118 622	0.1
101 – 1 000	4 837	53.6	2 068 299	1.2
1 001 – 10 000	1 509	16.7	4 059 226	2.2
10 001 – 100 000	135	1.5	3 953 557	2.2
100 001 – 1 000 000	30	0.3	9 191 223	5.1
1 000 001 – 10 000 000	8	0.1	160 348 517	89.2
Total	9 032	100.0	179 739 444	100.0

¹⁾ Includes 29 986 shares not yet converted into book entry units.

BREAKDOWN OF SHARE OWNERSHIP at 16 Jan. 1997 ENSO R	no. of shareholders	% of shareholders	no. of shares	% of shares
1 – 100 ²⁾	2 678	23.9	130 798	0.1
101 – 1 000	5 856	52.4	2 715 120	2.1
1 001 – 10 000	2 305	20.6	7 179 954	5.5
10 001 – 100 000	284	2.5	7 719 424	5.8
100 001 – 1 000 000	53	0.5	14 916 823	11.4
1 000 001 – 10 000 000	11	0.1	98 567 264	75.1
Total	11 187	100.0	131 229 383	100.0

²⁾ Includes 64 263 shares not yet converted into book entry units.

SHARE OWNERSHIP BY SECTOR at 31 Dec. 1996	% of shareholders	% of shares	% of votes
Corporate sector	5.7	10.3	6.0
Financial institutions	0.6	8.8	5.8
Public corporations	0.3	57.9	78.9
Non-profit organizations	2.6	2.5	1.8
Private households	90.2	5.2	3.8
Foreign owners	0.6	15.3	3.6
Total	100.0	100.0	100.0

Increases in share capital

INCREASES IN ENSO-GUTZEIT OY'S

SHARE CAPITAL		Increase in share capital, FIM	New share capital, FIM	Dividend from	Subscription period
Year	Subscription terms				
1992	Placement with A. Ahlstrom Corporation 6 600 000 Series A shares at FIM 27 37 400 000 Series R shares at FIM 20	440 000 000	1 871 636 720	1.1.1993	4-29.12.92
1993	Placement with Tampella Corporation 12 900 000 Series A shares at FIM 31 13 800 000 Series R shares at FIM 29	267 000 000	2 138 636 720	1.1.1994	7.5.93
1993	Exchange of convertible bonds 4 218 Series A shares	42 180	2 138 678 900	1.1.1993	4.1-2.4.93
1994	Exchange of convertible bonds 17 214 Series A shares	172 140	2 138 851 040	1.1.1994	4.1-2.4.94
1995	Exchange of convertible bonds 690 346 Series A shares	6 903 460	2 145 754 500	1.1.1995	4.1-2.4.95
1995	Exchange of convertible bonds during additional exchange period 2 October to 1 December 9 333 446 Series A shares 18 944 482 Series A shares	93 334 460 189 444 820	2 239 088 960 2 428 533 780	1.1.1995 1.1.1995	2-31.10.95 1.11-1.12.95

INCREASES IN VEITSILUOTO OY'S

SHARE CAPITAL		Increase in share capital, FIM	New share capital, FIM	Dividend from	Subscription period
Year	Subscription terms				
1992	Placement with the State 7 500 000 Series A shares at FIM 20 and National Pensions Institution 751 579 Series E shares at FIM 20 For others, rights issue 1:1	75 000 860	428 063 980	1.1.92	24.4-25.5.92
1993	Rights issue 7:1 at FIM 20	53 503 060	481 567 040	1.1.93	21.1-22.2.93
1994	Placement with Enso-Gutzeit Oy 6 360 319 Series A shares at FIM 78.61	63 603 190	545 170 230	1.1.95	16.12.94
1995	Exchange of convertible bonds during extra conversion period 2.10-1.12.1995 2 962 480 Series A shares	29 624 800	574 795 030	1.1.95	2.10-1.12.95
1996	CONSOLIDATION MERGER 1 MAY 1996 Enso-Gutzeit Oy shareholders 1:1 242 853 378 shares Veitsiluoto Oy shareholders 3:5 95 799 055 shares Elimination of 27 561 603 Veitsiluoto Oy shares owned by Enso-Gutzeit Oy	2 428 533 780 957 990 550	3 110 908 300	1.1.96	1.5.96

Key share ratios 1992-1996

		Enso Oy ¹⁾		Enso-Gutzeit Oy			
		1996	1995	1995	1994	1993	1992
Earnings/share	FIM	4.50	10.52	9.97	7.16	2.23	-1.83
Equity/share	FIM	52.60	49.34	52.02	45.32	36.16	34.37
Dividend/share	FIM	1.80 ²⁾	2.02	2.25	1.00	0.53	0.31
Payout ratio	%	40.0	19.2	22.6	14.0	23.5	neg.
Effective yield	%						
Series A		4.9		7.8	2.5	1.4	1.4
Series R		4.9		7.8	2.5	1.4	1.6
Price/earnings							
Series A		8.2		2.9	5.7	16.8	neg.
Series R		8.2		2.9	5.7	16.5	neg.
Price trend per share 1 May - 31 Dec. 1996	FIM						
Series A							
- closing price for the period		36.90		28.90	41.00	37.50	22.00
- average price		36.22		35.82	43.13	35.61	22.55
- highest price		38.50		41.70	49.70	44.10	25.50
- lowest price		33.60		26.50	36.50	22.00	12.60
Series R							
- closing price for the period		37.00		29.00	40.70	36.70	19.50
- average price		36.76		36.70	42.24	36.38	17.70
- highest price		39.20		42.00	49.90	44.20	22.00
- lowest price		33.80		26.50	35.80	19.80	11.80
Market capitalization							
at end of period	FIM mill.						
Series A		6 633		3 884	4 323	3 953	2 035
Series R		4 859		3 145	4 414	3 980	1 862
Total market capitalization							
at end of period	FIM mill.	11 492		7 029	8 737	7 933	3 897
Trading trend ³⁾							
Series A							
- number of shares traded (1 000)		17 305		30 720	20 673	23 273	2 526
- %		11.5		22.9	19.6	23.1	2.9
Series R							
- number of shares traded (1 000)		74 971		81 677	82 491	114 798	19 382
- %		62.1		75.3	76.1	110.8	33.7
Adjusted number of shares (1 000)							
Series A							
- at end of period		179 769	179 769	134 408	105 440	105 423	92 519
- average for the period		179 769	179 769	134 408	105 440	100 935	85 955
Series R							
- at end of period		131 321	131 321	108 445	108 445	108 445	94 645
- average for the period		131 321	131 321	108 445	108 445	103 643	57 450
Adjusted number of shares							
at end of period (1 000)		311 091	311 091	242 853	213 885	213 868	187 164
Adjusted number of shares,							
average for the period		311 091	311 091	242 853	213 885	204 578	143 405

¹⁾ Pro forma

²⁾ Board of Directors' proposal to the Ordinary Meeting of Shareholders

³⁾ Trading in both Enso-Gutzeit Oy and Enso Oy shares

Key figures 1992-1996, pro forma

		1996	1995	1994	1993	1992
Sales	FIM mill.	25 660	28 026	23 773	20 433	14 360
Change on previous year	%	-8.4	17.9	16.3	42.3	17.4
Exports and foreign operations	%	83.2	83.3	82.0	82.9	85.1
Wages, salaries and statutory employer's contributions	FIM mill.	4 344	4 240	3 999	3 453	3 219
As % of sales	%	16.9	15.1	16.8	16.9	22.4
Depreciation according to plan	FIM mill.	1 810	1 808	1 663	1 579	1 269
Operating profit	FIM mill.	2 706	4 933	3 206	2 292	777
As % of sales	%	10.5	17.6	13.5	11.2	5.4
Net financial expenses	FIM mill.	1 041	1 292	1 470	2 313	1 962
As % of sales	%	4.1	4.6	6.2	11.3	13.7
Profit after financial items	FIM mill.	1 665	3 523	2 526	-21	-1 185
As % of sales	%	6.5	12.6	10.6	-0.1	-8.3
Profit before adjustments and taxes	FIM mill.	1 838	3 429	2 874	371	-474
As % of sales	%	7.2	12.2	12.1	1.8	-3.3
Taxes	FIM mill.	247	242	72	-5	43
Profit	FIM mill.	1 033	1 737	1 153	117	-18
Distribution of dividend ¹⁾	FIM mill.	560	628	239	112	57
Gross investment in fixed assets	FIM mill.	2 962	2 070	2 751	3 638	3 490
Fixed assets	FIM mill.	28 456	28 242	27 813	26 417	22 708
Valuation items	FIM mill.	329	334	279	371	397
Inventories	FIM mill.	4 089	4 426	3 138	2 443	3 043
Current assets	FIM mill.	5 952	6 193	9 135	7 695	7 683
Shareholders' equity	FIM mill.	9 897	9 479	7 175	6 619	5 507
Minority interests	FIM mill.	120	121	111	328	329
Voluntary reserves	FIM mill.	6 341	5 748	4 328	2 433	1 734
Obligatory provisions	FIM mill.	40	51	49	0	0
Interest-bearing liabilities	FIM mill.	19 038	20 063	23 417	24 241	23 180
Interest-free liabilities	FIM mill.	3 389	3 752	5 283	3 662	3 229
Total assets	FIM mill.	38 825	39 195	40 365	37 283	33 996
Capital invested, average	FIM mill.	35 461	36 915	35 442	32 205	29 566
Return on investment	%	8.2	13.9	12.2	8.4	4.3
Return on equity	%	8.9	24.3	23.4	0.0	-17.0
Equity ratio	%	42.1	39.3	29.0	25.2	22.3
Interest-bearing net liabilities	FIM mill.	17 363	17 664	18 857	20 479	18 776
Gearing ratio	%	106.1	115.1	162.4	205.2	236.2
Net indebtedness	FIM mill.	16 475	17 610	19 833	20 131	18 727
Net indebtedness/sales	%	64.2	62.8	83.4	98.5	130.4
Average number of employees		19 094	19 298	19 334	18 753	18 814
Sales/employee	FIM 1000	1 344	1 452	1 230	1 090	763

¹⁾Dividend paid by Veitsiluoto to Enso-Gutzeit has been deducted from the dividends for 1994 and 1995 (1995 35% and 1994 26.4% of dividends paid by Veitsiluoto). Dividend for 1996 is the Board of Directors' proposal to the Ordinary Meeting of Shareholders.

Key data by 4-month period

FIM million	I	II	III	1996 Total	I	II	III	1995 Total
SALES								
Base Industries	1 920	1 841	1 966	5 727	2 226	2 226	2 016	6 468
Packaging Boards	2 307	2 438	2 397	7 142	2 326	2 578	2 382	7 286
Fine Papers	2 387	2 129	2 349	6 865	2 955	2 967	2 351	8 273
Publication Papers	2 699	2 316	2 467	7 482	2 387	2 596	2 987	7 970
Forest Chemicals	272	263	141	676	281	278	262	821
Marketing and other companies	351	374	452	1 177	365	322	337	1 024
- less internal sales	-1109	-989	-1 311	-3 409	-1 246	-1 338	-1 232	-3 816
GROUP TOTAL	8 827	8 372	8 461	25 660	9 294	9 629	9 103	28 026
OPERATING PROFIT¹⁾								
Base Industries	56	50	150	256	467	387	228	1 082
Packaging Boards	364	289	331	984	460	510	324	1 294
Fine Papers	66	-97	-30	-61	504	622	137	1 263
Publication Papers	625	367	276	1 268	212	302	587	1 101
Forest Chemicals	52	30	29	111	46	31	30	107
- other activities and eliminations ²⁾	75	24	48	147	-3	20	69	86
GROUP TOTAL	1 238	663	805	2 706	1 686	1 872	1 375	4 933
Financial income and expenses	-421	-300	-309	-1 030	-451	-404	-437	-1 292
Exchange rate differences	-16	-1	6	-11	-54	27	-91	-118
PROFIT AFTER FINANCIAL ITEMS	801	362	502	1 665	1 181	1 495	847	3 523
PRODUCTION, 1 000 t/m³/m²								
Base Industries								
Enocell Oy	139	144	187	470	173	179	127	479
Kemijärven Sellu Oy	46	39	51	136	69	70	39	178
Sawmilling	642	553	619	1 814	693	613	725	2 031
Packaging Boards								
Paperboards	419	428	456	1 303	443	451	361	1 255
Fluting	66	80	82	228	85	82	67	234
Corrugated board	98	101	107	306	102	96	95	293
Fine Papers	412	409	469	1 290	489	425	281	1 195
Publication Papers	594	547	561	1 702	616	604	614	1 834
Laminating papers	37	39	53	129	50	49	45	144
Forest Chemicals	90	72	52	214	106	99	85	290

¹⁾ Those units using chemical pulp pay the market price for pulp purchased within the Enso Group.

²⁾ Includes profits from the sale of fixed assets but excludes extraordinary sales profits.

Report on operations by the Board of Directors 1996

THE MARKET

1996 was a year of considerable uncertainty on the markets for forest industry products. Economic growth in Western Europe remained sluggish, although growth expectations at the start of the year had been cautiously optimistic. Confidence that the economies of the EU countries would strengthen returned towards the end of the year, but a recovery will probably be delayed until 1997.

Demand for forest industry products continued good in the United States and Southeast Asia, although at times some products were slightly over-supplied.

Pulp markets were weak throughout the year. Business was slack during the first six months as buyers reduced their stocks. Customers adapted operations to the market imbalance between pulp and fine papers that had started in autumn 1995. After a small reduction, pulp stocks began to rise again at the end of the year despite the good demand and orders for chemical pulp based products.

Demand for coated fine papers was strong during the second half of the year once customers had adjusted stocks, and small price rises were possible. The price differential between woodcontaining and woodfree printing papers caused demand to shift towards woodfree grades, affecting LWC production, in particular, during the first half of the year. Demand and prices for newsprint remained good until the autumn. Imports of Canadian newsprint and economizing by customers pushed prices down late in the year.

Prices for packaging boards were slightly below those for 1995, although the market improved towards the end of the year.

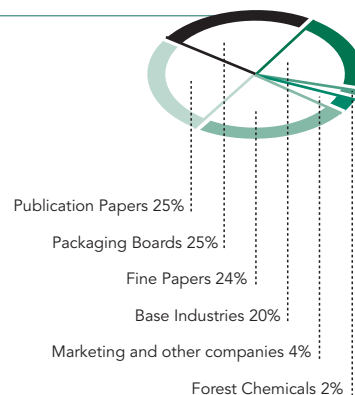
In the sawmilling industry, high producer stocks and slack demand prevented any significant recovery during the early part of the year. Demand improved slightly later in the year and prices rose.

SALES

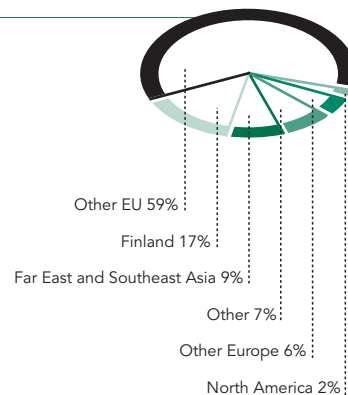
The figures presented in this report for 1996 and 1995 are based on Enso Oy's pro forma financial statements. Enso Oy began operations as a legal company on 1 May 1996.

Consolidated sales for 1996 were FIM 25 660 million, 8.4 % down on the previous year. The decrease is due mainly to the fall in sales prices for sawn timber, market pulp and fine paper. The total volume of deliveries also fell during 1996, although fine paper deliveries rose during the second half of the year.

SALES BY DIVISION

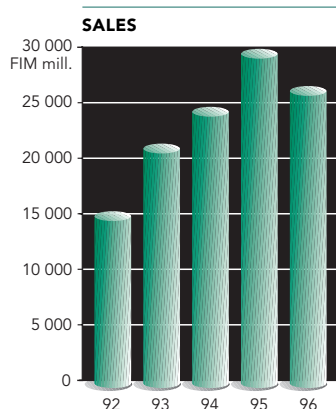


SALES BY MARKET



Report on operations by the Board of Directors 1996

SALES BY DIVISION FIM mill.	1996	1995
Base Industries	5 727	6 468
Packaging Boards	7 142	7 286
Fine Papers	6 865	8 273
Publication Papers	7 482	7 970
Forest Chemicals	676	821
Marketing and other companies	1 177	1 024
- less internal sales	-3 409	-3 816
Total	25 660	28 026



Sales for the first half of the year were up on the previous year thanks to the rise in publication paper prices, which, however, slipped back later in the year.

The fall in sales was offset by the fact that the Finnish markka weakened by an average of 2% against Enso's main invoicing currencies.

Sales for the **BASE INDUSTRIES DIVISION**, which comprises wood procurement, market pulp, sawmilling and energy generation, were FIM 5 727 million, 11.5% down on the year before. Sawmilling produced sales of FIM 2 735 million, which is 4.3% lower than in 1995 because of lower delivery volumes and sales prices. Over-supply on the market kept sales prices down early in the year. Although demand for sawn timber picked up after the summer, prices remained fairly low.

Improved demand towards the end of the year considerably reduced sawn timber stocks and prices began to rise.

Market pulp sales were FIM 1 725 million. Sales by the pulp trading companies totalled FIM 169 million. The fall in market pulp sales on 1995 is due to the sharp drop in prices resulting from the growth of Norscan stocks in autumn 1995. Prices recovered slightly during autumn 1996.

Sales by the Base Industries Division include income of FIM 720 million from the sale of wood, 10.5% less than the year before. Energy sales in 1996 were FIM 457 million.

Sales by the **PACKAGING BOARDS DIVISION** were FIM 7 142 million. The 2% drop on the previous year is due to lower market prices. Demand for nearly all products was sluggish early in the year, but improved after the summer, easing pressure to reduce board prices. Total deliveries of packaging boards were roughly the same as the year before.

The **FINE PAPERS DIVISION** produced sales of FIM 6 865 million, 17% less than in 1995. The decrease is attributable mainly to lower delivery volumes and prices in the division's main markets. Demand for fine papers picked up during the summer and delivery volumes rose. Price rises averaging 10% announced in July were successfully introduced in August. Demand improved further towards the end of the year and no shut-downs were necessary during the final four months.

Report on operations by the Board of Directors 1996

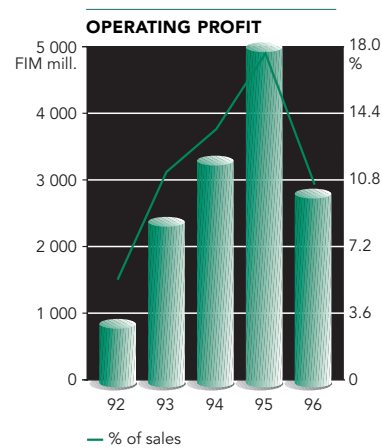
The **PUBLICATION PAPERS DIVISION's** sales fell 6% to FIM 7 482 million. The market for newsprint was good throughout the early part of the year, and price rises of 5-10% were pushed through in January. However, falling demand for newsprint in North America prompted Canadian suppliers to step up exports to Europe. This depressed prices and caused delivery volumes to the European market to fall during the second half of the year. Magazine paper consumption was 3% lower than the year before. However, demand showed signs of recovering during the last quarter of the year.

Sales by the **FOREST CHEMICALS DIVISION** were FIM 676 million, 18% below the 1995 figure. The decrease is largely due to the sale of Forchem Oy's shares in August. Enso Paperikemia Oy recorded sales of FIM 369 million. The Enso Group's sales include Forchem Oy's sales of FIM 285 million for the first eight months of the year.

OPERATING PROFIT

Operating profit was FIM 2 706, 10.5% of sales. Operating profit in 1995 was FIM 4 933 million, 17.6% of sales.

OPERATING PROFIT BY DIVISION FIM mill.	1996	1995
Base Industries	256	1 082
Packaging Boards	984	1 294
Fine Papers	-61	1 263
Publication Papers	1 268	1 101
Forest Chemicals	111	107
Other operations and eliminations	147	86
Total	2 706	4 933

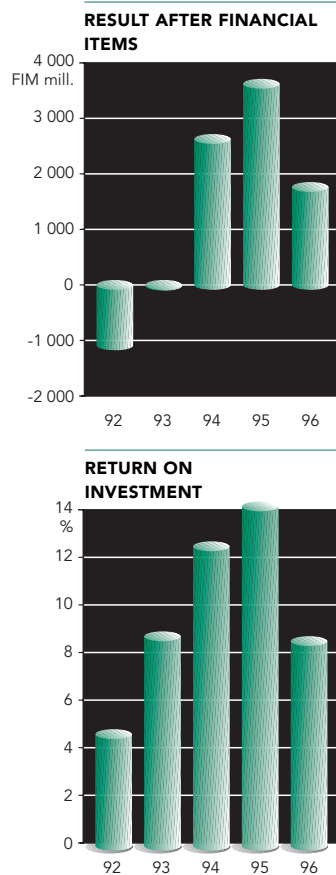


Operating profit fell because of the difficult markets for the main products. The trend in costs was modest in 1996.

The synergy benefits of the merger with Veitsiluoto Oy were achieved during the first year of operations as envisaged at the time the merger decision was made. This helped to reduce the fall in operating profit, which would have otherwise been greater due to the difficult market conditions.

Other operating income and expenses includes FIM 92 million in profit from the sale of fixed assets, mainly shares and land. The Group's share of the results of associated companies was FIM 53 million, which is FIM 47 million less than the year before. The decrease is due principally to the poorer result returned by Sunila Oy.

Depreciation according to plan was FIM 1 810 million, FIM 2.7 million more than the year before.



FINANCIAL RESULTS

The result after financial items was a profit of FIM 1 665 million, down FIM 1 858 million on 1995. Net interest for the period was FIM 1 056 million, 4.1% of sales, compared with FIM 1 305 million and 4.7% the year before. The decrease is due mainly to lower interest rates and restructuring of the Group's loans. Exchange losses of FIM 11 million have been entered in the accounts (FIM 118 million in 1995). Dividends received rose to FIM 26 million from FIM 16 million in 1995.

Profit before reserves and taxes was FIM 1 838 million. This includes extraordinary profit of FIM 173 million, which is the profit from the sale of Forchem Oy shares. Depreciation in excess of plan totalling FIM 732 million has been entered under adjustments. FIM 186 million from the transitional reserve

was used to cover the cost of investments. Taxes for the period and corporate tax credit on dividends totalled FIM 272 million. Minority interests accounted for FIM 17.4 million of the profit for the period.

INVESTMENT

Investment in fixed assets was FIM 2 962 million. The biggest projects were the new fine paper machine at Oulu, the fibre line modernization at Kemijärvi pulp mill, quality improvements to Veitsiluoto's paper machine no. 5, and the chemithermomechanical pulp (CTMP) mill and PE coating line at the Imatra mills.

