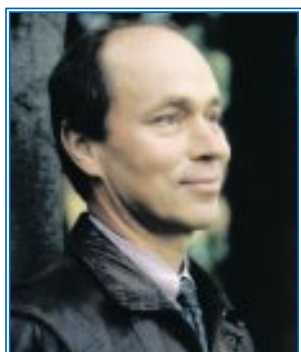


Annual Report 1996



METSÄ-SERLA



Metsä-Serla is one of Europe's largest and fastest growing forest industry groups. Its core businesses are products and services for the printing and packaging industries.

Marketing, customer service, and an international presence are key elements in the Group's approach to business. In its selected business areas, Metsä-Serla seeks to achieve strong market and competitive positions and credibility as a local supplier.

Family forest owners are a significant factor in Metsä-Serla's ownership structure, helping to secure supplies of high-quality renewable wood raw material for the Group's mills. Together with highly efficient production and solid financial resources, this forms a sound basis for successful business.

CONTENTS

President's review	4
The year 1996 in brief	6
Main events in 1996	7
Strategic Management	8
Organization	8
Strategic business groups	9
Business areas	9
Paper Group	10
Packaging Group	12
Marketing Group	14
Tissue Group	16
Pulp Group	18
Four-month data	20
Report of the Board of Directors	21
Consolidated profit and loss account	27
Consolidated balance sheet	28
Cash flow statement	30
Parent company profit and loss account	31
Parent company balance sheet	32
Accounting principles	34
Notes to the accounts	36
Shares and shareholders	48
Calculation of key ratios	51
Ten years in figures	52
Board's proposal for the distribution of profits	53
Report of the Auditors	53
Board of Directors and Auditors	54
Group Management	55
Information for shareholders	56
Exchange rates	56
International operations	57
Metsä-Serla and the environment	58
Production capacity 1997	60
Addresses	61



METSÄ-SERLA

President's review



CHANGE IN BUSINESS ENVIRONMENT

The business climate for the forest industry is changing throughout the world at an increasing pace. In many of its products the industry is approaching the situation of lasting over-supply that has affected many other industrial sectors as well as trade for a considerable time. For the forest industry, the situation represents a major challenge. Adapting will be a painful process, as we shift the emphasis away from production and devote more attention to customers' interests and marketing.

The production-centred approach to business was based on the belief that demand for