The Oulu paper machine project (LUMI 7) is ahead of schedule. Test runs on the machine's finishing section were started in December. Building work was completed in February 1997 and the last items of equipment will be installed in March. Production is due to begin in May. The first trials on Kemijärvi's new chemical pulp line were held at the beginning of September. The investment cost around FIM 280 million. The project to improve paper quality at Veitsiluoto's mill has involved equipping paper machine no. 5 with two new coating stations and rebuilding the headbox and wire section. The total cost of this project was around FIM 170 million. At the Imatra mills, the CTMP mill started up in March and the PE coating line early in the summer. Construction of the corrugated board mill in Latvia was completed in September at a cost of around FIM 40 million. Enso Española S.A.'s combined cycle power plant came on stream in November. The cost of the investment was roughly FIM 250 million.

Enso Oy purchased 19 962 hectares of forest, the biggest single holding being 14 482 hectares from Pension-Varma Mutual Insurance Company.

In June, the Supervisory Board of Enso Oy approved a development plan for the Imatra mills for the years 1996-2001. In the first stage, modernization work has commenced at Tainionkoski mill.

CHANGES IN GROUP COMPOSITION

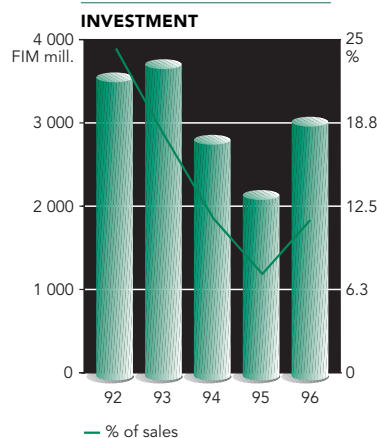
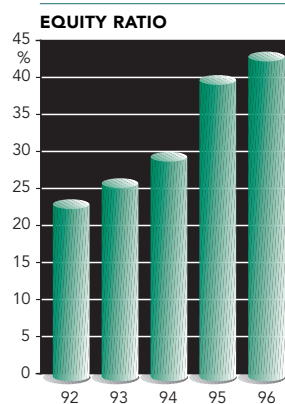
Enso Oy officially began business on 1 May 1996, when the permission to merge was registered. The company's shares were given a listing on the Helsinki Stock Exchange on 2 May 1996.

Enso Oy sold its 35% interest in Wisapak Oy Ab to UPM-Kymmene Corporation on 1 July, and purchased 18% of the shares of Corenso United Oy Ltd and 26% of Keräyskuitu Oy. As a result, Enso now owns 71% of Corenso United Oy Ltd and 57% of Keräyskuitu Oy.

On 26 August, the entire share capital of Forchem Oy, which was owned jointly by Enso Oy and UPM-Kymmene Corporation, was sold to Arizona Chemical, a member of the American company International Paper. Enso owned 65% of Forchem's shares.

Enso Oy's wholly owned subsidiary Laminating Papers Ltd together with Neste Corporation built a plant to produce phenol resin impregnated film surfacings at Johor Bahru in Malaysia. The plant, which has an initial capacity of 40 million m²/a, started production in January 1997. Laminating Papers Ltd owns 70% of L.P. Pacific Films Sdn. Bhd., the company set up to operate the plant.

At the turn of the year, Varkaus joint services were transferred to Varenso Oy, a new wholly owned Enso Oy subsidiary.



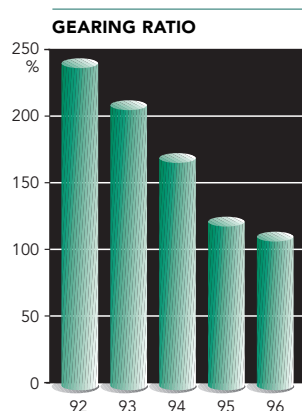
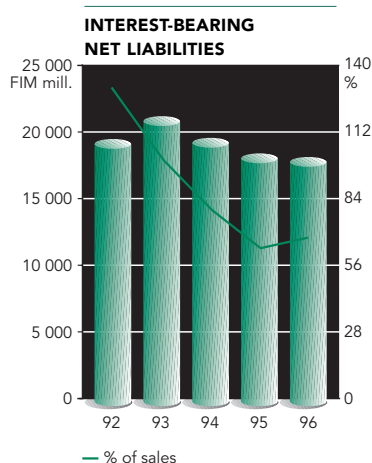
Veitsiluoto Publication Papers Oy was merged with Enso's wholly owned subsidiary Enso Publication Papers Oy Ltd with effect from 1 January 1997.

Sales companies were opened in Warsaw, Abu Dhabi and Miami.

FINANCING

The Group's equity ratio at 31 December 1996 was 42.1% as against 39.3% a year earlier. The target is an equity ratio of 45%. Equity per share was FIM 52.60.

Interest-bearing net liabilities decreased during 1996 and were FIM 17 363 million at the end of the year. The year-end gearing ratio was 106.1% compared with 115.1% a year earlier.



A USD 1 240 million syndicated bank loan was negotiated in March. The main purpose of the loan is to refinance existing loans nearing maturity and to boost the company's financial reserves. Financial arrangements for the DEM 360 million project at Sachsen Papier Eilenburg GmbH were eased during the year, and Enso has taken responsibility for the risk capital. The Euro Medium Term Note and Euro Commercial Paper programmes, which had been in the name of Enso-Gutzeit Oy, were revised to correspond with the new group structure, and the total amount was raised to USD 1 500 million. Under these programmes loans can be made available in several different currencies for different periods of time as and when required.

The cost of Enso Española S.A.'s combined cycle power plant was financed outside the balance sheet. In November, Enso Oy and ABB Credit Oy signed a leasing agreement to finance construction of the CTMP mill and PE coating line at the Imatra mills. In December, Enso revised its commercial paper programme and at the same time raised the value to FIM 1 500 million.

MEMBERS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD

Board member Aarre Metsävirta resigned from the company in February 1996.

The resignation of Kari Häkämies from the Supervisory Board was accepted by the Ordinary Meeting of Shareholders on 9 April 1996, which elected Väinö Saario as his replacement. Mr Saario died from a serious illness on 22 May 1996.

PERSONNEL

In 1996, the Enso Group had an average of 19 094 employees, of whom an average of 4 829 worked for the parent company. The number of employees fell by 204 during 1996 to stand at 18 338 at the end of the year. Employee turnover was 3.7%. Salaries and fees paid to the parent company's management totalled FIM 8.1 million, including FIM 0.5 million in directors' fees, and to other parent company employees FIM 827.0 million. Salaries and fees paid to the Managing Directors and members of the Boards of Directors of Group companies totalled FIM 55.6 million, including FIM 2.5 million in directors' fees, and to other employees FIM 3 397.1 million.

For the period 1 May to 31 December 1996, salaries and fees paid to all Group employees totalled FIM 2 217.6 million. Of this, FIM 36.6 million was paid to the management of Group companies, including directors' fees

PERSONNEL	1996	1995
In Finland	16 134	16 014
Abroad	2 960	3 284
Group total	19 094	19 298

of FIM 1.3 million. Salaries and fees paid to the parent company's management totalled FIM 5.5 million, and to other employees FIM 546.1 million.

The main task of personnel administration in 1996 was to implement the personnel changes arising from the consolidation merger. The participation of personnel representatives in the work of the new parent company's Supervisory Board was arranged by amending the relevant rules. The guidelines for personnel policy and management were harmonized. An agreement was signed with employee representatives aimed at revising cooperation between domestic Group companies and starting similar cooperation between Group companies abroad.

Measures were introduced at the different units to further strengthen the ENSO STAR quality approach and to encourage participation. Outside Finland, personnel training and work experience programmes were arranged to improve international management skills. The Group launched its own management training scheme.

The Board of Directors approved a plan to develop the profit-sharing scheme so as to pro-

vide greater support for management and to take more account of individual achievements. Agreement was reached with the industrial employees on a new system for assessing the demands of different jobs. A start was made on analysing the results of the Enso Team study, which is designed to improve employee welfare and the working community. The quality systems for occupational health care and safety were further developed.

TOTAL QUALITY MANAGEMENT

Total quality management is being implemented with the help of the ENSO STAR quality management model, which was first introduced in 1995. Through systematic assessments and continuous improvements, quality management aims to make the Enso Group more competitive and profitable, to improve customer satisfaction and bring closer ties with customers, to encourage employee participation and to unify management practice. In 1996, 30 units took part in the ENSO STAR scheme, 23 of them production units and seven service units. The section for business and production units was won by Tervakoski Oy and that for service units by the mill service department at the Varkaus mills. The commendation for the greatest improvement went to Enso Timber Oy Ltd.

RESEARCH AND DEVELOPMENT

Group R&D expenditure was FIM 155.7 million (4.9% down on 1995) and involved altogether 235 man-years of work. The Research Centre at Imatra employed an average of 109 persons. The main aims of R&D work are to improve the Group's competitive edge, to utilize new raw materials and technologies, and to develop core competences.

The Research Centre's ISO 9002 quality system was audited and the environment and air quality laboratory received accreditation under EN 45001 for its principal measurements.

Work centred on renewing the fibre raw material base, utilizing the Condebelt concept, closure of paper mill water cycles, and studies relating to the new fine paper machine (PM 7) at Oulu. The use of CTMP in liquid packaging board manufacture was started at Imatra. The possibility of using acacia wood was studied by means of mill trials on samples brought from Indonesia. The effects of increasing paper recycling were studied through an international joint project. A Condebelt dryer went into operation at the Pankakoski mill. This has helped to develop a new coreboard suitable for the most demanding purposes. The production line will greatly assist in the development of new applications in the future. Mill trials with the separation techniques needed to achieve paper mill water cycle closure continued at Kotka.

EVENTS OCCURRING AFTER THE CLOSING OF ACCOUNTS

Enso Oy has become the first Finnish industrial company to issue serial bonds, maximum total value FIM 1 000 million, through auctions. Offers received in the first auction totalled FIM 892 million, of which FIM 417 million was accepted.

Enso Paperikemia Oy's business operations were sold in February 1997. The sale brings Enso Oy a profit of FIM 450 million and will improve the equity ratio by slightly more than one percentage point.

OUTLOOK FOR 1997

The economic prospects for Enso's most important businesses are improving. Paper consumption is rising, and this will stimulate demand and raise capacity utilization rates at the mills. Despite the increase in orders for paper products, price rises are likely to be slow in coming, as chemical pulp stocks were still above normal at the start of the year.

New capacity coming on stream during the year will increase supply, in particular of coated fine papers. Enso expects its sales volumes to be higher than last year, but prices will improve only slowly from their present low levels. The trend in costs is expected to be modest. Financial results for the early part of the year will be poorer than for the same period in 1996 because of the low market prices. The result for the year as a whole is expected to be about the same as in 1996.

Consolidated income statement

FIM mill.	Note	Pro forma 1.1-31.12.1996	Pro forma 1.1-31.12.1995
SALES	1	25 660.2	28 026.0
Finished and semi-finished goods, increase (+)		+ 70.5	+ 382.4
Production for own use		78.6	79.2
Share of profits of associated companies		+ 53.1	+ 100.1
Other operating income	2	282.5	328.5
Costs and expenses			
Materials, supplies and goods			
Purchased during the period		11 461.4	11 898.2
Decrease (+) in inventories		+ 111.4	- 657.9
Outside services		4 423.6	4 954.5
Personnel expenses	3	4 343.8	4 242.4
Rents		290.3	273.7
Other costs and expenses		998.3	1 465.0
		-21 628.8	-22 175.9
Depreciation according to plan	4.1	- 1 810.4	- 1 807.7
OPERATING PROFIT		2 705.7	4 932.6
Financial income and expenses			
Dividend income		26.2	16.1
Interest income on long-term investments		41.9	39.0
Interest income on short-term investments		68.7	106.9
Other financial income		58.7	156.5
Exchange rate differences		- 10.9	- 117.8
Interest expenses		- 1 187.3	- 1 554.6
Other financial expenses		- 38.3	- 52.9
Depreciation on investments		- 0.2	- 3.0
		- 1 041.2	- 1 409.8
PROFIT AFTER FINANCIAL ITEMS		1 664.5	3 522.8
Extraordinary income and expenses			
Extraordinary income	6	173.2	
Extraordinary expenses			- 93.6
		173.2	- 93.6
PROFIT BEFORE RESERVES AND TAXES		1 837.7	3 429.2
Increase (-) in accumulated depreciation	4.2	- 731.8	- 1 615.9
Decrease (+) in voluntary reserves		+ 192.2	+ 175.2
Direct taxes			
For the period		- 271.6	- 207.4
For previous periods		24.2	- 34.5
PROFIT FOR THE PERIOD BEFORE MINORITY INTEREST		1 050.7	1 746.6
Minority interest		- 17.4	- 9.7
PROFIT FOR THE PERIOD		1 033.3	1 736.9

Consolidated balance sheet

ASSETS FIM mill.	Note	31.12.1996	Pro forma 31.12.1995
FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS			
	7-9		
Intangible assets			
Intangible rights		82.8	78.6
Goodwill		20.7	14.8
Goodwill on consolidation		131.8	138.0
Other fixed assets		70.7	100.0
		306.0	331.4
Tangible assets			
Land and water		4 015.9	3 818.6
Buildings and structures		4 665.1	4 765.9
Machinery and equipment		14 769.0	15 003.1
Other tangible assets		724.2	710.7
Advance payments and construction in progress		1 585.5	805.0
		25 759.7	25 103.3
Financial assets			
Shares and holdings, associated companies		1 716.3	1 923.9
Shares and holdings, other companies		404.9	400.1
Loans receivable		268.9	483.6
		2 390.1	2 807.6
FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS, TOTAL		28 455.8	28 242.3
VALUATION ITEMS			
Capitalized interest	10	328.9	333.6
CURRENT ASSETS			
	11		
Inventories			
Materials and supplies		1 910.9	2 147.1
Work in progress		110.5	116.5
Finished products		1 953.5	1 905.6
Advance payments		113.9	257.2
		4 088.8	4 426.4
Receivables			
Accounts receivable		3 671.6	3 327.1
Loans receivable		306.7	13.2
Prepaid expenses		280.4	348.6
Other receivables		574.4	567.9
		4 833.1	4 256.8
Investments			
Shares and other securities		32.5	32.5
Other investments		354.2	1 047.4
		386.7	1 079.9
Cash and bank		731.8	855.9
ASSETS, TOTAL		38 825.1	39 194.9

LIABILITIES FIM mill.	Note	31.12.1996	Pro forma 31.12.1995
SHAREHOLDERS' EQUITY	13		
Non-distributable shareholders' equity			
Share capital		3 110.9	3 110.9
Reserve fund		2 231.3	2 196.7
Revaluation fund		1 460.4	1 470.4
		<u>6 802.6</u>	<u>6 778.0</u>
Distributable shareholders' equity			
Other shareholders' equity		752.2	754.6
Retained earnings		1 309.4	209.9
Profit for the period		1 033.3	1 736.9
		<u>3 094.9</u>	<u>2 701.4</u>
SHAREHOLDERS' EQUITY, TOTAL		9 897.5	9 479.4
MINORITY INTEREST		119.7	120.8
RESERVES	14		
Accumulated depreciation difference		5 605.2	4 813.2
Voluntary reserves			
Investment reserve		332.2	345.9
Transitional reserve		396.5	576.7
Other voluntary reserves		7.1	12.1
		<u>735.8</u>	<u>934.7</u>
Obligatory provisions		40.0	50.7
LONG-TERM AND CURRENT LIABILITIES			
Long-term	15		
Bond loans		12.1	12.1
Loans from financial institutions		8 935.0	13 037.1
Pension loans		2 939.5	3 143.1
Other long-term liabilities		467.1	163.4
		<u>12 353.7</u>	<u>16 355.7</u>
Current			
Loans from financial institutions		5 778.5	2 869.5
Pension loans		170.1	175.2
Advances received		8.1	154.8
Accounts payable		1 570.1	1 563.0
Accrued liabilities		1 445.5	1 579.8
Other current liabilities		1 100.9	1 098.1
		<u>10 073.2</u>	<u>7 440.4</u>
LIABILITIES, TOTAL		38 825.1	39 194.9

Consolidated source and application of funds

FIM mill.	Pro forma 1.1-31.12.1996	Pro forma 1.1-31.12.1995
OPERATIONS		
Funds from operations		
Operating profit ¹⁾	2 613.5	4 932.6
Depreciation	1 810.4	1 807.7
Financial income and expenses	- 1 036.3	- 1 341.0
Extraordinary items	+ 173.2	- 93.6
Taxes	- 247.4	- 241.9
Share of results of associated companies	- 44.7	- 100.1
	3 268.7	4 963.8
CHANGE IN WORKING CAPITAL		
Decrease (+) in inventories	+ 337.6	- 1 288.1
Increase (-) in current receivables	- 282.8	+ 218.8
Decrease (-) in non-interest bearing current receivables	- 320.2	- 1 161.1
	- 265.4	- 2 230.4
CASH FLOW FROM OPERATIONS	3 003.3	2 733.3
INVESTMENTS		
Capital expenditure	- 2 962.3	- 2 070.0
Proceeds from sale of fixed assets incl. exchange rate differences	873.3	218.2
	- 2 089.0	- 1 851.8
CASH FLOW BEFORE FINANCING	914.3	881.5
FINANCING		
Increase (-) in long-term receivables	- 78.8	23.7
Decrease (-) in long-term loans	- 1 496.2	- 2 960.4
Increase (+) in short-term loans	+ 436.5	- 781.9
Dividends	- 629.5	- 244.6
Share issue	-	838.1
	- 1 768.0	- 3 125.2
DECREASE (-) IN LIQUID FUNDS IN STATEMENT	- 853.7	- 2 243.6
Adjustments	+ 36.5	- 47.3
DECREASE (-) IN LIQUID FUNDS IN BALANCE SHEET	- 817.2	- 2 291.0
LIQUID FUNDS IN BALANCE SHEET AT 1 JAN.	- 1 935.8	- 4 226.8
LIQUID FUNDS IN BALANCE SHEET AT 31 DEC.	1 118.6	1 935.8
	- 817.2	- 2 291.0

¹⁾ Profits from assets sales are included under "Proceeds from sale of fixed assets"

Enso Oy, income statement and source and application of funds

INCOME STATEMENT		Group	Parent comp.
FIM million, 1996	Note	1.5-31.12	1.5-31.12
SALES	1	16 833.3	7 054.7
Finished and semi-finished goods, decrease (-)		- 183.5	- 186.4
Production for own use		57.3	20.3
Share of profits of associated companies		+ 17.6	
Other operating income	2	207.5	292.0
Costs and expenses			
Materials, supplies and goods			
Purchased during the period		7 591.1	4 034.3
Decrease (+) in inventories		+ 87.4	+ 171.0
Outside services		2 972.8	1 098.8
Personnel expenses	3	2 881.9	726.8
Rents		191.9	104.6
Other costs and expenses		518.8	170.5
		-14 243.9	-6 306.0
Depreciation according to plan	4.1	-1 220.7	- 267.8
OPERATING PROFIT		1 467.6	606.8
Financial income and expenses	5		
Dividend income		4.2	14.2
Interest income on long-term investments		31.9	506.7
Interest income on short-term investments		44.2	50.7
Other financial income		41.0	26.7
Exchange rate differences		+ 4.7	+ 49.4
Interest expenses		- 702.4	- 657.0
Other financial expenses		- 27.8	- 9.0
Depreciation on investments		- 0.2	- 47.7
		- 604.4	- 66.0
PROFIT AFTER FINANCIAL ITEMS		863.2	540.8
Extraordinary income and expenses	6		
Extraordinary income		173.2	907.0
Extraordinary expenses			780.0
		+ 173.2	+ 127.0
PROFIT BEFORE RESERVES AND TAXES		1 036.4	667.8
Increase (-) in accumulated depreciation	4.2	- 339.9	+ 41.0
Decrease (+) in voluntary reserves		+ 187.6	+ 134.0
Direct taxes			
For the period		- 243.0	- 227.3
For previous periods		+ 14.4	+ 9.6
Profit for the period before minority interest		655.5	625.1
Minority interest		- 1.4	
PROFIT FOR THE PERIOD		+ 654.1	+ 625.1

SOURCE AND APPLICATION OF FUNDS		Group	Parent comp.
FIM million, 1996		1.5-31.12	1.5-31.12
OPERATIONS			
Funds from operations			
Operating profit ¹⁾		1 382.0	530.4
Depreciation		1 220.7	267.8
Financial income and expenses		- 576.0	- 11.3
Extraordinary items		173.2	127.0
Taxes		- 228.6	- 215.3
Share of results of associated companies		- 15.2	
		1 956.1	698.6
CHANGE IN WORKING CAPITAL			
Decrease (+) in inventories		+ 536.8	+ 463.4
Decrease (+) in current receivables		+ 959.2	+ 685.9
Decrease (-) in non-interest bearing current liabilities		- 731.8	- 568.5
		+ 764.2	+ 580.8
CASH FLOW FROM OPERATIONS			
		2 720.3	1 279.4
INVESTMENTS			
Capital expenditure		-2 004.9	- 314.4
Proceeds from sale of fixed assets (incl. exchange rate differences)		666.2	1 275.4
		-1 338.7	+ 961.0
CASH FLOW BEFORE FINANCING			
		1 381.6	2 240.4
FINANCING			
Decrease (+) in long-term receivables		+ 18.8	-1 628.5
Decrease (-) in long-term loans		-2 492.9	-1 255.3
Increase (+) in short-term loans		+ 83.0	- 705.0
		-2 391.1	-3 588.8
DECREASE (-) IN LIQUID FUNDS IN STATEMENT			
		-1 009.5	-1 348.4
Adjustment items		- 13.6	-
DECREASE (-) IN LIQUID FUNDS IN BALANCE SHEET			
		-1 023.1	-1 348.4
LIQUID FUNDS IN BALANCE SHEET AT 1 MAY			
		-2 141.7	-2 318.3
LIQUID FUNDS IN BALANCE SHEET AT 31 DEC.			
		1 118.6	969.9
		-1 023.1	-1 348.4

¹⁾ Profits from assets sales are included under "Proceeds from sale of fixed assets".

Enso Oy, balance sheet

ASSETS		Group Parent comp.		LIABILITIES		Group Parent comp.	
FIM million 1996	Note	31.12	31.12	FIM million, 1996	Note	31.12	31.12
FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS				SHAREHOLDERS' EQUITY			
	7-9				13		
Intangible assets				Non-distributable shareholders' equity			
Intangible rights		82.8	28.6	Share capital		3 110.9	3 110.9
Goodwill		20.7	6.6	Reserve fund		2 231.3	2 186.3
Goodwill on consolidation		131.8		Revaluation fund		1 460.4	1 437.2
Other fixed assets		70.7	4.7			6 802.6	6 734.4
		306.0	39.9				
Tangible assets				Distributable shareholders' equity			
Land and water		4 015.9	3 576.8	Other shareholders' equity		752.2	752.0
Buildings and structures		4 665.1	1 042.5	Retained earnings		1 688.6	1 775.0
Machinery and equipment		14 769.0	3 024.4	Profit for the period		654.1	625.1
Other tangible assets		724.2	282.8			3 094.9	3 152.1
Advance payments and construction in progress		1 585.5	69.3				
		25 759.7	7 995.8	SHAREHOLDERS' EQUITY, TOTAL		9 897.5	9 886.5
Long-term investments and loans receivable				MINORITY INTEREST		119.7	
Shares and holdings, Group companies	17		5 842.8	RESERVES	14		
Shares and holdings, associated companies		1 716.3	1 409.0	Accumulated depreciation difference		5 605.2	1 240.0
Shares and holdings, other companies		404.9	368.0	Voluntary reserves			
Loans receivable		268.9	7 950.3	Investment reserve		332.2	348.0
		2 390.1	15 570.1	Transitional reserve		396.5	
				Other voluntary reserve		7.1	
						735.8	348.0
FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS, TOTAL		28 455.8	23 605.8	Obligatory provisions			
				Obligatory provisions		40.0	0.3
VALUATION ITEMS				LONG-TERM AND CURRENT LIABILITIES			
Capitalized interest	10	328.9	51.6	Long-term	15		
				Bond loans		12.1	12.1
CURRENT ASSETS	11			Loans from financial institutions		8 935.0	7 528.7
Inventories				Pension loans		2 939.5	2 743.2
Materials and supplies		1 910.9	904.7	Other long-term liabilities		467.1	343.2
Work in progress		110.5				12 353.7	10 627.2
Finished products		1 953.5	368.3	Current			
Advance payments		113.9	112.0	Loans from financial institutions		5 778.5	5 437.8
		4 088.8	1 384.9	Pension loans		170.1	155.3
Receivables				Advances received		8.1	2.6
Accounts receivable		3 671.6	1 230.4	Accounts payable		1 570.1	559.1
Loans receivable		306.7	2 201.1	Accrued liabilities		1 445.5	641.5
Prepaid expenses and accrued income		280.4	323.9	Other current liabilities		1 100.9	1 589.6
Other receivables		574.4	720.3			10 073.2	8 385.9
		4 833.1	4 475.7				
Investments							
Shares and other securities		32.5	32.5				
Other investments		354.2	610.3				
		386.7	642.8				
Cash and bank		731.8	327.1				
ASSETS, TOTAL		38 825.1	30 487.9	LIABILITIES, TOTAL		38 825.1	30 487.9

Notes to the financial statements

The financial statements have been prepared in accordance with Finland's Accounting Act and other accounting rules and regulations. Figures given are in Finnish markka.

The Group's financial period is the calendar year. However, because of the merger, the financial period for 1996 was 1 May to 31 December.

Principles used in preparing Enso's pro forma consolidated financial statements: Enso-Gutzeit Oy and Veitsiluoto Oy merged on 1 May 1996. Enso's pro forma consolidated financial statements have been prepared by combining the official consolidated financial statements of Enso-Gutzeit Oy and Veitsiluoto Oy. There are no material differences between the two principles of consolidation used by the merging companies. The consolidated financial statements include the accounts of those subsidiaries included in the consolidated financial statements of Enso-Gutzeit Oy and Veitsiluoto Oy in addition to other companies in which, either directly or indirectly, Enso Oy holds over half of all voting rights or in which it has a controlling interest. The consolidated financial statements include the most important Enso Group associated companies. Enso Fibres AG (Enso-Gutzeit Oy 50% and Veitsiluoto Oy 50%) and AS Lumiforest (Enso-Gutzeit Oy 40% and Veitsiluoto Oy 60%) are dealt with as Enso Group subsidiaries. Pohjolan Voima Oy is dealt with as an associated company. Under the terms of the merger agreement, Enso Oy shares were not issued in respect of Veitsiluoto Oy shares owned directly by Enso-Gutzeit Oy. The associated company results calculated from the Veitsiluoto Group and included in the Enso-Gutzeit Group's distributable shareholders' equity have been eliminated from the Enso Group's distributable shareholders' equity and from shares in associated companies entered under fixed assets.

Scope of consolidated financial statements: The consolidated financial statements include the accounts of the parent company and other companies in which, either directly or indirectly, the parent company holds more than half of all voting rights or in which it has a controlling interest. The consolidated financial statements also include the most important associated companies. Housing and real estate companies are not included. These companies have no bearing on the Group's distributable shareholders' equity.

Companies acquired during the year are included in the consolidated financial statements from the date of their acquisition. Companies sold are included up to the date of sale. A list of subsidiary and associated companies appears under note 17 in these Notes to the accounts.

Principles of consolidation: The purchase method has been adopted, with the exception of Pankavara Insurance Company, which, being outside the Group's core businesses, has been consolidated using the equity method. The difference between the acquisition cost of shares in subsidiaries and shareholders' equity at the date of acquisition is generally entered as goodwill. With the exception of Pakenso Sweden AB, reserves are not included in shareholders' equity in arriving at goodwill for the Group. Goodwill is amortized over a period of 5-10 years, with the exception of Pakenso Sweden AB, for which goodwill is being amortized over 20 years. Negative goodwill is credited against losses of acquired companies.

The consolidated financial statements comprise the combined income statements and balance sheets of the parent

company and its subsidiaries. Unless local regulations require otherwise, the financial statements of foreign subsidiaries have been prepared using the same accounting principles as for the Enso Group. All inter-company transactions, receivables, liabilities and unrealized profits as well as the distribution of profits within the Group have been eliminated. Minority interests have been disclosed separately from the shareholders' equity and profit of each subsidiary and are recorded as a separate deduction in the income statement and balance sheet.

Associated companies have been consolidated using the equity method. The Group's share of the results of associated companies, adjusted by the amortization of goodwill on acquisition, is included in operating profit. Dividends received from associated companies have been deducted from Group dividends received. In the consolidated balance sheet the value of shares in associated companies is the Group's share of the shareholders' equity, taking into account goodwill and amortization of goodwill. Deferred tax on reserves is also taken into account for associated companies.

Foreign currencies: Foreign currency receivables and debts of the parent company and its Finnish subsidiaries have been converted into Finnish markka using the Bank of Finland's average exchange rate at the balance sheet date. Exchange gains and losses arising on translation of foreign currency receivables and debts have been entered in the income statement as adjustments to either sales or purchases or as exchange rate differences under financial income and expenses.

Unmatured instruments used to hedge shareholders' equity of overseas subsidiaries are translated into Finnish markka using the rates of exchange prevailing at the balance sheet date. Exchange gains on unmatured hedging instruments used to secure future cash flows are entered as they mature.

The accounts of overseas subsidiaries have been translated into Finnish markka using the Bank of Finland's average exchange rate at the balance sheet date. Translation differences arising on elimination of shareholders' equity of overseas subsidiaries have been entered in the balance sheet under shareholders' equity in relation to distributable and non-distributable shareholders' equity at the date of acquisition of the subsidiary in question. Group shareholders' equity contains a corresponding entry in respect of exchange differences arising on translation of the value of instruments used to hedge shareholders' equity of overseas subsidiaries.

Sales and other operating income: Sales includes the sale of products and services, raw materials and supplies, and energy less indirect sales taxes, sales discounts, bad debts and exchange differences on sales in foreign currencies.

Other operating income includes all income from operations excluding extraordinary income from fixed asset sales, income from rents, contributions received and compensation paid by insurance companies.

Obligatory provisions: Provision is made in the balance sheet for future costs to which the Group is committed and which are unlikely to be matched by any future income, as well as for losses that can be considered likely in the future.

Fixed assets and depreciation: Fixed assets are stated at cost less straight-line depreciation according to plan. Land is stated at revalued amounts. Depreciation according to plan is based on the following expected useful lives: buildings, structures and hydro-electric power stations (20-40 years),

Notes to the financial statements

machinery and equipment (10-20 years), motor vehicles and office equipment (5 years), other tangible assets (10-20 years), and intangible assets (5-10 years).

For tax purposes, depreciation may be made in excess of, or less than, plan. The difference between depreciation made and depreciation according to plan for the period is included in adjustments and the accumulated difference is entered in the balance sheet under reserves.

Commodities leased under finance leasing agreements are presented as fixed assets and the related obligations are presented as interest-bearing liabilities. Leasing payments on rental agreements are entered as rentals and the commodities are not entered under fixed assets.

Inventories: Inventories are stated at FIFO-based purchase cost, which is calculated to include the variable costs of acquisition and manufacture of inventories and an appropriate portion of the fixed overhead costs, however not exceeding the replacement or realisable value.

Valuation items: Construction-time interest expenses related to major investment projects are capitalized under valuation items. Capitalized interest is amortized on a straight-line basis over 10 years and is entered under interest expenses.

Pension schemes: Pension cover for employees of the Group's domestic companies is arranged partly through Enso's own pension funds and partly through Finnish insurance companies. Pension arrangements for the Group's overseas subsidiaries are made in accordance with the regulations and practice of the country in question. The Group's pension liability is fully covered.

Pension costs are included in statutory employer's contributions and the company's own pension liability is entered under obligatory provisions.

Research and development: Research and development costs are expensed as incurred. The equipment acquired for research and development purposes is included in fixed assets.

Extraordinary items: Substantial profits and losses unconnected with normal business operations and which are exceptional in nature are presented in the income statement as extraordinary items.

Change in depreciation difference and voluntary reserves: The change in depreciation difference and voluntary reserves is reported as adjustments. Tax legislation in Finland and certain other countries allows companies to make tax-deductible adjustments in the accounts provided such adjustments are shown in the financial statements. Accumulated adjustments are entered separately in the balance sheet. Profit before adjustments and taxes is shown in the consolidated income statement.

Taxes: The consolidated income statement includes taxes for Group companies in respect of financial results or distribution of dividends or as required by local tax legislation. No deferred tax is calculated in respect of allocations to reserves, as the directors do not consider that tax will become payable in the foreseeable future.

Tax for the period includes tax calculated on the basis of the proposed dividend.

Corporate tax credits arising from the distribution of dividends by subsidiaries are deducted from taxes in the consolidated income statement.

Dividends: The dividend proposed by the Board of Directors to the Ordinary Meeting of Shareholders is entered in the financial statements for the year in which it is paid.

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

1.1. SALES BY COUNTRY

	Pro forma 1996 FIM mill.	Pro forma 1995 FIM mill.	Group 1.5-31.12.96 FIM mill.	Parent comp. 1.5-31.12.96 FIM mill.
Finland	4 301.0	4 644.9	3 000.5	4 845.0
Germany	2 976.4	3 060.4	1 961.3	368.1
UK	3 756.6	4 011.2	2 420.8	146.5
France	2 075.1	2 334.5	1 262.8	54.8
The Netherlands	1 397.3	1 471.4	886.8	176.7
Spain	1 364.6	1 494.6	923.2	309.1
Italy	668.3	902.6	460.4	102.0
Other EU countries	2 959.3	3 354.8	1 885.4	241.4
Other European countries	1 440.9	1 509.8	898.6	186.4
North America	473.8	681.1	318.5	22.6
Far East and Southeast Asia	2 368.2	2 407.5	1 575.5	435.3
Other countries	1 878.7	2 153.2	1 239.5	166.8
	25 660.2	28 026.0	16 833.3	7 054.7

1.2. SALES BY DIVISION

Base Industries	5 727.1	6 469.1	3 807.1	3 807.9
Packaging Boards	7 142.3	7 285.2	4 835.3	2 778.8
Fine Papers	6 864.7	8 272.7	4 477.7	-13.3
Publication Papers	7 482.0	7 969.5	4 783.0	481.6
Forest Chemicals	675.8	821.5	403.8	
Marketing and transport companies	1 107.9	1 023.7	756.9	
Eliminations	-3 339.6	-3 815.7	-2 230.5	
	25 660.2	28 026.0	16 833.3	7 054.7

Notes to the financial statements

	Pro forma 1996 FIM mill.	Pro forma 1995 FIM mill.	Group 1.5-31.12.96 FIM mill.	Parent comp. 1.5-31.12.96 FIM mill.
2. OTHER OPERATING INCOME				
Profit from sale of fixed assets	92.2	40.4	85.6	76.4
Rents	43.1	28.2	33.6	31.4
Other	147.2	259.9	88.3	184.2
	282.5	328.5	207.5	292.0
3. PERSONNEL EXPENSES				
Wages and salaries	3 366.9	3 111.9	2 197.8	534.6
Pension costs	542.7	569.3	351.9	104.2
Other statutory employer's contributions	434.2	561.2	332.2	88.0
	4 343.8	4 242.4	2 881.9	726.8
Fringe benefits	22.9	18.9	14.7	2.1
	4 366.7	4 261.3	2 896.6	728.9
4.1. DEPRECIATION ACCORDING TO PLAN				
Intangible rights	15.8	15.7	10.4	3.4
Goodwill	3.3	1.8	2.4	0.5
Other fixed assets	31.6	31.6	20.8	1.0
Buildings and structures	200.2	200.5	137.9	35.9
Machinery and equipment	1 459.0	1 510.1	982.6	207.3
Other tangible assets	71.7	63.0	49.3	19.7
Goodwill on consolidation	29.2	20.6	17.7	
Crediting of negative goodwill	-0.4	-35.6	-0.4	
	1 810.4	1 807.7	1 220.7	267.8
4.2. CHANGE IN DEPRECIATION DIFFERENCE				
Intangible rights	-2.6	0.6	-2.2	-2.6
Goodwill	-0.2	-0.3	-0.2	-0.5
Other fixed assets	-0.8	-7.4	-1.1	-1.8
Buildings and structures	15.4	-669.1	20.0	9.5
Machinery and equipment	-732.3	-932.4	-335.8	45.2
Other tangible assets	-11.3	-7.3	-20.6	-8.8
	-731.8	-1 615.9	-339.9	41.0
5. INTRA-GROUP FINANCIAL INCOME AND EXPENSES				
Financial income from Group companies				
Dividend received				9.6
Interest income on long-term investments				481.9
Interest income on short-term investments				13.6
				505.1
Financial expenses to Group companies				
Interest expenses				-17.8
6. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income				
Profit from sale of Forchem Oy	173.2	-	173.2	189.1
Group contributions received		-		717.9
	173.2	-	173.2	907.0
Extraordinary expenses				
Resignation from sales associations	-	-93.5	-	
Group contributions made	-		-	-780.0
Other expenses	-	-0.1	-	
	-	-93.6	-	-780.0

Notes to the financial statements

7. TANGIBLE AND INTANGIBLE ASSETS	Goodwill	Negative goodwill	Other intangible rights and goodwill	Other fixed assets	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets
GROUP, Pro forma								
1 Jan. -31 Dec. 1996								
Acquisition cost 1 Jan.	383.4	136.7	136.9	177.3	3 812.9	5 925.8	23 753.3	1 063.1
Increase	31.2	0.4	28.0	7.6	232.4	213.8	1 272.0	82.4
Decrease			-0.5	-16.0	-29.4	-591.7	-4 255.7	-75.6
Acquisition cost 31 Dec.	414.6	137.1	164.4	168.9	4 015.9	5 547.9	20 769.6	1 069.9
Accumulated depreciation 31 Dec.	-282.8	-137.1	-60.9	-98.2		-882.8	-6 000.6	-345.7
Book value 31 Dec. 1996	131.8	0.0	103.5	70.7	4 015.9	4 665.1	14 769.0	724.2
Book value 31 Dec. 1995	138.0	0.0	93.4	100.0	3 818.6	4 765.9	15 003.1	710.7
Accumulated depreciation difference 1 Jan. 1996			2.6	5.9	-	1 443.9	3 283.2	77.5
Increase			3.4	1.1	-	38.4	897.5	24.2
Decrease			-0.7	-1.7	-	-91.2	-77.4	-1.5
Accumulated depreciation difference 31 Dec. 1996			5.3	5.3	-	1 391.1	4 103.3	100.2
GROUP, 1 MAY-31 DEC. 1996								
Acquisition cost 1 May	394.4	136.7	145.1	164.5	3 853.4	5 471.1	19 964.0	1 014.5
Increase	20.2	0.4	19.6	5.0	189.0	91.7	897.9	58.7
Decrease		-	-0.3	-0.6	-26.5	-14.9	-92.3	-3.3
Acquisition cost 31 Dec.	414.6	137.1	164.4	168.9	4 015.9	5 547.9	20 769.6	1 069.9
Accumulated depreciation 31 Dec.	-282.8	-137.1	-60.9	-98.2		-882.8	-6 000.6	-345.7
Book value 31 Dec. 1996	131.8	0.0	103.5	70.7	4 015.9	4 665.1	14 769.0	724.2
Accumulated depreciation difference 1 May 1996		-	2.9	4.2	-	1 411.0	3 767.5	79.6
Increase		-	3.2	1.1	-	33.8	375.3	22.1
Decrease		-	-0.8		-	-53.7	-39.5	-1.5
Accumulated depreciation difference 31 Dec. 1996		-	5.3	5.3	-	1 391.1	4 103.3	100.2
PARENT COMPANY, 1 MAY-31 DEC. 1996								
Acquisition cost 1 May			54.4	16.6	3 556.8	1 643.8	6 197.5	473.9
Increase			15.1	1.0	43.1	29.4	466.4	44.9
Decrease			-6.5		-23.1	-262.2	-1 350.4	-44.0
Acquisition cost 31 Dec.			63.0	17.6	3 576.8	1 411.0	5 313.5	474.8
Accumulated depreciation 31 Dec.			-27.8	-12.9		-368.5	-2 289.1	-192.0
Book value 31 Dec. 1996			35.2	4.7	3 576.8	1 042.5	3 024.4	282.8
Accumulated depreciation difference 1 May 1996			2.6	0.2	-	176.9	1 066.7	34.4
Increase			3.1	1.9	-	17.9		8.8
Decrease					-	-27.4	-45.1	
Accumulated depreciation difference 31 Dec. 1996			5.7	2.1	-	167.4	1 021.6	43.2

The book value of machinery and equipment for the Group and the parent company at 31 Dec. 1996 includes FIM 340.9 million in leased assets.

Notes to the financial statements

	Pro forma 1996 FIM mill.	Pro forma 1995 FIM mill.	Group 1.5-31.12.96 FIM mill.	Parent comp. 1.5-31.12.96 FIM mill.
8. TAXABLE VALUE OF FIXED ASSETS				
Land	1 896	1 722	1 896	1 704
Buildings and structures	2 465	2 441	2 465	469
Shares and holdings	1 244	1 205	1 244	7 244

Where taxable value is not available, book value is used. Taxable value of Group shares excludes taxable value of subsidiary shares.

9. STOCKS, SHARES AND LOANS RECEIVABLE RELATING TO LONG-TERM INVESTMENTS

Group companies				
Shares				5 842.8
Loans receivable				7 730.3
Total				13 573.1
Associated companies				
Shares				1 413.3
Loans receivable				0.3
Total				1 413.6

10. VALUATION ITEMS

Capitalized interest 1 Jan.	333.6	380.5	325.3	61.0
Increase 1 Jan. - 31 Dec.	48.9		41.7	
Decrease 1 Jan. - 31 Dec.	-53.6	-46.9	-38.1	-9.4
Capitalized interest 31 Dec.	328.9	333.6	328.9	51.6

11. CURRENT ASSETS

Receivables due for payment in one year or more				
Accounts receivable	0.7	21.4		
Receivables and liabilities, Group companies and associated companies				
Accounts receivable, Group companies				634.2
Accounts receivable, associated companies				21.2
Loans receivable, Group companies				1 896.5
Loans receivable, associated companies				0.1
Prepaid expenses, associated companies				143.7
Other receivables, Group companies				610.4
Other receivables, associated companies				1.2
Other securities, Group companies				288.5
Receivables, total				3 595.8
Long-term liabilities, Group companies				
Accounts payable, Group companies				123.2
Accounts payable, associated companies				99.1
Accrued liabilities, Group companies				10.5
Other current liabilities, Group companies				753.5
Liabilities, total				986.3

Current assets for the parent company includes 2 110 601 Merita Series A shares and 920 000 Merita Series B shares. At 31 Dec. 1996 these had a book value of FIM 32.5 million and a market value of FIM 44.6 million.

12. MANAGEMENT PENSION COMMITMENTS AND LOANS MADE TO MANAGEMENT AND SHAREHOLDERS

Members of the Board of Directors may retire at the age of 60. Loans to company management at 31 December 1996 totalled FIM 169 168.06. The interest on these loans is 0.5% above the Bank of Finland's base rate. The loans are repayable within the next 2 years.

Notes to the financial statements

	Pro forma 1996 FIM mill.	Pro forma 1995 FIM mill.	Group 1.5-31.12.96 FIM mill.	Parent comp. 1.5-31.12.96 FIM mill.
13. SHAREHOLDERS' EQUITY				
Share capital 1 Jan.	3 110.9	2 728.0	3 110.9	3 110.9
Exchange of bonds for shares		382.9		
Share capital 31 Dec.	3 110.9	3 110.9	3 110.9	3 110.9
Reserve fund 1 Jan.	2 196.7	1 255.6	2 220.9	2 186.3
Increase in reserve fund	20.3		20.3	
Premium on exchange of bonds		953.5		
Translation difference	14.3	-12.4	-9.9	
Reserve fund 31 Dec.	2 231.3	2 196.7	2 231.3	2 186.3
Revaluation reserve 1 Jan.	1 470.4	1 473.0	1 476.7	1 449.8
Decrease, sale of fixed assets	-12.7	-2.6	-12.7	-12.6
Translation difference	2.7		-3.6	
Revaluation reserve 31 Dec.	1 460.4	1 470.4	1 460.4	1 437.2
Distributable shareholders' equity 1 Jan.	2 701.4	1 254.8	2 408.0	2 527.0
Dividend paid	-629.5	-250.1		
Donation by Veitsiluoto Oy to Enso's Centenary Foundation	-3.0			
Translation difference	-7.3	-40.2	32.8	
Profit for the period	1 033.3	1 736.9	654.1	625.1
Distributable shareholders' equity 31 Dec.	3 094.9	2 701.4	3 094.9	3 152.1

FIM 3 067.2 million of shareholders' equity is available for distribution as dividend.

Breakdown of share capital at 31 Dec. 1996		shares	votes
Series A shares		179 769 430	179 769 430
Series R shares		131 321 400	13 132 140
Total		311 090 830	192 901 570
Series A shares (1 vote/share)	FIM mill.	1 797.7	
Series R shares (1 vote/10 shares, min. 1 vote)	FIM mill.	1 313.2	
Total	FIM mill.	3 110.9	
At the merger, Enso Oy's share capital was made up as follows:		Exchange ratio	No. of shares
Enso-Gutzeit Oy shareholders		1 / 1	242 853 378
Veitsiluoto Oy shareholders		3 / 5	95 799 055
Veitsiluoto Oy shares owned by Enso-Gutzeit Oy		3 / 5	-27 561 603
Total			311 090 830

Subsidiaries hold 5 644 Series R shares, nominal value FIM 56 440.

At 31 December 1996, members of the Supervisory Board, members and deputy members of the Board of Directors, and the President and Senior Executive Vice President held 7 205 Series A shares and 4 019 Series R shares, total 11 224 shares, which carry 0.0% of the voting rights.

14. RESERVES

Accumulated depreciation difference by type of fixed asset				
Intangible rights	4.6	2.2	4.6	4.6
Goodwill	0.7	0.4	0.7	1.1
Other fixed assets	5.3	5.9	5.3	2.1
Buildings and structures	1 391.1	1 443.9	1 391.1	167.4
Machinery and equipment	4 103.3	3 283.3	4 103.3	1 021.6
Other tangible assets	100.2	77.5	100.2	43.2
Total	5 605.2	4 813.2	5 605.2	1 240.0

Notes to the financial statements

	Pro forma 1996 FIM mill.	Pro forma 1995 FIM mill.	Group 1.5-31.12.96 FIM mill.	Parent comp. 1.5-31.12.96 FIM mill.
Voluntary reserves				
Investment reserve	332.2	345.9	332.2	
Transitional reserve	396.5	576.7	396.5	348.0
Other voluntary reserves	7.1	12.1	7.1	
Total	735.8	934.7	735.8	348.0
Change in voluntary reserves				
Transitional reserve	-187.7	-174.5	-187.7	-134.0
Other reserves	-4.5	-0.7	0.1	
Total	-192.2	-175.2	-187.6	-134.0

Deverred tax on voluntary reserves computed at the rate of 28% is FIM 1 775.5 million.

15. LONG-TERM LIABILITIES

Repayment plan for the long-term liabilities:	Balance 31 Dec. 1996	1997-2001	2002-	
Bond loans	12	12		
Loans from financial institutions	14 517	12 742	1 775	
Pension loans	3 110	848	2 262	
Other long-term liabilities	493	224	269	
Total	18 132	13 826	4 306	
Bond loans	Mill.	1.5-31.12.96		
7 % 1991-96	CHF	368.8		
Repaid on 15 May 1996		-368.8		
Total		-		

16. SECURITIES AND GUARANTEES

Of own behalf				
Pledges given	74.2	291.7	74.2	
Mortgages	5 656.3	5 489.3	5 656.3	3 609.5
On behalf on Group companies				
Pledges given				74.2
Guarantees				1 914.5
On behalf of associates companies				
Mortgages	6.0		6.0	
Guarantees	96.4	255.9	96.4	95.7
On behalf of others				
Mortgages		26.3		
Guarantees	288.5	64.7	288.5	288.3
Other commitments, own				
Leasing commitments, in 1997	67.8	24.0	67.8	2.3
Leasing commitments, after 1997	274.2	52.9	274.2	3.5
Other commitments	53.9	6.6	53.9	
Total				
Pledges given	74.2	291.7	74.2	74.2
Mortgages	5 662.3	5 515.6	5 662.3	3 609.5
Guarantees	384.9	320.6	384.9	2 298.5
Leasing commitments	342.0	76.9	342.0	5.8
Other commitments	53.9	6.6	53.9	
Total	6 517.3	6 211.4	6 517.3	5 988.0

Enso Oy has undertaken to guarantee the leasing agreements relating to Enso Española S.A.'s power plant up to a maximum amount of FIM 242 443 817.98. The commitment extends until 23 December 2003.

Notes to the financial statements

Financial risk management: Financial risk refers to the uncertainly attached to future cash flows. It concerns any business transaction that may reduce the shareholder value of the Group.

The Group's risk management involves identifying and assessing foreign exchange and interest rate risks and hedging against them. The purpose is to minimize the cost of financing and to provide services for the Group's divisions and business units.

In accordance with the Group's foreign exchange policy, each unit is responsible for the risks attached to its own transactions. The subsidiaries handle all financing relating to risk management through the Group's own financing department.

Risks are divided into market risk, credit risk and liquidity risk.

Market risk relates to changes in market factors, in this case exchange rates and interest rates.

Market risk is monitored in three ways

Assessment based on probability: A probability-based value for market risk is calculated using the VAR method. This provides the directors with an estimate of the Group's overall market risk.

Sensitivity assessment: The sensitivity of positions is measured in relation to certain market risk factors.

Stress test: Stress simulations are used to determine the effects on the Group's positions of abnormal or unexpected events. They are also used to assess events falling outside the probability distributions given by the VAR models.

Credit risk arises in respect of the counter-parties used in hedging against market risk. In raising financing, credit risk is minimized by restricting counter-parties to highly rated banks with which the Group conducts other business. Such counter-parties have high credit ratings and are therefore unlikely to default on their obligations.

Liquidity risk is the risk that liquidity may not be sufficient to cover daily and unexpected expenditure, to obtain long-term financing and to relinquish or close market positions.

Cash management: Short-term cash flows in each currency are monitored and measured to enable the need for future financing to be assessed.

Market liquidity: Liquidity risk is either included in market risk models or is monitored separately.

RISK MANAGEMENT CONTRACTS OPEN AT 31 DEC. 1996:	Nominal value		Current value	
	31.12.1996	31.12.1995	31.12.1996	31.12.1995
Interest rate derivatives				
Forward agreements	2.3	0.9	2 540.0	400.0
of which open	0.9		1 200.0	
Interest rate swap agreements	-136.8	-27.2	2 407.4	2 534.7
Interest rate derivatives, total	-134.5	-26.3	4 947.4	2 934.7
Foreign exchange derivatives				
Forward agreements	123.7	47.2	1 758.6	1 669.0
Options				
purchased	0.2	10.9	1 770.5	913.1
written	-15.9		1 890.0	
Foreign exchange swap agreements	15.0	-181.3	8 035.4	10 332.9
Foreign exchange derivatives, total	123.0	-123.2	13 454.5	12 915.0

Calculation of current value

For contracts related to public trading, the current value is determined by the market value at the balance sheet date. Other contracts are valued at the current value of incoming cash flows. Options are valued using pricing models.

Notes to the financial statements

	% of shares and voting rights held by Group	% of shares held by parent company	Shares held by parent company		
			No.	Nominal value	Book value FIM 1 000
17. SHARES AND HOLDINGS					
SUBSIDIARIES, foreign					
Caribbean International Holdings Ltd., Cayman Islands	100.0	100.0	10 000	1	42
Enso-Eurocan Asia Pacific Ltd., Hong Kong	100.0	100.0	539 999	10	1 264
Enso Danmark A/S, Copenhagen	100.0	100.0	600	1 000	2 995
Enso (Deutschland) Verwaltungs GmbH, Hamburg	100.0	100.0	1	20 000 000	282 288
Enso Finance B.V., Amsterdam	100.0	100.0	500	1 000	1 038
Enso Fibres AG, Zürich	99.9	99.9	3 995	1 000	7 781
Enso France S.A., Paris	100.0	100.0	10 150	200	30 158
Enso (Holland) B.V., Amsterdam	100.0	100.0	174	1 000	6 907
Enso Iberica S.A., Madrid	99.9	99.9	1 398	100 000	4 151
Enso International Inc., Stamford	100.0	100.0	100	400	155
Enso Italia S.r.l., Milan	100.0	100.0	199 900	1 000	716
Enso Norge AS, Oslo	100.0	100.0	400	1 000	282
S.A. Enso N.V., Brussels	100.0	99.9	999	1 250	164
Enso Polska Sp.z o.o., Warsaw	100.0	100.0	1 000	100	161
Enso Portugal Lda, Lisbon	100.0	1.0	1	185 000	5
Enso Schweiz AG, Zürich	100.0	100.0	500	1 000	1 839
Enso Sverige AB, Uppsala	100.0	100.0	1 000	100	43
Enso Trading Handelsgesellschaft mbH, Vienna	100.0	100.0	1	500 000	111
Enso (UK) Ltd., Orpington	100.0	100.0	2 900 000	1	24 084
AS Lumiforest, Tallinn	100.0	100.0	2 126	1 000	9 416
Nordic Forest Development Holdings Pte Ltd., Singapore	100.0	100.0	100 000	1	299
Tecnal Corporation, Anacortes	70.0	70.0		1 000	0
Woodpax Nederland B.V., Emmeloord	100.0	100.0	1 150	1 000	0
Other foreign subsidiary shares					7
					373 907
SUBSIDIARIES, Finnish					
Corenso United Oy Ltd., Helsinki	71.0	71.0	110 760	1 000	154 699
Enocell Oy, Eno	98.4	98.4	25 200	10 000	1 196 000
Enso Cartonboards Oy Ltd., Anjalankoski	100.0	100.0	2 000 000	100	470 000
Enso Fine Papers Oy, Kemi	100.0	100.0	500 000	1 000	968 304
Enso Forest Development Oy Ltd., Imatra	100.0	100.0	10 000	100	2 000
Enso Paperikemia Oy, Oulu	100.0	100.0	20 000	1 000	80 000
Enso Publication Papers Oy Ltd., Helsinki	100.0	100.0	8 000 000	100	1 100 000
Enso Timber Oy Ltd., Helsinki	100.0	100.0	150 000	1 000	450 000
Enso-Yhteispalvelut Oy, Anjalankoski	100.0	100.0	100 000	100	40 000
Fortek Oy, Kemi	90.0	90.0	27 000	1 000	27 000
Kemijärven Sellu Oy, Kemijärvi	100.0	100.0	50 000	1 000	170 000
Keräyskuitu Oy, Helsinki	57.2	57.2	17 231	1 000	12 782
Laminating Papers Ltd, Helsinki	100.0	100.0	60 000	1 000	120 000
Lumi-Hamina Oy, Kemi	100.0	100.0	4 000	1 000	4 000
Lumi Shipping Oy, Kemi	100.0	100.0	480	10 000	4 800
Pakenso Oy, Heinola	100.0	100.0	5 500 000	20	115 590
Pakkaus-Piste Oy, Helsinki	100.0	100.0	13 600	150	1 000
Tornator Oy, Helsinki	80.7	75.6	1 014 100	100	237 625
Tervakoski Oy, Janakkala	100.0	100.0	1 000 000	100	200 000
Tornion Pakkauslava Oy, Tornio	100.0	100.0	400	5 000	2 000
Varenso Oy, Varkaus	100.0	100.0	10 000	1 000	30 000
Pankavara Insurance Company, Helsinki	100.0	100.0	219 999	100	34 245
Veitsiluodon Kiinteistöhuolto Oy, Kemi	99.9	99.9	7 496	100	750
Veitsiluoto Publication Papers Oy, Kemi	100.0	100.0	5 000	1 000	10 000
Shares in housing and real estate companies					38 073
					5 468 868

Notes to the financial statements

Main subsidiary shareholdings in sub-groups	Group holding %	Group holding %	
Oy Borgå Stuveri Ab, Porvoo	100.0	Pakenso Eesti AS, Tallinn	100.0
Berghuizer Papierfabriek N.V., Wapenveld	99.9	Pakenso Sweden Holding AB /	
Cie Brand & Ass. SA, Evry	100.0	Tambox AB, Jönköping	100.0
Cartiberia SA, Barcelona	51.0	Pankakoski Boards Oy Ltd., Lieksa	100.0
Enso Española S.A., Barcelona	100.0	Papeteries R. Soustre &	
Enso Papier Format GmbH, Lübeck	100.0	Fils S.A., St Seurin sur l'Isle	100.0
Expopak Oy, Ruovesi	100.0	Puumerkki Oy, Helsinki	100.0
Kittilä Wood Oy, Kittilä	75.0	RA Brand & Co. Ltd., Rugby	100.0
Lumipaper Limited, Mendlesham	100.0	Sachsen Papier Eilenburg GmbH, Eilenburg	100.0
Lumipaper N.V., Antwerp	100.0	Ulea Oy, Taivalkoski	100.0
Pakenso Baltika SIA, Riga	100.0	Oy Uni-Pak Ab, Kristiinankaupunki	100.0

	% of shares and voting rights held by Group	Group's share of share- holders' equity, FIM mill.	% of shares held by parent company	No. of shares held by parent company	Nominal value of shares held by parent company	Book value of shares held by parent company, FIM 1 000	Profit/loss in latest accounts, FIM mill.
ASSOCIATED COMPANIES, foreign							
Ladenso Oy, Pitkäranta	49.0	-	49.0	490		0	-
P.R.INT. Paper Recovery International GmbH, Hamburg	22.2	-	22.2	2	24 000	162	-
						162	
ASSOCIATED COMPANIES, Finnish							
Golfimatra Oy, Imatra	28.6	3.3	28.6	291	10 000	3 413	0.3
Herman Andersson Oy, Oulu	50.0	2.3	50.0	3 000	10	657	0.0
Oy Holy Ab, Helsinki	47.0	2.6	47.0	7 047	10	421	0.1
Kemi Shipping Oy, Kemi	50.0	5.0	50.0	140 000	10	1 394	1.6
Oy Keskuslaboratorio, Helsinki	29.9	5.8	29.8	1 094 886	1	1 608	4.6
Metsäteho Oy, Helsinki	24.0	0.5	24.0	40	5 000	400	0.5
Paperinkeräys Oy, Helsinki	30.4	12.5	30.4	27 372	10	198	1.8
Pohjolan Voima Oy, Oulu	20.3	842.0	20.3	6 808 539	10	1 347 725	-9.9
Steveco Oy, Hamina	36.7	91.4	36.7	11 017	1 000	14 848	59.6
Sunila Oy, Kotka	50.0	128.0	50.0	76 500	500	22 525	65.0
Suomen Puututkimus Oy, Helsinki	24.0	-	24.0	12	25 000	307	-
Shares in housing and real estate companies						15 345	
						1 408 840	
Sub-group associated companies							
Board Packaging Ltd., Amersham	33.3	0.4					0.0
Bois du Nord France SA, Fecamp ¹⁾	30.0	0.3					0.0
Bois du Nord (International) S.A., Evionnaz ¹⁾	30.0	8.3					0.7
Bois du Nord (Suisse) S.A., Evionnaz ¹⁾	30.0	0.7					0.3
Oy Paperi-Dahlberg Ab, Vantaa	35.0	12.9					9.3
Rauma-Enso Timber Sales Oy Ltd., Helsinki	50.0	4.8					5.9
WKC De Grift BV, Wapenveld	50.0	27.7					7.5
Österbergs Förpackningsmaskiner AB, Gothenburg	50.0	1.7					-1.5

¹⁾ Year ended 31 December 1995

Notes to the financial statements

	Other shares held by parent company			
	% of shares	No.	Nominal value	Book value
				FIM 1 000
OTHER COMPANIES				
Ekokem Oy Ab, Riihimäki	0.6	106	2 000	212
Finnlines Oy, Helsinki	5.8	1 102 590	10	11 424
Indekon Oy, Lappeenranta	3.1	10 000	100	1 250
Kemijoki Oy, Rovaniemi	0.6	13 800	100	96 380
Merita Foresta, Helsinki	4.3	5 000 000	1	5 000
Silja Oy Ab, Helsinki	7.9	1 717 847	20	68 138
Finnish Central Securities Depository Ltd, Helsinki	3.6	15	70 000	1 050
Oy Transfennica Ab, Helsinki	16.6	16 568	100	4 180
Sampo Insurance Company, Turku	2.9	412 331	20	118 238
FLAMAND, Treport	15.0	11 043	100	1 973
AS Imavere Saeveski, Imavere	19.9	3 749	1 000	4 341
S.I.N.B.P.L.A., Bouguenais	15.0	23 027	100	17 839
Other companies				10 166
Shares in housing and real estate companies				25 120
Telephone and electricity board shares				809
Deposits in public utilities				1 877
				367 997

Listed shares and investment fund participations owned by Enso Oy at 31 December 1996 had a market value of FIM 342.2 million and a book value of FIM 203.5 million. The corresponding figures for the Group were FIM 357.4 million and FIM 214.7 million. A complete list of parent company shares and holdings is enclosed with the company's annual accounts.

Proposed distribution of profit

The consolidated balance sheet shows distributable shareholders' equity of FIM 3 094 895 085.70 at 31 December 1996. The parent company's balance sheet shows distributable shareholders' equity of FIM 3 152 091 189.08 at 31 December 1996.

The Board of Directors proposes to the Ordinary Meeting of Shareholders that the profit for the financial year of FIM 625 096 998.10 be distributed as follows:

dividend of FIM 1.80	
per share	559 963 494.00
transfer to the	
General Reserves	2 500 000.00
to be retained	62 633 504.10
	<u>FIM 625 096 998.10</u>

Helsinki, 10 March 1997

Jukka Härmälä
Chairman
President & CEO

Juhani Pohjolainen
Vice Chairman
Senior Executive Vice President

Kimmo Kalela Pekka Laaksonen

Esko Mäkeläinen Paavo Pitkänen

Jouko Taukojärvi Paavo Uronen

Auditors' report

TO THE SHAREHOLDERS OF ENSO OY

We have audited the accounting records, the financial statements and the administration of Enso Oy for the financial period ended 31 December 1996. Enso Oy was formed through the consolidation merger of Enso-Gutzeit Oy and Veitsiluoto Oy on 1 May 1996. The financial statements of the new parent company are for the period 1 May to 31 December 1996. The pro forma consolidated financial statements have been prepared from the consolidated financial statements of the merging companies and relate to the period 1 January to 31 December 1996. The comparative figures for previous years have been obtained by combining the audited consolidated financial statements of the merging companies.

The accounts prepared by the Board of Directors and Managing Director include, for both the Group and the parent company, a report on operations, an income statement, a balance sheet, a statement of source and application of funds and notes to the financial statements. Based on our audit we submit the following statement on the accounts and administration.

We have conducted our audit in accordance with generally accepted auditing standards. We have audited the accounting records, and the accounts, disclosures and presentation of information, including the accounting policies, to an extent sufficient to give us reasonable assurance

that they are free from material misstatement. The audit of the administration has included obtaining assurance that the actions of the members of the Supervisory Board and Board of Directors and the Managing Director have been in conformity with the provisions of the Companies Act.

A continuous audit has been carried out during the financial period by SVH Coopers & Lybrand Oy (accountants) in conjunction with Enso's internal auditors, and we have studied the reports of this audit.

In our opinion, the accounts have been prepared in accordance with the Accounting Act and other relevant legislation and regulations, and give true and fair view of the results from operations for the parent company and the Group for the financial period and of the financial position at the balance sheet date. The accounts, including the consolidated financial statements, may be adopted and the members of the Supervisory Board and Board of Directors and the Managing Director may be discharged from liability for the financial period audited by us. The proposal of the Board of Directors to the Ordinary Meeting of Shareholders for the distribution of the parent company's profit is in accordance with the Companies Act.

We have read the interim reviews published during the financial period. In our view the financial reviews have been prepared in accordance with the relevant rules and regulations.

Helsinki, 17 March 1997

SVH Coopers & Lybrand Oy
Certified Public Accountants

Pekka Nikula, CPA

Statement of the Supervisory Board

The Supervisory Board of Enso Oy has examined the Company's accounts, including the consolidated accounts, as well as the Auditors' Report for 1 May - 31 Dec. 1996. As its statement to the Ordinary Meeting of Shareholders, to be held on 7 April 1997, the Supervisory Board submits that it has no comments to make re-garding the accounts, and concurs with the

proposal made by the Board of Directors for the distribution of profit for the year.

The terms of the following members of the Supervisory Board will expire at the 1997 Ordinary Meeting of Shareholders: Carl-Olaf Homén, Eeva Laatikainen, Ulla Lähteenmäki and Pekka Ruotsalainen.

Helsinki, 17 March 1997

Matti Louekoski
Chairman

Matti Väistö
Vice chairman

Krister Ahlström

Carl-Olaf Homén

Eeva Laatikainen

Ulla Lähteenmäki

Pekka Morri

Markku Mäkinen

Kauko Mäkivuoti

Pekka Ruotsalainen

Sisko Seppä



Kristian Krokors

BASIS industries

Kristian Kokkors



Enso launched an initiative for broad-based cooperation to study the ecological value of Karelia's forests.



Juhani
Pohjolainen
Vice
President

WOOD PROCUREMENT

Wood consumption by Enso's Finnish units was 21.2 million cubic metres, of which 16.8 million cubic metres was domestic wood and 4.4 million cubic metres was imported.

Enso owns about 600 000 hectares of forest containing 42.7 million cubic metres of standing timber. During 1996, 1.1 million cubic metres of wood with a stumpage value of FIM 167 million was obtained from Enso's own forests. Wood received from private forests totalled 9.3 million cubic metres and from other domestic sources 4.7 million cubic metres. Most imported wood comes from Russia and the Baltic countries.

ENSO'S WOOD

CONSUMPTION, mill. m ³	1996	1995
Procurement		
Private forests	9.3	11.0
Enso sawmills	1.6	1.5
Enso forests	1.1	0.6
Other domestic sources	4.7	3.1
Imported	4.4	5.6
Total	21.1	21.8
Consumption		
Enso mills	4.3	6.9
Subsidiaries	14.0	13.2
Associated companies	0.7	0.8
Deliveries to other mills	2.2	2.6
Total	21.2	23.5

Key figures

FIM million	1996	1995
Sales	5 727	6 468
Operating profit	256	1 082
Capital invested (incl. forests)	9 674	9 550
Investment	407	295
Personnel, 31 Dec.	3 369	3 664



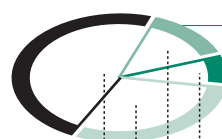
DIVISION'S CONTRIBUTION
TO GROUP SALES

Share of sales 20%



DIVISION'S CONTRIBUTION
TO GROUP OPERATING PROFIT

Share of operating profit 9%



DIVISION'S SALES
BY SECTOR

Sawmills 48%
Market pulp 30%
Wood procurement 14%
Energy 8%



A total of 18.3 million cubic metres of wood raw material was supplied to the Group's Finnish mills and 2.2 million cubic metres to other forest industry companies. Deliveries were 10.1% down on the year before. Deliveries to pulp mills were much lower than expected, and pulpwood stocks rose during the year. Domestic trading in wood raw material increased towards the end of the year. Prices were stable and year-end standing reserves were in line with the target. In December, the EU Commission gave its approval for wood trading to be conducted on an individual company basis. This will enable each forest products company to discuss terms for wood trading with representatives of forest owners.

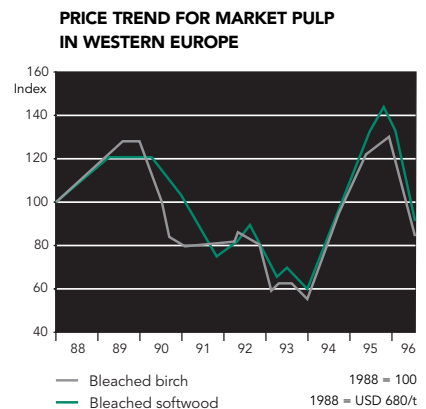
The main aim of the environmental principles for wood procurement approved by the Board of Directors in June is to secure the

biodiversity of forests. The personnel of Enso's Forest Operations unit and of Enso's contractors were familiarized with the legislation on forest and environmental protection that came into force on 1 January 1997 and trained to recognize key forest biotopes.

In October, Enso put forward an initiative for broad-based cooperation to investigate the ecological value of the forests in the 'green zone' of the Karelian Republic. During the investigation, Enso will suspend all wood procurement in the more than 1.5 million hectares of forest specified by environmental groups in the Karelian Republic. Enso is represented on a national working group that is preparing for forest certification. The aim is to produce a national standard for forest management that can be applied in both forest certification (FSC) and environmental management systems (ISO's EMS and the EU's EMAS). Enso is also involved in joint-Nordic work on certification and in devising ways to apply ISO's environmental management system to forests.

MARKET PULP

Production by Enso's chemical pulp mills in 1996 totalled 2.15 million tonnes, of which 1.74 million tonnes was used by the Group's own paper and board mills. Deliveries of market pulp by Enocell Oy, Kemijärven Sellu Oy and the Oulu mills were 440 000 tonnes, generating sales of around FIM 1 billion.



Market pulp prices fell sharply early in the year, and Norscan stocks rapidly rose from 2 million to 2.5 million tonnes. In April, prices for softwood pulp were under USD 500 /t and for short-fibre pulp ECU 300/t. Prices in the Far East were even lower. In response to increased demand for fine papers, pulp markets began to strengthen in May. By the end of June Norscan stocks had fallen to 1.5 million tonnes. However, supply increased during the summer and by the end of the year stocks had moved back up to almost 2 million tonnes. Prices steadied off at USD 560/t during the final months. Both Enocell Oy and Kemijärven Sellu Oy made losses.

Kemijärven Sellu Oy operated at 76% of capacity and Enocell Oy at 82%.

In the summer, production of birch pulp at Kemijärven Sellu Oy was discontinued. A small batch of acacia pulp was produced for tests at Enso's paper and board mills. The fibre line modernization at Kemijärvi progressed as planned and trials began at the beginning of September. The work, which cost almost FIM 280 million, will greatly raise production efficiency, improve pulp quality and reduce emissions.

At Enocell Oy, the main R&D projects concerned the impact of acidification prior to bleaching, the use of different chemicals in TCF pulp production, and improving pulp bleachability. The most important R&D work at Kemijärven Sellu Oy concerned raising the strength of softwood pulp, improving the economics of ECF and TCF bleaching, and working towards greater water cycle closure.



In November, Enocell Oy became the first Finnish forest industry company to be registered under the EU's Eco Management and Auditing Scheme (EMAS).

SAWMILLING

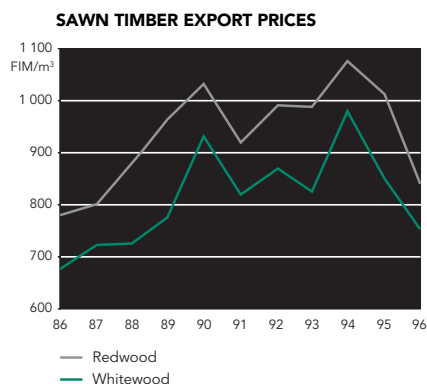
PRODUCTION m ³	1996	1995
Whitewood	910 232	974 859
Redwood	903 379	719 538

Sales for the Group's sawmilling operations were 4.3% down on the previous year at FIM 2 735 million. Veitsiluoto Oy's mechanical wood processing units were made part of Enso Timber Oy Ltd. on 1 January 1996. The fall in sawn timber sales prices in foreign currencies that began in 1995 came to an end during the summer and prices gradually began to rise in the final four months of the year. Shortages of sawlogs forced several mills to take downtime. Inkeroinen sawmill was closed down in September, and Koski sawmill went over to single-shift operation. Enso Timber Oy Ltd. made a loss.



Consumption of sawn timber in Europe, Enso's main market, was low throughout the year and production was reduced correspondingly. Poor profitability and extremely low raw material stocks led to further production curtailments early in the autumn, as a result of which whitewood prices began to rise slightly right at the end of the year. However, the slump in prices in 1995 was so marked that whitewood prices were 9.5% down and redwood prices 14.5% down on the previous year's averages.

European demand for sawn timber is rising only slowly, despite the greater building activity stemming from the slightly brighter economic outlook and the favourable trend in interest



rates. In North America and Japan sawn timber prices have started to rise. The rising trend in European prices is likely to bring a rapid increase in production.

Puumerkki Oy, which is responsible for distribution in Finland, returned sales of FIM 670 million. Its profitability was good.

The FIM 65 million investment at Kotka sawmill was completed on schedule and the mill began production at the turn of the year.

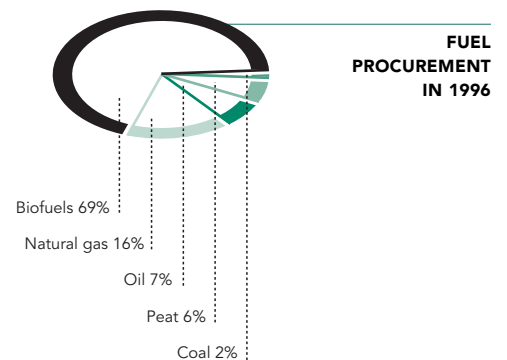
The ENSO STAR quality management model is a vital part of the development of operations at all sawmilling units.

ENERGY

Enso's electricity procurement in Finland in 1996 was 9 135 GWh, of which 7 245 GWh was used in-house and 1 890 GWh was sold to outside consumers. Teollisuuden Sähkömyynti Oy, of which Enso owns just under 20%, accounted for most of the electricity sold.

The electricity supplied by power plants owned by Enso and through shares in power companies covered 91% of Enso's domestic requirement. Enso's biggest power company shareholding is its 20.3% interest in Pohjolan Voima Oy, which corresponds to 730 MW.

Enso's foreign units consumed 550 GWh of electricity, almost all of which was generated in-house.



Fuel consumption by Enso's Finnish mills was 25 590 GWh. Biofuels represented 69% of this and domestic fuels 75%. Peat usage was over twice as high as in 1995 and will continue to grow in the next few years.

Part of Enso's energy strategy is to increase self-sufficiency. During 1996, a new back-pressure power plant generating 93 MW of electricity and 246 MW of heat was completed at the Veitsiluoto mills, and a 51 MW gas-fired combined cycle power plant was built at Enso Española S.A. Both will reduce environmental emissions.

The rise in energy prices was modest compared with the previous year. Enso joined the Finnish Electricity Exchange, which opened in August. Liberalization of the electricity market improved the profitability of electricity sales and procurement. Definite synergy benefits were obtained from combining Enso-Gutzeit's and Veitsiluoto's energy procurement functions.

In 1996, Enso paid FIM 119 million in energy taxes in Finland. The new energy taxation legislation that came into force on 1 January 1997 will increase this by about a third in 1997.

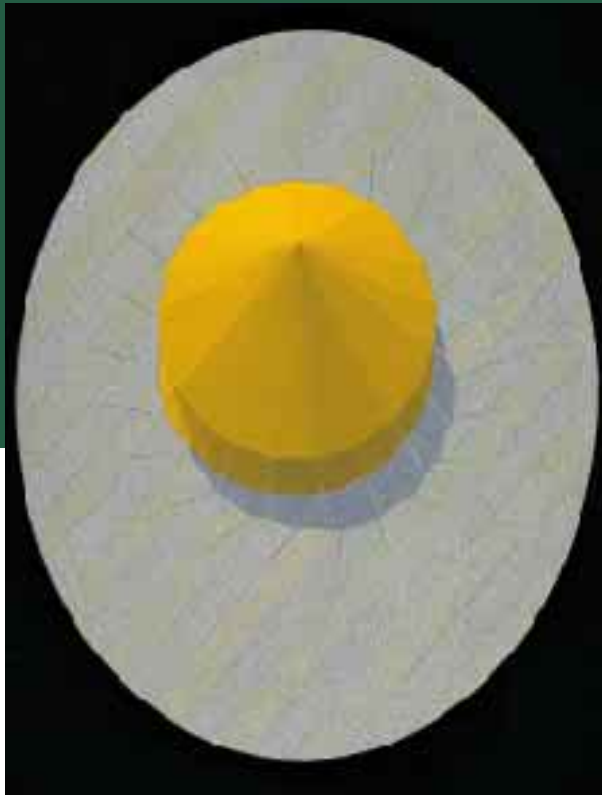


ELECTRICITY PROCUREMENT, GENERATING CAPACITY AND % BREAKDOWN	Electricity procurement GWh 1996	Electricity procurement GWh 1995	Capacity MW 31 Dec. 1996	Proportion procured %
Industrial co-generation	3 395	3 435	760	37
Hydro-power	931	1 040	173	10
Nuclear power	1 055	1 015	130	12
Condensing power	1 694	1 583	300	18
Purchased from outside	2 060	2 297	207	23
Total	9 135	9 370	1 570	100

ELECTRICITY CONSUMPTION AND % BREAKDOWN	Electricity consumption GWh 1996	Electricity consumption GWh 1995	Proportion consumed %
Industrial	7 245	7 502	79
Sales	1 890	1 868	21
Total	9 135	9 370	100

PACKAGING boards

Kristian Krokfors



Investing in greater competitiveness.



Pekka
Laaksonen
Vice
President

The division's sales were FIM 7 142 million, 2% down on the year before. Operating profit was FIM 984 million, which is FIM 310 million less than in 1995. The smaller sales and operating profit are due to the fall in sales prices for the division's products. Demand for almost all products was slack early in the year but improved after the summer. Total production of paperboard was up slightly at 1 510 000 tonnes. The Packaging Boards division's businesses are consumer packagings, corrugated board and paperboard tubes. Consumer packaging boards are manufactured by Enso Paperboards, which belongs to the parent company, and by the subsidiary Enso Cartonboards Oy Ltd. Liquid packagings and egg cells are produced by the consumer packagings unit of the subsidiary Pakenso Oy. Corrugated board is also produced by Pakenso Oy and corrugated board raw materials by Heinola fluting mill, which is part of the parent company. The manufacture of coreboard and paperboard tubes is handled by Corenso United Oy Ltd, which is owned 71% by Enso Oy and 29% by UPM-Kymmene Corporation.

Key figures

FIM million	1996	1995
Sales	7 142	7 286
Operating profit	984	1 294
Capital invested	7 155	6 839
Investment	489	590
Personnel, 31 Dec.	5 203	5 061

Production 1 000 t

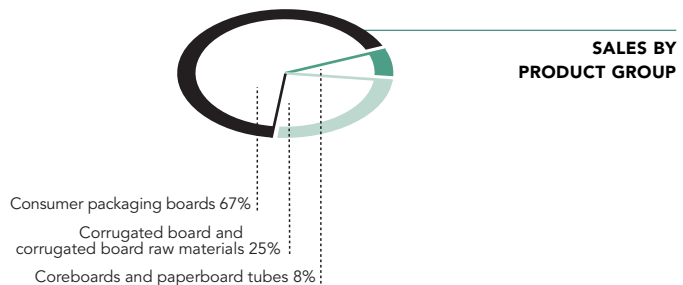
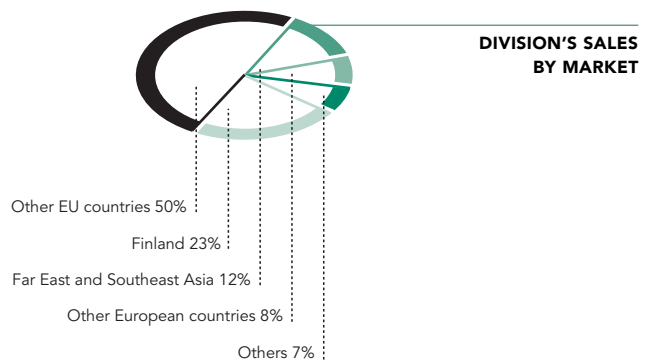
Consumer packaging boards	1 066	1 052
Corrugated board	306	293
Fluting	228	234
Coreboards	238	218



Share of sales 25%



Share of operating profit 36%



CONSUMER PACKAGINGS

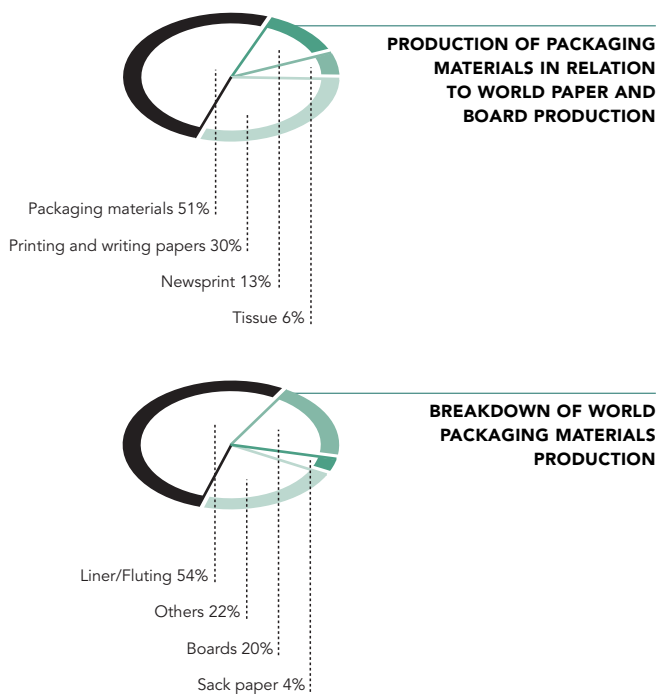
Demand early in the year was slack, particularly for cartonboards, and the shortage of orders resulted in downtime. The situation improved during the spring, however, and the board machines operated at full capacity during the last part of the year. Annual production records were set by Imatra's board machines 2 and 5 and by the board machines at the Ingerois and Enso Española S.A. mills. Enso Paperboards' financial results were poorer than last year, but Enso Cartonboards Oy Ltd. returned better profits. Several important investment projects were completed during the year. At Imatra, the new CTMP mill was started up in spring and a PE coating line in the early summer. Enso Española S.A.'s new gas-fired combined cycle power plant was completed, and the world's first industrial-scale Condebelt dryer went into operation on Pankakoski's board machine no. 3. The



Imatra and Pankakoski investments involved considerable research and development work. The investments, together with R&D efforts, are expected to improve cost-effectiveness in the next few years and to pave the way for the manufacture of new products. The investments have already started to improve competitiveness, particularly in the case of liquid packaging boards. An improvement in demand and a strengthening of prices are anticipated during 1997.

CORRUGATED BOARD

Demand in Finland was weak early in the year but improved during the summer to finish the year more than 2% up on 1995. In Sweden, demand for corrugated board was down on the year before, but exports to Russia continued to grow. The market for corrugated board raw materials bottomed out during the second quarter and prices began a slow rise.



Corrugated board manufacture was just as profitable as in 1995, but Heinola fluting mill, which produces the necessary fluting, returned a poorer financial result. The year's biggest investment was Pakenso Oy's corrugated board mill in Latvia, which began production in the summer. The most important new investment decision was to expand the Vikingstad corrugated board mill. The feasibility of building a machine to produce corrugated board raw material from recycled fibre at Eilenburg in Germany is being explored and a decision could be made during 1997.

PAPERBOARD TUBES

Annual production records were set at all Corenso United Oy Ltd's mills. Global demand for tubes for the paper industry was weak in the early part of the year but improved towards the end. The situation for tubes for the textile and plastics industries was the reverse, with demand stronger earlier in the year, notably in the Far East. Product prices fell considerably during the first half of the year, and financial results were poorer than in 1995. The recycled fibre plant that went into production at Varkaus in January has further strengthened Corenso's raw material base. In research and development work, the main focus was on the recycling of liquid packagings, particularly the handling and use of rejects. Demand for both coreboard and paperboard tubes is expected to improve in 1997.



Enso Paperboards

Sales : FIM 3 311 million
 Production: Paperboard 681 000 t
 Chemical pulp (incl. CTMP) 714 000 t
 Mills: Imatra and Karhula

Enso Cartonboards Oy Ltd.

Sales: FIM 1 512 million
 Production: Paperboard 385 000 t
 Mills: Inkeroinen, Pankakoski and Barcelona (Spain)

Heinola fluting mill

Sales: FIM 469 million
 Production: SC fluting 228 000 t
 Mills: Heinola

Pakenso Oy

Sales: FIM 1 347 million
 Production: Corrugated board, liquid packagings and egg cells 306 mill. m²
 Mills: Lahti, Heinola, Varkaus, Kristiinankaupunki, Ruovesi; Jönköping, Skene, Vikingstad (Sweden), Riga (Latvia) and Tallinn (Estonia)

Corenso United Oy Ltd.

Sales: FIM 560 million
 Production: paperboard 209 000 t
 paperboard tubes 29 000 t
 Mills: Pori, Varkaus, Loviisa, Imatra and Saint-Seurin-sur-l'Isle (France)

ENSO papers



Kristian Kroklors

Enso's own global marketing network ensures flexible sales for the Group's 2 million tonnes production.



Jouko
Taukojärvi
Vice
President

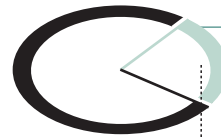
Demand for fine papers continued to follow the growth trend of recent years. Demand for coated grades rose 6% and for uncoated grades 2.5%. For both grades this represents an increase in production of about 1 million t/a, the equivalent of six modern fine paper machines a year. Investment decisions already made will result in over-capacity of around 1 million t/a for coated fine papers over the next three years. In the case of uncoated grades there will be a corresponding shortfall of about the same amount. Calculations predict an average capacity utilization rate for fine paper machines of 90% over the next three years. The prospects for a balance between supply and demand over this period appear poorest in Asia and best in America. For this reason, one of the keys to Enso's success is its global marketing network. Demand for office papers and graphic papers remained weak during the first half of the year. Prices continued to fall, in some cases by more than 20%. However, demand picked up during the summer as stocks fell, and orders exceeded European manufacturing capacity for almost the rest of the year. This pushed up prices, and a modest 5-10% price rise was successfully implemented after the summer holidays. Prices for speciality papers were steadier throughout the year than those for office and graphic papers.

Key figures

FIM million	1996	1995
Sales	6 865	8 273
Operating profit	-61	1 263
Capital invested	7 773	7 642
Investment	1 378	523
Personnel, 31 Dec.	4 517	4 586

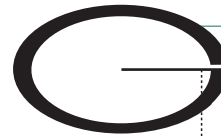
Production, 1 000 t

Graphic papers	508	409
Office papers	684	610
Digital papers and specialities	98	92



Share of sales 24%

DIVISION'S CONTRIBUTION TO GROUP SALES



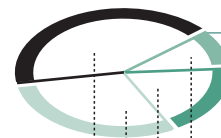
Share of operating profit 0%

DIVISION'S CONTRIBUTION TO GROUP OPERATING PROFIT



Other EU countries 70%
Finland 13%
Far East and Southeast Asia 6%
Other European countries 5%
Others 4%
North America 2%

DIVISION'S SALES BY MARKET



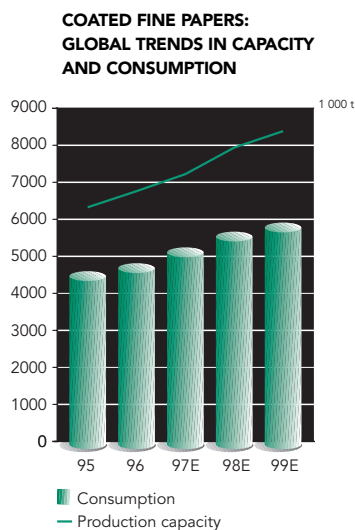
Office papers 42%
Graphic papers 30%
Others 18%
Speciality papers 10%

DIVISION'S SALES BY PRODUCT GROUP

The division's sales were 17% down on the previous year at FIM 6 865 million. The merger of Enso-Gutzeit Oy and Veitsiluoto Oy caused changes in the division's structure. Enso Fine Papers Oy has production at Imatra, Oulu, Varkaus and Veitsiluoto in Finland, and also in the Netherlands. The division also includes Tervakoski Oy, Lumipaper Ltd. and Fortek Oy. Uncertainty over the future ownership structure of fine paper manufacturers and increased supply due on the market with coming new capacity make it difficult to assess the prospects for profitability in 1997. The favourable economic trend in the main markets will ensure good demand. The modest price rises timed for the beginning of 1997 look like being successful.

GRAPHIC PAPERS

The first few months of the year were a difficult time for graphic papers. Falling market pulp prices pushed down prices for coated fine papers. Demand picked up in the second half of the year and was also exceptionally good during the summer holiday period. The competitive price of fine papers helped them to win market shares from woodcontaining grades. Prices were at their lowest in summer, when they were over 20% lower than at the start of the year. Prices rose by 6-8% during the second half of the year.



Growth in demand for coated fine paper is expected to remain at 6% in 1997, which in Europe's case means growth of more than 300 000 tonnes. The two new fine paper machines due to start up in Europe in 1997 will result in over-capacity. Through its own marketing network, Enso will place over one-third of its growing production capacity outside Europe.

The next round of price rises is scheduled for March.

OFFICE PAPERS

The poor demand for office papers which had started in 1995 reduced capacity utilization for office paper machines and sheeting plants, particularly at the start of the year. Prices bottomed out in July, by which time they had fallen by over 20%. Although prices were raised in the autumn, the 6-10% increase was not enough to restore profitability.

Demand for uncoated fine paper is expected to grow by 2.5% in 1997. The growth forecast for Enso's range of products is 5% due to the substantially greater contribution from copier papers.

In Europe, no significant decisions have been taken to increase capacity, so that supply and demand will be much more balanced than on the graphic papers market. In Asia, on the other hand, several projects are under way that will increase the supply of office papers, and this could increase supply in Europe, too.

The 5-10% price rises timed for February-March are being accepted by the market.

SPECIALITY PAPERS AND DIGITAL PRINTING PAPERS

Orders for thin printing papers and papers for the cigarette industry, which are the main products, improved towards the end of the year. While demand for these papers was good, that for other specialities was below expectations, and prices fell. The steady trend in prices for raw materials and products is likely to improve the profitability of speciality paper manufacture in 1997. Enso has retained its quality leadership on the world market for digital printing papers through a major development effort in conjunction with major manufacturers of photocopiers and printing presses.

INVESTMENT

The division's capital expenditure in 1996 was FIM 1 378 million. The most important investment of the year was the new fine paper machine at Oulu, which will start up in May 1997. Several small investments were made at Oulu concerning the coater and wood handling for the mill's PM 6. At Imatra, a soft calender was acquired for PM 6, and the winder and wrapping station for PM 8 were modernized. The rebuild of Tervakoski's PM 8, which began in 1995, was completed. Investments in environmental protection were made at Imatra, Veitsiluoto and Varkaus.

The biggest investment project in 1997 will again be the Oulu fine paper machine. A soft calender will be acquired for Berghuizer's PM 8.

RESEARCH AND DEVELOPMENT

The main focus of graphic papers R&D was on the Lumi 7 project. LumiMatt and LumiFlex, two new papers developed in-house, were brought onto the market. Development work continued on digital papers and RCF-containing office papers. In pulp bleaching, closure of water cycles and ways of achieving greater bleaching efficiency were extensively studied.



Enso Fine Papers Oy¹⁾

Sales: FIM 5 655 million
Production: graphic papers 508 000 t
office papers 688 000 t
speciality papers 17 000 t
Mills: Imatra, Oulu, Varkaus, Veitsiluoto;
Wapenveld (The Netherlands)

Tervakoski Oy

Sales: FIM 597 million
Production: speciality papers 76 000 t
Mills: Tervakoski

Lumipaper Ltd.

Sales: FIM 20 million
Production: Sheeting 21 800 t
Mills: Mendlesham (U.K.)

¹⁾ Includes figures for Berghuizer Papierfabriek N.V.

PUBLICATION papers

Kristian Krokbø



Sachsen Papier's new world speed record
is 1 652 m/min.

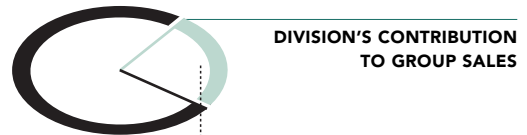


Kimmo
Kalela
Vice
President

Sales for the Publication Papers division in 1996 were FIM 7 482 million, 6% less than the year before. Operating profit was FIM 1 268 million, 17% of sales (14% in 1995). The division again returned a good financial result, despite the deterioration in the market. The economic situation in the division's buyer countries was weaker than anticipated in 1996, and this led to lower prices and poorer profitability in the second half of the year. However, stronger demand and prices and better profitability are expected during the latter half of 1997. The prospects on the division's main markets are reasonably good, and in Great Britain extremely good. European integration and restructuring within the forest industry will help to strengthen the trend. In preparation for the merger of Enso-Gutzeit Oy and Veitsiluoto Oy, Veitsiluoto's publication papers units were formed into a company on 1 January 1996 and made part of Enso's Publication Papers division. The company, Veitsiluoto Publication Papers Oy, was then merged with Enso Publication Papers Oy Ltd on 1 January 1997. Laminating Papers Ltd was made part of the division on 1 January 1996 and Keräyskuitu Oy on 1 July 1996.

Key figures

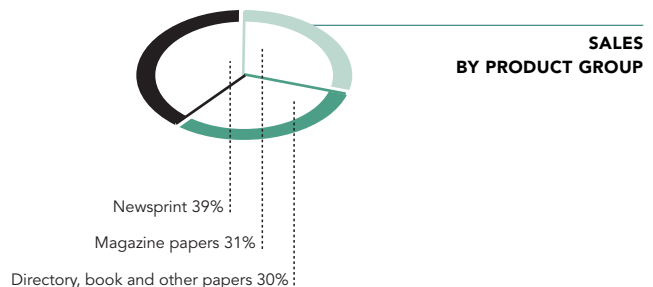
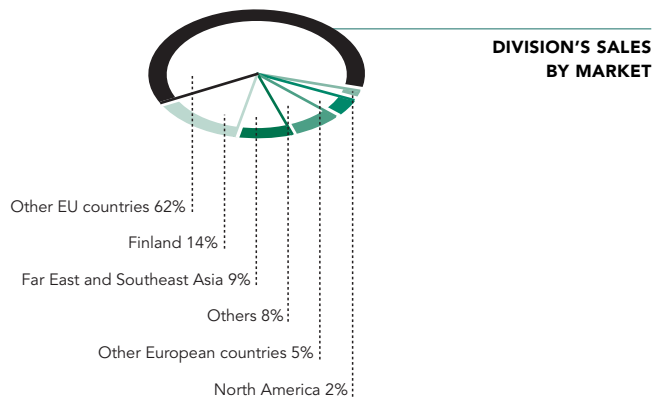
FIM million	1996	1995
Sales	7 482	7 970
Operating profit	1 268	1 101
Capital invested	8 017	7 685
Investment	416	362
Personnel, 31 Dec.	4 053	3 920
Production, 1 000 t		
Newsprint	857	848
Magazine papers	698	763
Book papers and directory papers	208	193
Laminating papers	129	144
Deinked pulp	150	30



Share of sales 25%



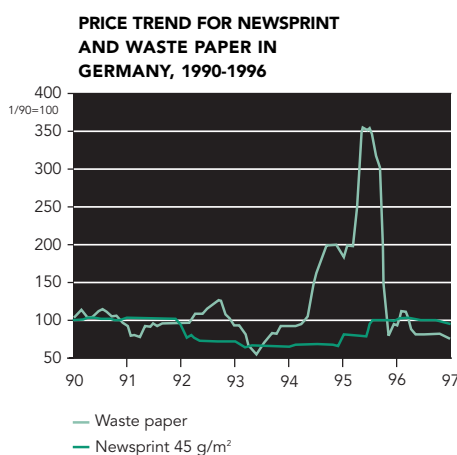
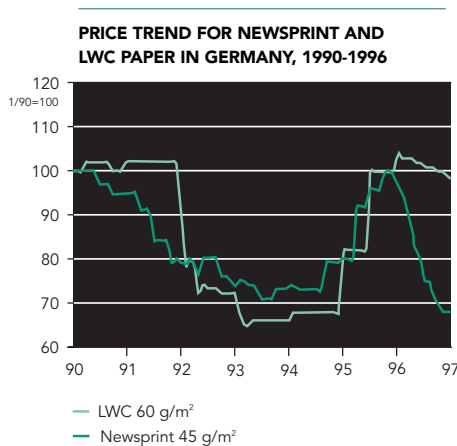
Share of operating profit 46%



Veitsiluoto's publication papers were successfully incorporated into the division's product range during 1996. Veitsiluoto became the first LWC paper manufacturer to be awarded the right to use the Nordic environmental label; the papers concerned are LumiBlade and LumiNova. Collaboration with the Fine Papers division in the marketing of coated grades was intensified. The ENSO STAR quality management programme has been made part of business development at all the division's units. The Varkaus and Veitsiluoto business units both made the TOP FIVE list in the 1996 ENSO STAR competition.

NEWSPRINT

The market for newsprint remained good during the early part of 1996, and price rises of



5-10% were introduced on the main markets. However, slackening demand in North America prompted greater supplies of Canadian paper to Western Europe, with the result that some of the ground gained in prices was lost during the second half of the year. Consumption of newsprint in Western Europe rose by less than 1% in 1996. Newsprint machines operated at around 90% capacity. Nevertheless, the excellent financial results early in the year meant that profits for the year as a whole were good. Sachsen Papier Eilenburg GmbH set several world speed and production records during its second full year of operations. The unit's profitability was good.

Recycled fibre prices fell to DEM 100/t in spring 1995 because of declining demand. Prices then remained stable, but fell again in November 1996 to DEM 80-90/t. RCF prices are expected to remain stable during the early part of 1997.

Newsprint prices on the main markets will fall at the start of 1997, but a strengthening of the market is expected in the second half of the year due to lower stocks and rising demand. This could raise capacity utilization rates above 90%. However, financial results for 1997 as a whole are forecast to be much poorer than in 1996.

MAGAZINE PAPERS

Magazine paper deliveries in Europe were well down on 1995, mainly due to reductions in buyers' stocks and a shift in demand towards competing paper grades. Prices began to fall in the first half of 1996.

Low market pulp prices improved profitability, and the financial result for the year was satisfactory. The pronounced deterioration in the market kept the capacity utilization rate down to 80%. Delivery volumes are expected to be higher in 1997.

BOOK PAPERS

Enso is Europe's leading supplier of book papers. Demand for these papers was fairly steady in 1996. The new coated grades produced by the Anjala business unit have further consolidated the division's position as a supplier of high-quality book papers. Profitability was satisfactory in 1996, but 1997 is likely to be a much more difficult year.

DIRECTORY PAPERS

Both demand and prices remained strong, allowing the Varkaus business unit to return a good financial result. Increasing competition, combined with new printing and papermaking technology, could reduce the unit's profitability. A more difficult, although still profitable, year is forecast for 1997.

INVESTMENT AND R&D

Capital expenditure by the division in 1996 was FIM 416 million. The main item was the modernization of the PM 5 production line at the Veitsiluoto mill, involving the headbox, wire section and coating stations. This has improved the quality of LumiBlade and added 65 and 70 g papers to the LumiNova family.

The most significant investment projects planned for 1997 concern improving the quality of newsprint and directory paper reels at Varkaus and further development of the printability and runnability characteristics of Summa's paper. Important investments in environmental protection will also be made at Summa and Veitsiluoto.

Research and development work was strengthened by bringing all the units, business areas and the marketing network together into an efficient R&D function.



Enso Publication Papers Oy Ltd.¹⁾

Sales:	FIM 6 691 million
Products:	Newsprint 857 000 t Magazine papers 698 000 t Book papers 92 000 t Directory papers 116 300 t
Mills:	Anjala, Kotka, Summa, Varkaus, Veitsiluoto; Eilenburg (Germany)

Laminating Papers Ltd

Sales:	FIM 572 million
Product:	Laminating papers 129 000 t
Mills:	Kotka, Imatra

¹⁾ Includes figures for Sachsen Papier Eilenburg GmbH

Forest chemicals



The Forest Chemicals division was formed from Forchem Oy, which distills crude tall oil and turpentine, and Enso Paperikemia Oy, which manufactures chemicals for the pulp and paper industry. The division also included Tecnal Corporation, which makes distillation products from crude turpentine at its plant at Anacortes on the west coast of the United States.

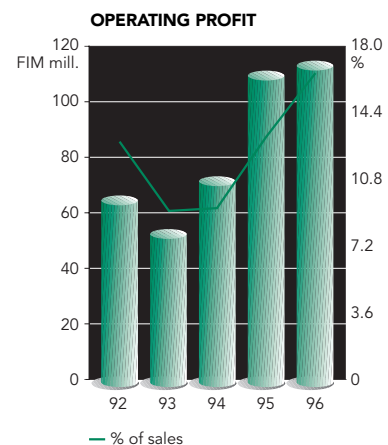
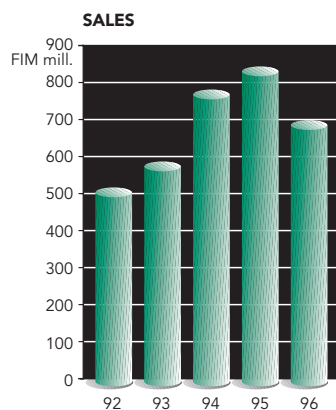
In accordance with the Enso Group's strategy, it was decided to sell the forest chemicals business and to concentrate on developing the

core businesses, which are paper and board manufacture. Accordingly, Enso Oy sold its shares in Forchem Oy to a new owner at the end of August 1996. Enso Paperikemia's business was sold at the beginning of 1997. The sale of Tecnal Corporation is still being negotiated. The sales released capital of around FIM 1 billion.

The two companies sold have a good opportunity to develop their business operations under the direction of their new owners, which specialize in chemicals.

The Forest Chemicals division had sales of FIM 676 million and an operating profit of FIM 111 million in 1996. This good financial result was helped by the favourable trend in prices for forest chemicals and by growth in deliveries to Enso Oy's own units, in particular latex for paper coating and sodium chlorate for use in pulp bleaching.

A total of FIM 10 million was spent on laboratory modernizations and production process improvements. Latex production and quality are being developed to cater for the greater need for paper coating materials when Oulu's PM 7 starts up.



Computation of key indices

$$\text{RETURN ON INVESTMENT (\%)} = 100 \times \frac{\text{Result after financial items + interest and other financial expenses}}{\text{Total assets - interest-free liabilities}^{1)}$$

$$\text{RETURN ON EQUITY (\%)} = 100 \times \frac{\text{Result after financial items - taxes for the period}}{\text{Equity + minority interests + accumulated adjustments}^{1)}$$

$$\text{EQUITY RATIO (\%)} = 100 \times \frac{\text{Equity + minority interest + accumulated adjustments}}{\text{Total assets - advance payments}}$$

$$\text{NET INDEBTEDNESS} = \text{Liabilities - current assets}$$

$$\text{INTEREST-BEARING NET LIABILITIES} = \text{Interest-bearing liabilities - interest-bearing financial assets}$$

$$\text{GEARING RATIO (\%)} = 100 \times \frac{\text{Interest-bearing net liabilities}}{\text{Equity + minority interest + accumulated adjustments}}$$

$$\text{EARNINGS PER SHARE} = \frac{\text{Result after financial items - taxes - minority interest}}{\text{Share issue-adjusted average number of shares for the period}}$$

$$\text{EQUITY PER SHARE} = \frac{\text{Equity + accumulated adjustments}}{\text{Share issue-adjusted number of shares at the end of the period}}$$

$$\text{DIVIDEND PER SHARE} = \frac{\text{Dividend for the period}}{\text{Share issue-adjusted number of shares at the end of the period}}$$

$$\text{EFFECTIVE DIVIDEND YIELD (\%)} = 100 \times \frac{\text{Dividend per share}}{\text{Share issue-adjusted share price at the end of the period}}$$

$$\text{PAYOUT RATIO (\%)} = 100 \times \frac{\text{Dividend per share}}{\text{Earnings per share}}$$

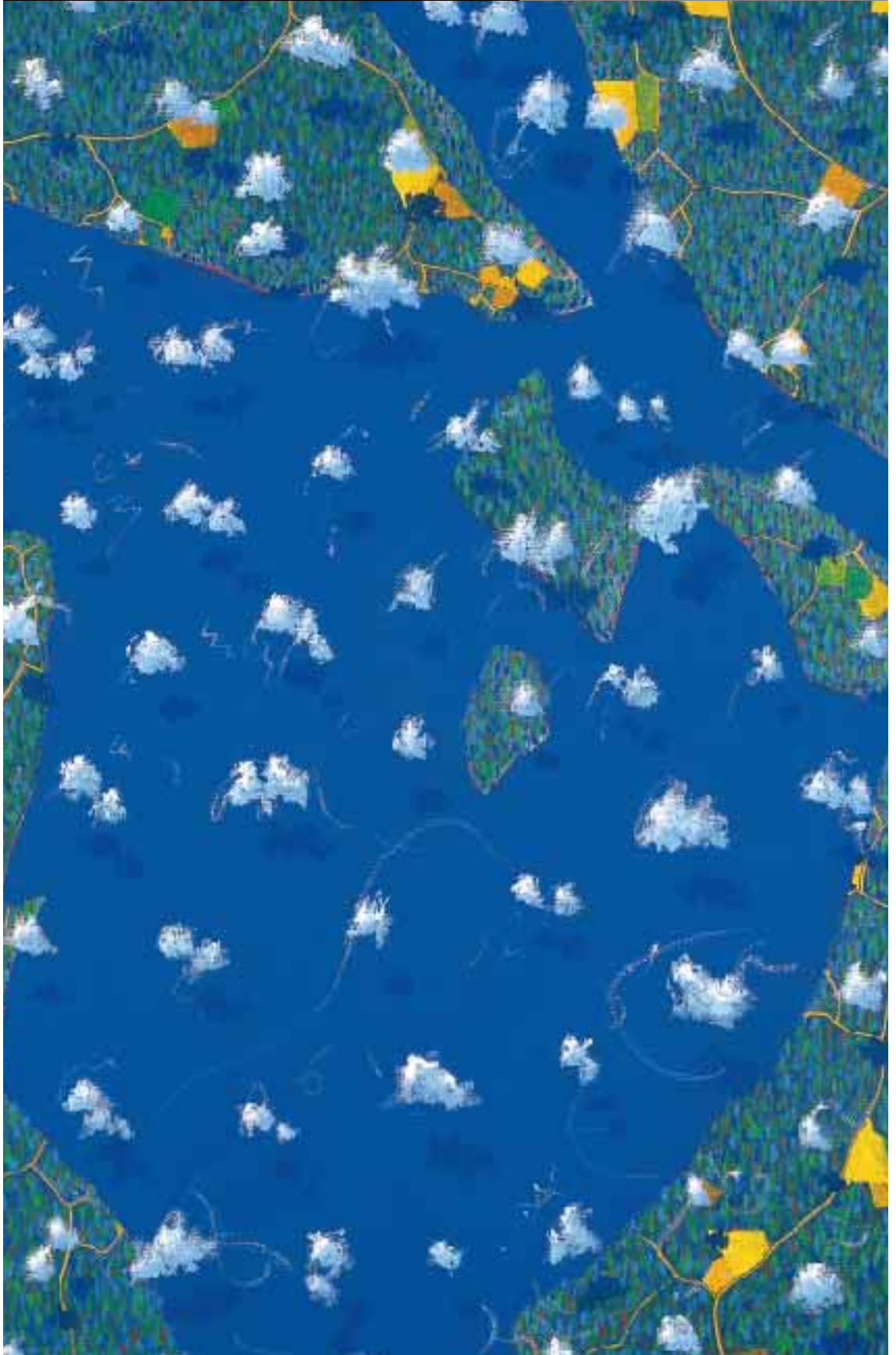
$$\text{AVERAGE SHARE PRICE} = \frac{\text{Total value of shares traded}}{\text{Share issue-adjusted number of shares traded during the period}}$$

$$\text{MARKET CAPITALIZATION} = \text{Number of shares at the end of the period multiplied by stock exchange prices per A and R share at the end of the period}$$

$$\text{RESULT AFTER FINANCIAL ITEMS} = \text{Result before extraordinary items and taxes, as "other income and expenses" only includes extraordinary items}$$

¹⁾ Average for beginning and end of financial period.

Financial review of environmental protection



Financial review of environmental protection

Enso's basic raw materials are primary fibre and recycled fibre obtained from its main markets. In order to avoid any risks to the environment during wood procurement, Enso has introduced forest management procedures designed to preserve natural biodiversity, worked to develop forest certification, and stepped up control over the origins of its wood raw material.

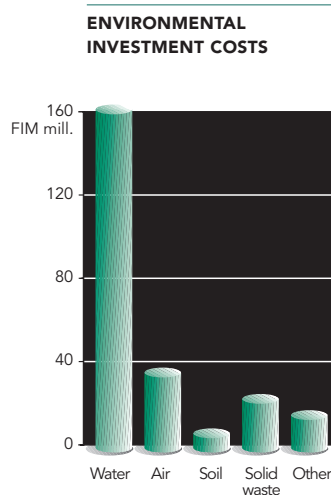
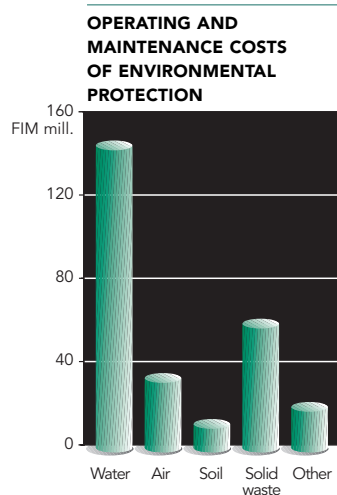
In October 1996, backed by WWF and the Finnish Association for Nature Conservation, Enso put forward an initiative for broad-based cooperation to investigate the ecological value of forests in the Karelian Republic. At the same time, Enso announced that it would not accept wood from those areas in the Karelian Republic and around Murmansk specified by environmental organizations. This restriction is valid for one year, but can be extended until such time as the investigation is complete and a proper understanding reached on the utilization of these forests. Enso has also tightened controls in imported wood. For each stand, the seller is required to provide a certificate of origin clearly indicating the source of the wood. In addition, auditors have been appointed to inspect felling work in areas near the Russian border before

the wood is delivered to Enso. Wood procured from further afield is inspected by means of random samples.

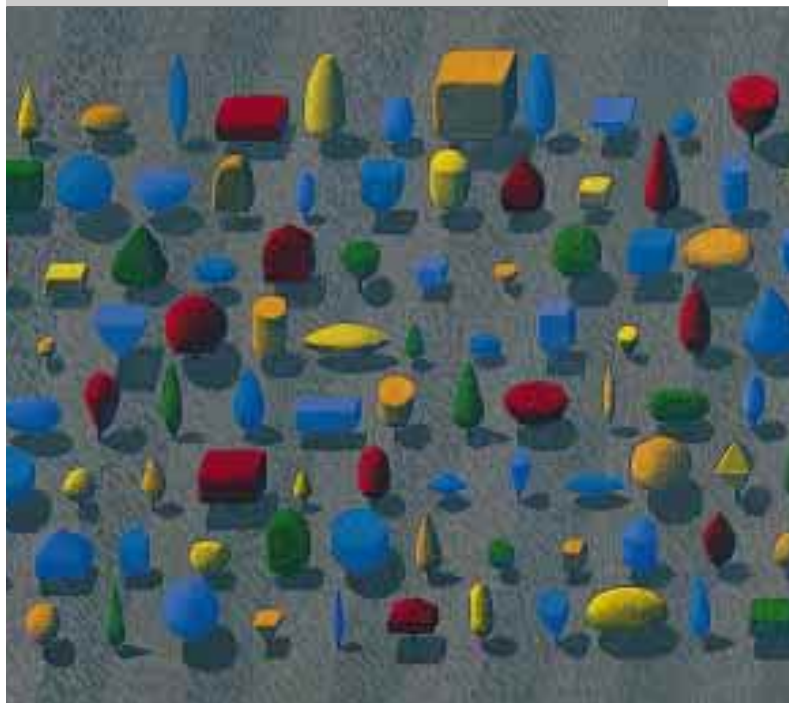
Enso is constantly developing and introducing new ways to improve its processes, the recycling properties of forest products and the recovery and use of production wastes. All products manufactured by Enso can be recycled. The Enso Group's annual consumption of recycled fibre is 800 000 tonnes, which represents 16% of the total raw material used in its paper production.

At those of its mills using recycled fibre, Enso seeks to optimize fibre consumption in relation to its availability, quality and price in such a way that the end product meets not just customers' expectations but also the environmental demands placed on high-quality fibre-based products.

In accordance with its energy strategy, Enso seeks to use energy ever more efficiently and to reduce the emissions from its generation. A new back-pressure power plant designed to burn largely wood waste was completed at Veitsiluoto's mills during 1996.



Financial review of environmental protection



Kristian Kroffors

ENSO'S ENVIRONMENTAL LOADINGS, 1996

Wood raw material consumption	19 mill. m ³
Recycled fibre consumption	800 000 t
Electricity consumption	7 245 GWh
Fuel consumption	25 590 GWh
Water consumption	368 891 100 m ³
COD	83 710 t
P	111 t
Emissions to air:	
CO ₂ from non-renewable fuels	2 411 000 t
CO ₂ from renewable fuels	7 224 000 t
CO ₂ total	9 635 000 t
SO ₂	4 663 t
NO _x (NO ₂)	8 366 t
Waste for landfill	330 430 t
Production for sale	
Chemical pulp	440 000 t
Paper, board, etc.	5.1 mill. t
Sawn timber and processed goods	1.8 mill. m ³

A similar plant burning wood waste and peat will go into operation at Enso's Oulu mills early in 1997. A combined cycle gas-fired power plant started up at Enso Española S.A.'s mills in November. The power plant at Tervakoski changed over from coal to natural gas, also in November.

At the Uimaharju mills, a plant to produce pellets from bark ash is to be built to reduce amounts of solid waste. The plant will be the first of its kind in the Nordic countries. Production will start this June and the product will be used as forest fertilizer.

Environmental management systems are an important part of Enso's quality management. In November, Enocell Oy became the first forest industry unit in Finland to be registered under the EMAS scheme. Enso's Board of Directors has decided that all Enso's units

should be ready for EMAS certification by the end of 1998.

SPENDING ON ENVIRONMENTAL PROTECTION

Enso's environmental protection expenditure in 1996 was FIM 480 million, 1.9% of sales. The figure includes capital expenditure as well as operating and maintenance costs, but excludes interests and depreciation.

Enso invested FIM 227 million in environmental protection in 1996, 9.1% of the Group's total investment. For the Finnish forest industry as a whole, environment-related investment represented 7.9% of total investment in 1995. In the next few years Enso's need for environmental protection investment will be smaller than in 1996.

Investment in environmental protection is either external or internal. External investment means striving to reduce environmental loadings through measures outside the production process. Examples include filters, washers and biological effluent treatment. Internal measures are designed to reduce environmental loadings by improving the operation of the production process. This means introducing new process technology designed to help close water and other cycles. Internal measures can also lead to better product quality and greater competitiveness.

Environment-related operating and maintenance expenditure totalled FIM 253 million in 1996.

Operating and maintenance costs include all costs related either directly or indirectly to environmental protection.

ENVIRONMENTAL RISKS AND RESPONSIBILITIES

Enso has carried out soil tests to determine the possible need for clean-ups at its production plants. Soil remediation work continued during 1996. The biggest such operations are at Oulu and Joroinen, where the cost of work carried out in 1996 totalled FIM 2.1 million. Work is continuing to determine the need for soil clean-ups at the Tervakoski Oy and Oulu mills. Enso has made a reserve on its balance sheet of FIM 4 million in respect of future environmental expenditure.

The recent changes in the Group's structure have had no material effect on environmental responsibilities.

Enso is publishing an environmental report for 1996 giving details of the environmental impacts of the Group's entire production chain.



Enso Oy's Board of Directors

*Chairman
Jukka Härmälä
born 1946, B.Sc. (Econ.),
President and CEO, Enso Oy*



*Vice Chairman
Juhani Pohjolainen
born 1938, M.Sc. (Eng.),
Senior Executive Vice President,
Enso Oy*



*Kimmo Kalela
born 1941, M.Sc. (Eng.),
Executive Vice President,
Enso Oy*



*Pekka Laaksonen
born 1956, M.Sc. (Econ.),
Executive Vice President,
Enso Oy*



*Esko Mäkeläinen
born 1946, M.Sc. (Econ.),
Executive Vice President,
Enso Oy*



*Paavo Pitkänen
born 1942, M.A., President,
Eläke-Varma Mutual
Insurance Company*



*Jouko Taukojärvi
born 1941, M.Sc. (Econ.),
Executive Vice President,
Enso Oy*



*Paavo Uronen
born 1938, Professor, Chancel-
lor, Helsinki University of
Technology*



*Deputy member
Pentti Juvakka
born 1938, M.Sc. (Eng.),
Executive Vice President,
Enso Oy*



Enso Oy's Supervisory Board and Auditors

The duties of the Supervisory Board, as laid down in the Articles of Association, are:

- 1) to supervise the management of the company by the Board of Directors and the President;
- 2) to approve the number of ordinary and deputy members of the Board of Directors, to appoint and dismiss the Chairman, the Vice Chairman and other ordinary and deputy members of the Board of Directors, the Company's President and his Deputy or the Executive Vice President, and to determine their salaries and remunerations;
- 3) to decide on any major reduction or expansion of the company's operations or any other substantial changes in the organization of the company;
- 4) to give instructions to the Board of Directors on matters of important policy and/or of far-reaching significance;
- 5) to present a report on the company's accounts and the Auditors' Report to the Annual General Meeting; and
- 6) to decide on convening General Meetings of shareholders..

SUPERVISORY BOARD

elected 7 September 1995

Matti Louekoski, Chairman, born 1941, Bank Director, member of the Board of Directors of the Bank of Finland

Matti Väistö, Vice Chairman, born 1949, Member of Parliament

Krister Ahlström, born 1940, President & CEO of A. Ahlstrom Corporation

Carl-Olaf Homén, born 1936, Managing Director (retired),

Industrial Insurance Company Ltd

Eeva Laatikainen, born 1962, Lawyer, Union of Professional Engineers in Finland

Ulla Lähteenmäki, born 1939, Professor, Director of Centre for Metrology and Accreditation

Pekka Morri, born 1939, Director, Social Insurance Institution

Markku Mäkinen, born 1945, Director General of the Ministry of Trade and Industry

Kauko Mäki vuoti, born 1938, Agent for Puutyöväenliitto, Oulu office

Pekka Ruotsalainen, born 1947, Managing Director of Imatran Seudun Kehitysyhtiö Oy

Sisko Seppä, born 1954, Group Secretary, Parliament

PERSONNEL REPRESENTATIVES PARTICIPATING IN THE WORK OF THE SUPERVISORY BOARD:

Terho Ahonen, born 1949, Shift Manager

Veijo Juuti, born 1944, Metering Supervisor

Pentti Komi, born 1939, Repair Worker

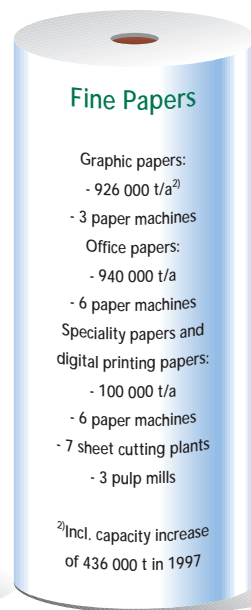
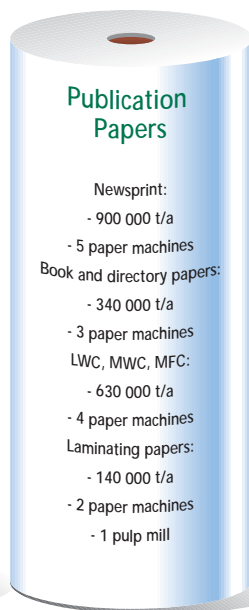
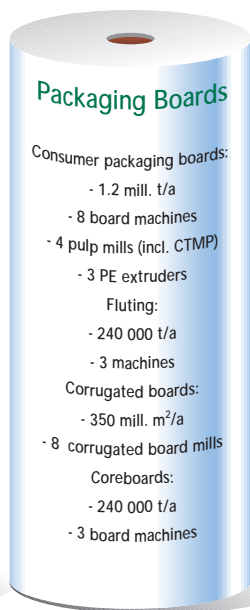
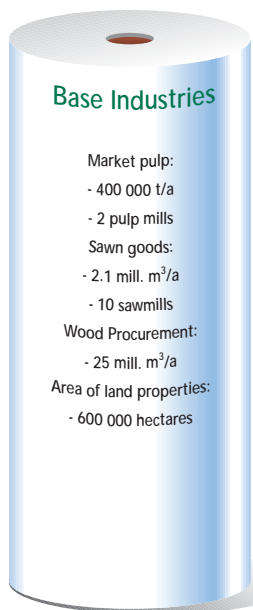
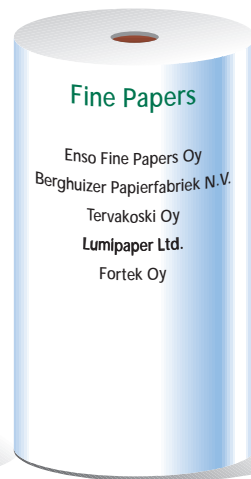
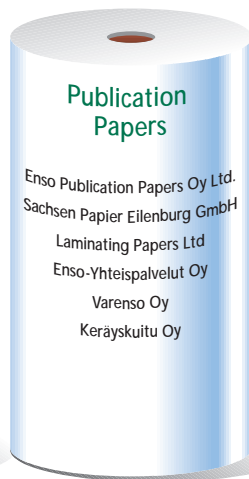
AUDITORS

SVH Coopers & Lybrand Oy, Corporation of Certified Public Accountants, with Pekka Nikula, CPA, as responsible auditor

Enso's organization



¹⁾ Vice Chairman,
Senior Executive Vice President
²⁾ Deputy Member



Kristian Krokfors



Enso Oy's production plants

	Location	Type of plant	Annual capacity
BASE INDUSTRIES			
Forest Operations	Imatra	Wood procurement	25.0 mill. m ³
Enso Timber Oy Ltd.			
Honkalahti Sawmill	Joutseno	Sawmill	385 000 m ³
Kitee Sawmill	Kitee	Sawmill	300 000 m ³
Koski Sawmill	Hämeenkoski	Sawmill	50 000 m ³
Kotka Sawmill	Kotka	Sawmill	190 000 m ³
Tolkinen Sawmill	Porvoo	Sawmill	250 000 m ³
Uimaharju Sawmill	Eno	Sawmill	250 000 m ³
Varkaus Sawmill	Varkaus	Sawmill	280 000 m ³
Veitsiluoto Sawmill	Kemi	Sawmill	200 000 m ³
Kittilä Wood Oy	Kittilä	Sawmill	30 000 m ³
Ulea Oy	Taivalkoski	Sawmill	70 000 m ³
Further processing	Joutseno, Kotka	Planning mills	150 000 m ³
Tornion Pakkauslava Oy	Tornio, Kemi	Packaging pallets	720 000 pcs
Enocell Oy	Eno	Sulphate pulp mill	550 000 t
Kemijärven Sellu Oy	Kemijärvi	Sulphate pulp mill	210 000 t
PACKAGING BOARDS			
Enso Paperboards	Imatra	Board machine 1	150 000 t
		Board machine 2	210 000 t
		Board machine 4	230 000 t
		Board machine 5	220 000 t
		Pulp mill (TA)	180 000 t
		PE extruder 3	90 000 t
	Karhula	PE extruder 4	50 000 t
		PE extruder 5	120 000 t
		CTMP plant	200 000 t
Imatra Mills	Imatra	Imatran pulp	600 000 t
Heinolan Fluting Mill	Heinola	Fluting mill	250 000 t
Pakenso Oy			
Lahti Mills	Lahti	Corrugated board mill	50 000 t
		Pure-Pak blank factory	30 000 t
Heinola Mills	Heinola	Corrugated board mill	25 000 t
Varkaus Mills	Varkaus	Food packaging plant	3 500 t
Oy Uni-Pak Ab	Kristiinankaupunki	Corrugated box factory	7 000 t
Expopak Oy	Jäminkipohja	Corrugated board mill	10 000 t
Formeca Oy	Lahti	Packaging machine plant	
Pakenso Baltika SIA	Latvia, Riga	Corrugated board mill	25 000 t
Pakenso Eesti AS	Estonia, Tallinn	Corrugated box factory	2 000 t
Tambox AB			
Jönköping Factory	Sweden, Jönköping	Corrugated board mill	30 000 t
Skene Factory	Sweden, Skene	Corrugated board mill	25 000 t
Vikingstad Factory	Sweden, Vikingstad	Corrugated board mill	25 000 t

Enso Oy's production plants

	Location	Type of plant	Annual capacity
PACKAGING BOARDS			
Enso Cartonboards Oy Ltd.			
Ingerois Board Mill	Anjalankoski	Board mill	175 000 t
		Sheet cutting plant	110 000 t
Pankakoski Boards Oy Ltd.	Liekka	Groundwood mill	50 000 t
		Board mill	100 000 t
		Further processing plant	35 000 t
Enso Española S.A.	Espanja, Barcelona	Board mill	145 000 t
		Sheet cutting plant	85 000 t
Cartiberia, S.A.	Espanja, Barcelona	Sheet cutting plant	25 000 t
Ensopack Ltd.	Barbados, St. Michael	Packaging factory	4 000 t
Corenso United Oy Ltd.			
Pori Mills	Pori	Board mill	100 000 t
		Tube factory	8 000 t
Varkaus Mills	Varkaus	Board mill	80 000 t
Imatra Factory	Imatra	Tube factory	5 000 t
Loviisa Factory	Loviisa	Tube factory	22 000 t
Papeteries R. Soustre & Fils S.A.	France, Bordeaux	Board mill	70 000 t
FINE PAPERS			
Enso Fine Papers Oy			
Imatran Business Unit	Imatra	Paper Machine 6	90 000 t
		Paper Machine 8	200 000 t
Oulun Business Unit	Oulu	Sulphate pulp mill	370 000 t
		Paper Machine 6	330 000 t
		Paper Machine 7	360 000 t
		start-up in May 1997	
		Sheet cutting plant	137 000 t
Varkaus Business Unit	Varkaus	Paper Machine 1	80 000 t
		Paper Machine 3	210 000 t
		Sheet cutting plant	20 000 t
		Sulphate pulp mill	210 000 t
Veitsiluoto Business Unit	Kemi	Sulphate pulp mill	365 000 t
		Paper Machine 2	200 000 t
		Paper Machine 3	185 000 t
		Sheet cutting plant	245 000 t
Berghuizer Papierfabriek N.V.	Netherlands, Wapenveld	Paper mill	168 000 t
Berghuizer-Enso Formaatfabriek B.V.	Netherlands, Wapenveld	Sheet cutting plant	225 000 t
Lumipaper N.V.	Belgiaum, Antwerp	Sheet cutting plant	75 000 t
Tervakoski Oy	Janakkala	Speciality paper mill	88 000 t
Lumipaper Ltd.	UK, Mendlesham	Sheet cutting plant	35 000 t

Enso Oy's production plants

PUBLICATION PAPERS	Location	Type of plant	Annual capacity
Enso Publication Papers Oy Ltd.			
Anjala Business Unit	Anjalankoski	Groundwood mill	450 000 t
		TMP plant	90 000 t
		Paper mill	460 000 t
Kotka Business Unit	Kotka	TMP plant	120 000 t
		Paper mill	135 000 t
Summa Business Unit	Vehkalahti	Groundwood mill	150 000 t
		TMP plant	230 000 t
		Newsprint mill	440 000 t
Varkaus Business Unit	Varkaus	Groundwood mill	70 000 t
		TMP plant	170 000 t
		Newsprint mill	270 000 t
Veitsiluoto Business Unit	Kemi	Paper machine 1	150 000 t
		Paper machine 5	210 000 t
		Groundwood mill	100 000 t
Sachsen Papier Eilenburg GmbH	Germany, Eilenburg	Newsprint mill	280 000 t
		Deinking plant	330 000 t
Laminating Papers Oy			
Kotka Mills	Kotka	Sulphate pulp mill	130 000 t
		Paper mill	130 000 t
		Impregnating plant	25 000 t
Tainionkoski Mill	Imatra	Paper mill	25 000 t
L.P. Pacific Films Sdn. Bhd.	Malaysia, Pasir Gudang	Impregnating plant	40 mill. m ²

Enso's addresses in Finland

BASE INDUSTRIES

P.O.B. 309
FIN-00101 Helsinki
tel. +358 2046 131
fax +358 2046 21471

Forest Operations

Wolffintie 5
FIN-55800 Imatra
tel. +358 2046 121
fax +358 2046 23000

Savo procurement area

P.O.B. 20
FIN-70101 Kuopio
tel. +358 17 262 2644
fax +358 17 261 1877

Karelia procurement area

P.O.B. 3
FIN-81281 Uimaharju
tel. +358 2046 122
fax +358 2046 28573

Saimaa procurement area

P.O.B. 16
FIN-57101 Savonlinna
tel. +358 15 272 041
fax +358 15 277 303

South of Finland procure-

ment area
P.O.B. 39
FIN-49401 Hamina
tel. +358 2046 127
fax +358 2046 25880

North of Finland procure-

ment area
FIN-94800 Kemi
tel. +358 2046 125
fax +358 2046 34866

Tuontipuu

Wolffintie 5
FIN-55800 Imatra
tel. +358 2046 121
fax +358 2046 23000

Enocell Oy

P.O.B. 2
FIN-81281 Uimaharju
tel. +358 2046 122
fax +358 2046 28550

Enso Forest Development Oy Ltd.

Kuparintie 47
FIN-55100 Imatra
tel. +358 2046 121
fax +358 2046 24960

Ladenso Oy

P.O.B. 47
FIN-80101 Joensuu
tel. +358 13 148 9121
fax +358 13 148 9124

Enso Timber Oy Ltd.

Head Office
P.O.B. 39
FIN-06101 Porvoo
tel. +358 2046 114
fax +358 2046 21745

Further Processing

P.O.B. 12
FIN-54101 Joutseno
tel. +358 2046 113
fax +358 2046 21686

Honkalahti Sawmill

P.O.B. 12
FIN-54101 Joutseno
tel. +358 2046 113
fax +358 2046 21680

Kitee Sawmill

Teollisuustie 27
FIN-82430 Puhos
tel. +358 2046 115
fax +358 2046 21995

Koski Sawmill

FIN-16800 Hämeenkoski
tel. +358 2046 1444
fax +358 2046 47002

Kotka Sawmill

P.O.B. 62-63
FIN-48101 Kotka
tel. +358 2046 112
fax +358 2046 25494

Tolkinen Sawmill

P.O.B. 39
FIN-06101 Porvoo
tel. +358 2046 114
fax +358 2046 21747

Uimaharju Sawmill

P.O.B. 1
FIN-81281 Uimaharju
tel. +358 2046 122
fax +358 2046 28570

Varkaus Sawmill

P.O.B. 177
FIN-78201 Varkaus
tel. +358 2046 120
fax +358 2046 32130

Veitsiluoto Sawmill

FIN-94800 Kemi
tel. +358 2046 125
fax +358 2046 34787

Kittilä Wood Oy

Pitkäkumpu 14 a
FIN-99100 Kittilä
tel. +358 16 652 313
fax +358 16 652 352

Ulea Oy, Taivalkoski

Sawmill
P.O.B. 13
FIN-93401 Taivalkoski
tel. +358 8 841 171
fax +358 8 841 376

Puumerkki Oy

Takkatie 14
FIN-00370 Helsinki
tel. +358 9 560 91
fax +358 9 553 711

Kemijärven Sellu Oy

P.O.B. 100
FIN-98101 Kemijärvi
tel. +358 2046 126
fax +358 2046 35200

Tornion Pakkauslava Oy

Tornio Factory
Röyttä
FIN-95400 Tornio
tel. +358 16 447 581
fax +358 16 447 584

Veitsiluoto Factory

FIN-94800 Kemi
tel. +358 16 252 256
fax +358 16 223 010

PACKAGING BOARDS

P.O.B. 309
FIN-00101 Helsinki
tel. +358 2046 131
fax +358 2046 21222

Heinola Fluting Mill

P.O.B. 5
FIN-18101 Heinola
tel. +358 3 842 91
fax +358 3 842 9290

Enso Paperboards

FIN-55800 Imatra
tel. +358 2046 121
fax +358 2046 24715

Imatra Mills

FIN-55800 Imatra
tel. +358 2046 121
fax +358 2046 22000

Corenso United Oy Ltd.

P.O.B. 4
FIN-15701 Lahti
tel. +358 2046 1416
fax +358 3 783 1667

Pori Board Mill

P.O.B. 194
FIN-28101 Pori
tel. +358 2 550 3888
fax +358 2 550 3802

Varkaus Board Mill

P.O.B. 169
FIN-78201 Varkaus
tel. +358 2046 120
fax +358 2046 32140

Loviisa Core Factory

P.O.B. 85
FIN-07901 Loviisa
tel. +358 19 517 110
fax +358 19 517 1138

Imatra Core Factory

Piikatu 4
FIN-55120 Imatra
tel. +358 2046 24601
fax +358 2046 24602

Pori Core Factory

Hyväntuulentie
FIN-28200 Pori
tel. +358 2 633 5550
fax +358 2 633 5650

Enso's addresses in Finland

Enso Cartonboards Oy Ltd.

FIN-46900 Anjalankoski
tel. +358 2046 117
fax +358 2046 26551

Ingerois Board Mill
FIN-46900 Anjalankoski
tel. +358 2046 117
fax +358 2046 26140

Pankakoski Boards Oy Ltd.
FIN-81750 Pankakoski
tel. +358 2046 123
fax +358 2046 27624

Pakenso Oy

P.O.B. 4
FIN-15701 Lahti
tel. +358 2046 118
fax +358 3 752 0237

System Packages
P.O.B. 4
FIN-15701 Lahti
tel. +358 2046 118
fax +358 3 752 0237

Basic Products
P.O.B. 4
FIN-15701 Lahti
tel. +358 2046 118
fax +358 3 752 0237

Heinola Business Unit
P.O.B. 38
FIN-18101 Heinola
tel. +358 2046 118
fax +358 3 7155 025

Consumer Packages
P.O.B. 4
FIN-15701 Lahti
tel. +358 2046 118
fax +358 3 752 0237

Varkaus Mills
P.O.B. 169
FIN-78201 Varkaus
tel. +358 2046 120
fax +358 2046 32146

Expopak Oy
Sahantie 15
FIN-34450 Jäminkipohja
tel. +358 3 476 1100
fax +358 3 476 1101

Oy Uni-Pak Ab
FIN-64140 Tiukka
tel. +358 6 222 3741
fax +358 6 222 3775

Formeca Oy
Mustapuronkatu 2
FIN-15300 Lahti
tel. +358 3 756 3310
fax +358 3 756 3280

FINE PAPERS

P.O.B. 309
FIN-00101 Helsinki
tel. +358 2046 131
fax +358 2046 21471

Enso Fine Papers Oy

Head Office
FIN-94800 Kemi
tel. +358 2046 125
fax +358 2046 34818

Imatra Business Unit
FIN-55800 Imatra
tel. +358 2046 121
fax +358 2046 24731

Oulu Business Unit
P.O.B. 196
FIN-90101 Oulu
tel. +358 2046 124
fax +358 2046 33649

Varkaus Business Unit
P.O.B. 169
FIN-78201 Varkaus
tel. +358 2046 120
fax +358 2046 32112

Veitsiluoto Business Unit
FIN-94800 Kemi
tel. +358 2046 125
fax +358 2046 34427

Merchants Business Unit
P.O.B. 309
FIN-00101 Helsinki
tel. +358 2046 131
fax +358 2046 21471

Tervakoski Oy

FIN-12400 Tervakoski
tel. +358 2046 116
fax +358 2046 31535

Fortek Oy

Kemi Business Unit
P.O.B. 244
FIN-94101 Kemi
tel. +358 2046 1425
fax +358 2046 34702

Kemijärvi Business Unit
P.O.B. 200
FIN-98101 Kemijärvi
tel. +358 2046 1426
fax +358 2046 35203

Oulu Business Unit
P.O.B. 95
FIN-90101 Oulu
tel. +358 2046 1424
fax +358 2046 33335

PUBLICATION PAPERS

P.O.B. 309
FIN-00101 Helsinki
tel. +358 2046 131
fax +358 2046 21471

Enso Publication

Papers Oy Ltd.
Anjala Business Unit
FIN-46900 Anjalankoski
tel. +358 2046 117
fax +358 2046 26300

Kotka Business Unit
P.O.B. 62-63
FIN-48101 Kotka
tel. +358 2046 112
fax +358 2046 25490

Summa Business Unit
FIN-49420 Hamina
tel. +358 2046 127
fax +358 2046 25626

Varkaus Business Unit
P.O.B. 169
FIN-78201 Varkaus
tel. +358 2046 120
fax +358 2046 32102

Veitsiluoto Business Unit
FIN-94800 Kemi
tel. +358 2046 125
fax +358 2046 34907

Laminating Papers Ltd.

P.O.B. 62-63
FIN-48101 Kotka
tel. +358 2046 112
fax +358 2046 25500

Tainionkoski Paper Mill
FIN-55800 Imatra
tel. +358 2046 121
fax +358 2046 23431

Enso-Yhteispalvelut Oy

FIN-46900 Anjalankoski
tel. +358 2046 117
fax +358 2046 26550

Varenso Oy

P.O.B. 185
FIN-78201 Varkaus
tel. +358 2046 120
fax +358 2046 32118

Keräyskuitu Oy

Kuitukatu 4
FIN-48900 Sunila
tel. +358 5 266 800
fax +358 5 266 014

Enso's international network

ARGENTINA

CODIPA International S.A.
San Martin 627 - 5 y 6 P.
1374 Buenos Aires
tel. +54 1 314 6600
fax +54 1 111 647

Southern Paper Products
Avellaneda 616 - Bernal
1876 Buenos Aires
tel./fax +54 1 259 8846

AUSTRALIA

Paper Agencies
(Aust.) Pty Ltd
554 Burwood Road
Hawthorn, Vic. 3122
tel. +61 3 9819 4911
fax +61 3 9819 4250

Paper Agencies
(Aust.) Pty Ltd
Suite 5, 102 Alfred Street
Milsons Point, NSW 2061
tel. +61 2 9957 3177
fax +61 2 9957 1505

Fuglesang Timber Ltd.
c/o Kinsella Clarke
61 Stanley Road, Bootle
GB-Merseyside L20 7BZ
United Kingdom
tel. +44 151 933 3400
fax +44 151 922 3463

AUSTRIA

Enso Trading Handelsgesellschaft mbH
Gluckgasse 1, 1. Stock
A-1010 Vienna
tel. +43 1 513 230 10
fax +43 1 513 2267

Enso Fibres AG
Enso (Schweiz) AG
Address: see Switzerland

BELGIUM

S.A Comptoir
Finlandais N.V.
Avenue des Gaulois 7
B-1040 Brussels
tel. +32 2 743 1360
fax +32 2 736 0178
(also for Luxemburg)

BRAZIL

SAMAB-Cia. Indústria e
Comércio de Papel
Av. Nove de Julho
225 - 24/25 Andares
01314-900 Sao Paulo
Mail: P.O.B. 9124,
BR-01065-970 Sao Paolo, SP
tel. +55 11 606 9161
fax +55 11 607 5239

BULGARIA

"Mirtal Bulgaria" Ltd.
1A "20 April"
1606 Sofia
tel./fax +359 2 543 975

CANADA

Enso International, Inc.
Address: see USA

CENTRAL AMERICA, CARIBBEAN ISLANDS

Keca de
Centroamerica S.A.
Centro Comercial
el Pueblo
offices 114, 115, San Jose
Mail: Apartado 3860-1000,
San Jose
Costa Rica
tel. +506 221 4876
fax +506 221 7847

CHINA, PEOPLE'S REP. OF

Enso-Eurocan
Hong Kong Ltd.
Rm.1406, 14th Floor
World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong
tel. +852 2895 2063
fax +852 2576 1480

Enso-Eurocan (H.K.) Ltd.
Beijing Office
Rm. 808 Scitech Tower
22 Jianguomenwai Avenue
Beijing 100004
tel. +86 10 6515 7178
fax +86 10 6515 7179

CROATIA

Vigram Press
Nikole Tesle 12
HR-10000 Zagreb
tel. +385 1 481 1408
fax +385 1 481 1335

CZECH REPUBLIC

Mr. Zdeněk Zlámany
EXPOCHEM s.r.o.
Radlická 2
150 00 Prague 5
tel. +420 2 541 612
fax +420 2 536 529

CYPRUS

Severis Brothers Ltd.
9 Arch. Makarios III Ave.
Nicosia
Mail: P.O.B. 1139, Nicosia
tel. +357 2 444 277
fax +357 2 444 897

DENMARK

Enso Danmark A/S
Vognmagergade 7
DK-1120 Copenhagen K
tel. +45 33 155 815
fax +45 33 328 303

EGYPT, ARAB REP. OF

Embassy of Finland
Commercial Section
34, Kasr el Nil Street
Cairo
tel. +20 2 392 6844
fax +20 2 392 4839

Misrimpex for Paper
Trading
4, Behler Passage,
5th floor
Cairo
tel. +20 2 392 6031
fax +20 2 392 9630

ESTONIA

Mr. Indrek Hiibus
AS E-2
Osmussaare Tee 10
EE-0038 Tallinn
tel. +372 6 389 366
fax +372 6 389 367

AS Lumiforest
Pärnu mnt 20-2
EE-0001 Tallinn
tel. +372 6 313 741
fax +372 6 313 742

FRANCE

Enso France S.A.
15/25 Boulevard
Amiral Bruix
F-75782 Paris Cedex 16
tel. +33 1 5364 7900
fax +33 1 5364 7990

Compagnie Brand et
Associés S.A.
Z1 de l'Eglantier
27, rue des Cerisiers
Lisses
F-91045 Evry
tel. +33 1 60 87 28 28
fax +33 1 60 86 97 98

GERMANY

Enso (Deutschland) GmbH
Grosse Bleichen 30
D-20354 Hamburg
tel. +49 40 350 990
fax +49 40 3509 9146

Sachsen Papier
Eilenburg GmbH
Verkaufsbüro Hamburg
Address: see Enso
(Deutschland)
tel. +49 40 350 9920
fax +49 40 354 070

GREECE

Eurofinn Services
N.A. Krokidis-N.D.
Tsoliakos Ltd.
44, Amalias Avenue
GR-10558 Athens
tel. +30 1 323 4828
fax +30 1 322 2169

"VALMAR" Z.N.
VALMA & Co.
3, Stadiou Street
GR-10562 Athens
tel. +30 1 331 5000
fax +30 1 331 5002

HONG KONG

Enso-Eurocan
Hong Kong Ltd.
Rm. 1406, 14th Floor
World Trade Centre
280 Gloucester Road
Causeway Bay, Hong Kong
tel. +852 2895 2063
fax +852 2576 1480

HUNGARY

ENPAP KFT.
Bécsi út 120-124 I. em
H-1034 Budapest
tel. +36 1 250 3825
fax +36 1 250 0281

ICELAND

S. Árnason & Co.
Vatnagardar 4, Reykjavik
Mail: P.O.B. 551,
121 Reykjavik
tel. +354 568 8200
fax +354 568 9925

INDIA

Anika International Pvt Ltd.
M-2 Hemkunt Tower
98 Nehru Place
IN-New Delhi 110019
tel. +91 11 648 4575
fax +91 11 644 4642

Sidmark Sales
146 Dewan Prakash,
6th Lane Hindu Colony,
Dadar
IN-Bombay 400 014
tel. +91 22 411 3375
fax +91 22 414 5204

Shree Sales Pvt Ltd.
3980/2, Chawri Bazar
IN-Delhi 110006
tel. +91 11 292 1260
fax +91 11 292 7766

INDONESIA

Enso-Eurocan South East
Asia Pte. Ltd.
Indonesia Representative
Office
S. Widjojo Centre,
5th floor
Jl. Jenderal Sudirman 71,
Jakarta, Selatan
Mail: P.O.B. 2227,
IA-Jakarta 12190
tel. +62 21 252 4150
fax +62 21 252 4170

IRAN

Enso (Middle East)
Address:
see Middle East countries

IRELAND, REP. OF

Enso (Ireland) Ltd.
55 Lower Drumcondra
Road
Drumcondra
Dublin 9, Eire
tel. +353 1 836 0997
fax +353 1 836 0833

ISRAEL

Lewison Company Ltd.
67 Rotschild Blvd., Tel Aviv
Mail: P.O.B. 131, IL-Tel Aviv
tel. +972 3 629 3485
fax +972 3 629 1996

ITALY

Enso Italia S.r.l.
Piazza S. Camillo
de Lellis, 1
I-20124 Milan
tel. +39 2 670 871
fax +39 2 669 7516

JAPAN

Enso-Eurocan
Far East Co. Ltd.
KM Nishiumeda Bldg.
20-1, Fukushima 7 -chome
Fukushima-ku
J-Osaka 553
tel. +81 6 455 6811
fax +81 6 455 8811

JORDAN

Omnitrade Est.
Sweifiyyah District,
Al-Sufaraa Street
Jebel, Amman
Mail: P.O.B. 294,
Amman 11118
tel. +962 6 824 676
fax +962 6 824 726

KOREA, REP. OF

Enso-Eurocan
Bumjin Co., Ltd.
6 F, Bupmusa Bldg.
151-31 Nonhyun-dong
Kangnam-ku
Seoul 135-010
tel. +82 2 511 2103
fax +82 2 511 2107

Sunny Trading Co. Ltd.
No. 86-37 Sang-soo dong
Mapo-kk, Seoul 121-160
tel. +82 2 325 2311

LATVIA

Cia Kvadra Pak
Vienibas Gatve 11
LV-1004 Riga
tel. +371 722 5193
fax +371 783 0457

LEBANON

Fouad & Toufic Fadel & Co
Hosp. St. Joseph Str.
Toufic Fadel Building
Bouchrieh, Beirut
Mail: P.O.B. 90-444
Jdeideh
RL-Beirut
tel. +961 1 881 116/7
fax +961 1 881 115

LITHUANIA

Lukas
Sv. Ignoto 5/156
LT-2600 Vilnius
tel. +370 2 221 654
fax +370 2 221 430

MALAYSIA

Enso-Eurocan South East
Asia Pte. Ltd.
Representative Office
No.1 Jalan Chengkeh
Taman Cheras
56100 Kuala Lumpur
tel. +60 3 930 4122
fax +60 3 931 9595

Europap Far East Sdn. Bhd.
Address: see Enso-Eurocan
South East Asia
tel. +60 3 930 4122
fax +60 3 930 7880

MALTA

Oswald Arrigo Limited
Finnish Consulate General
63/64 Graham Street
M-Sliema, SLM 08
tel. +356 343 790
fax +356 340 745

MEXICO

Profimex, S.A. de C.V.
Promotora del Comercio
Mexicano Finlandes
Division del Norte 715
Col. del Valle, 03100
México, D.F.
Mail: P.O.B. 105-350
MEX-11560 México D.F.
tel. +52 5 669 0041
fax +52 5 669 1739

MIDDLE EAST COUNTRIES

Enso (Middle East)
R/A 8 - HB1
Jebel Ali Free Zone, Dubai
Mail: P.O.B. 61265
Dubai, United Arab
Emirates
tel. +971 4 836 819
fax +971 4 836 826
(Bahrain, Cyprus, Egypt,
Iran, Iraq, Jordan, Kuwait,
Lebanon, Oman, Pakistan,
Qatar, Saudi Arabia, Syria,
Yemen)

MOROCCO

Embassy of Finland
Commerical Section
6, rue Demnate
10000 Rabat
tel. +212 7 731 843
fax +212 7 731 884

Exipp
20, Bd Rachidi
Casablanca
tel. +212 2 268 756
fax +212 2 268 894

THE NETHERLANDS

Fins Verkoopkantoor
Meer en Vaart 318,
1068 LG Amsterdam
Mail: P.O.B. 9030
NL-1006 AA Amsterdam
tel. +31 20 667 6200
fax +31 20 619 8205

Enso (Holland) B.V.
Address:
see Fins Verkoopkantoor
tel. +31 20 667 6200
fax +31 20 610 5421

Enso Timber
(Nederland) B.V.
Enso International
Softwoods
Backershagen 97 a,
1ste verdieping
NL-1082 GT Amsterdam
Mail: P.O.B. 71316,
NL-1008 BH Amsterdam
tel. +31 20 646 1611
fax +31 20 644 7246

NORWAY

Enso Norge AS
Per Kroghs vei 4 C
N-1065 Oslo 10
tel. +47 22 303 390
fax +47 22 325 707

Enso's international network

PAKISTAN

Enso (Middle East)
Address:
see Middle East countries

Feroze K. Khambatta
State Life Building 1-B
I.I.Chundrigar Road,
Karachi
Mail: P.O.B. #4,
Karachi 74000
tel. +92 21 241 3218
fax +92 21 241 7550

PHILIPPINES

Enso-Eurocan South East
Asia Pte. Ltd.
Address: see Singapore

J & W Trading &
Industrial Corp.
2142 P. Burgos Street
Pasay City, Metro Manila
tel. +63 2 831 4381
fax +63 2 833 8976

POLAND

Enso Polska Sp. zo.o.
Ul. Dzika 19/23 m. 54
PL-00172 Warsaw
tel. +48 22 635 2540
fax +48 22 635 3229

PORTUGAL

Enso Portugal, Lda
Av. Dr. Fernando Ricardo
Leitao, lote 8 r/c-Dto.
Massamá - 6a fase
PT-2745 Queluz Sul
tel. +351 1 439 3997
fax +351 1 439 6381

RUSSIA (CIS)

Enso Representative Office
1 Golutvinskij per. 3,
korp. 1, 6th floor
109180 Moscow, Russia
tel. +7095 935 7660
fax +7095 935 7659
Mail: Enso-Moscow,
P.O.B. 315
FIN-53501 Lappeenranta,
Finland

Enso Representative Office
Lermontovskij pr.,
dom 44, kom. 88
198103 St. Petersburg,
Russia
tel. +7 812 113 0144
fax +7 812 113 0146

Mail: Enso-St. Petersburg,
P.O.B. 72
FIN-53501 Lappeenranta,
Finland

SAUDI ARABIA

Enso (Middle East)
Address: see Middle East
countries

VIMPEX
Handelsgesellschaft mbH
P.O.B. 148
A-1015 Vienna
tel. +43 1 505 16
150/160/170
fax +43 1 505 4192
(also for Bahrain, Kuwait,
Oman, Qatar, U.A.E. and
Yemen)

SINGAPORE

Enso-Eurocan South East
Asia Pte. Ltd.
360 Orchard Road
#11-01 International
Building
SG-Singapore 238869
tel. +65 235 3485
fax +65 737 4278

SLOVAKIA

Eurofinn, spol. s.r.o.
Štefánikova 19
81105 Bratislava
tel. +421 7 392 938
fax +421 7 392 926

SOUTH AFRICA, REP. OF

Enso South Africa
Representative Office
First floor, Pinepark,
Cnr Forest Drive &
Logan Way
Pinelands, Cape Town
Mail: P.O.B. 681, Pinelands
7403 Cape Town
tel. +27 21 531 8077
fax +27 21 531 8081

SPAIN

Enso Ibérica, S.A.
Paseo de la Castellana 135
Planta 15, Edificio Cuzco III
E-28046 Madrid
tel. +34 1 567 4400
fax +34 1 567 4444

SRI LANKA

Enso-Eurocan South East
Asia Pte. Ltd.
Address: see Singapore

Dac Graphics
4, Park Circus
Colombo 5
tel. +94 1 592 068
fax +94 1 592 069

SWEDEN

Enso Sverige AB
Västra Strandgatan 7 B,
753 11 Uppsala
Mail: P.O.B. 2017
S-750 02 Uppsala
tel. +46 18 125 222
fax +46 18 123 331

SWITZERLAND

Enso (Schweiz) AG
Bahnhofstrasse 13
CH-8808 Pfäffikon SZ
tel. +41 55 415 3060
fax +41 55 415 3069
(also for Lichtenstein)

Enso Fibres AG
Address:
see Enso (Schweiz)
tel. +41 55 415 5130
fax +41 55 415 3069

TAIWAN

Enso-Eurocan Far East
Co., Ltd.
Address: see Japan

THAILAND

Enso-Eurocan South East
Asia Pte. Ltd.
Address: see Singapore

Mediate Ltd., Part.
5th Floor, Yada Bldg.
56 Silom Road
Bangkok 10500
tel. +66 2 236 7317
fax +66 2 236 7311

UNITED KINGDOM

Enso Marketing Co. Ltd.
Enso House
New Mill Road
GB-Orpington,
Kent BR5 3QA
tel. +44 1689 836 911
fax +44 1689 829 732

Enso Publication
Papers Ltd.
Address:
see Enso Marketing
tel. +44 1689 892 700
fax +44 1689 897 290

Enso Timber Ltd.
Address:
see Enso Marketing
fax +44 1689 897 294

R.A. Brand & Co. Limited
Swift Valley Trading Estate
GB-Rugby CV21 1QN
tel. +44 1788 540 000
fax +44 1788 535 872

Woodpax Limited
Sheffield Park
GB-Uckfield, East Sussex
TN22 3PR
tel. +44 1825 722 186
fax +44 1825 723 549

USA

Enso International, Inc.
281 Tresser Blvd.
15th Floor
Stamford, CT 06901
tel. +1 203 978 1755
fax +1 203 978 1237

Enso International, Inc.
2550 Leavenworth St,
Suite 2
San Francisco, CA 94133
tel. +1 415 567 1295
fax +1 415 567 1281

Enso Interamericas, Inc.
8750 Doral Boulevard,
Suite 270
Miami, FL 33178
tel. +1 305 716 9799
fax +1 305 716 5441

T.S.P. Inc.
2 Main Street
Chatham, NJ 07928
tel. +1 201 635 3530
fax +1 201 635 1680

VENEZUELA

P. Siegel
Representaciones C.A.
Edif. Datilera, Local D1a - 2
Parque Humboldt, Aparta-
do 80052
Caracas
tel. +58 2 979 6879,
979 9575
fax +58 2 979 2913

**PRODUCTION
PLANTS**

BARBADOS

EnsoPack Ltd.
P.O.B. 865
Jackson, St. Michael
tel. +1 246 42 52 179
fax +1 246 42 52 816

BELGIUM

Lumipaper N.V.
Haven 1139
Land van Waaslaan 3
B-9130 Kallo
tel. +32 3 575 0606
fax +32 3 575 0319

ESTONIA

Pakenso Eesti AS
Laki 5
EE-0006 Tallinn
tel. +372 65 63 074
fax +372 65 63 377

FRANCE

Papeteries
R.Soustre & Fils S.A.
P.O.B. 4
F- 33660
Saint-Seurin-sur-l'Isle
tel. +33 557 49 60 58
fax +33 557 49 73 02

GERMANY

Sachsen Papier
Eilenburg GmbH
P.O.B. 110
D-04833 Eilenburg
tel. +49 3423 6500
fax +49 3423 650 396

Enso Papier Format GmbH
Leinweberstrasse 8
D-23556 Lübeck
tel. +49 451 898 945
fax +49 451 895 985

LATVIA

Pakenso Baltika SIA
5 Tiraines iela
LV-1058 Riga
tel. +371 767 0077
fax +371 767 5815

MALAYSIA

L.P. Pacific Films Sdn. Bhd.
Plo 540, Jalan Keluli 3
81700 Pasir Gudang
Johor
tel. +60 7 251 2941
fax +60 7 251 2940

THE NETHERLANDS

Berghuizer
Papierfabriek N.V./
Berghuizer-Enso
Formaatfabriek B.V.
Ir. R.R. v.d. Zeelaan 1, 8191
JH Wapenveld
Mail: P.O.B. 1, NL-8190 AA
Wapenveld
tel. +31 3844 75 000
fax +31 3844 78 020

SPAIN

Enso Española, S.A.
Ctra. Nacional II,
Km. 592,6
E-08755 Castellbisbal
(Barcelona)
Mail: Apartado 76
E-08760 Martorell
(Barcelona)
tel. +34 3 631 1000
fax +34 3 631 1021

Cartiberia, S.A.
Ctra. Nacional II,
Km. 592,6
E-08755 Castellbisbal
(Barcelona)
tel. +34 3 682 3021
fax +34 3 682 3046

Enso Grafic, S.A.
Barrio San Miguel, 7
E-20250 Legorreta
(Guipúzcoa)
tel. +34 43 803 436
fax +34 43 806 442

SWEDEN

Tambox AB
Jönköping Factory
P.O.B. 1055
S-55110 Jönköping
tel. +46 36 66 400
fax +46 36 66 016

Tambox AB
Skene Factory
P.O.B. 2081
S-51102 Skene
tel. +46 320 31 060
fax +46 320 31 447

Tambox AB
Vikingstad Factory
P.O.B. 32
S-59050 Vikingstad
tel. +46 13 81 420
fax +46 13 80 990

UNITED KINGDOM

Lumipaper Ltd.
The Airfield, Norwich Road
GB-Mendlesham
Stowmarket,
Suffolk IP14 5ND
tel. +44 1449 767 173
fax +44 1449 767 744

**PORT
TERMINALS**

BELGIUM

Enso West N.V.
Haven 1213
Land van Waaslaan 10
B-9130 Kallo
tel. +32 3 570 9200
fax +32 3 570 9220

GERMANY

Enso Nord
Transportgesellschaft mbH
Posener Strasse 30
D-23554 Lübeck
tel. +49 451 470 060
fax +49 451 470 0639

Enso Nord
Transportgesellschaft mbH
Aussenstelle Rostock
Postfach 481152
D-18133 Rostock-
Überseehafen
tel. +49 381 6700 306/307
fax +49 381 6700 308

UNITED KINGDOM

Finntransit Limited
Finntransit Terminal
Dock Gate No. 2
GB-Felixstowe,
Suffolk IP11 8SW
tel. +44 1394 675 601
fax +44 1394 673 163

Finntransit Limited
Convoys Wharf
Prince Street
Deptford
GB-London SE8 3JH
tel. +44 181 692 8300
fax +44 181 691 6269



404 008
Low emissions
during production
Oulu mills



404 052
Low emissions
during production
Tervakoski Oy

Design and layout Incognito Oy
Translated by Philip D. Mason
Printing Hansaprint Oy

Cover Ensogloss 240 g/m², paper LumiSilk 130 g/m², Terreus 100 g/m²

Enso Oy
Head Office
Kanavaranta 1
FIN-00160 Helsinki, Finland
Telephone +358 2046 131
Telefax +358 2046 21471

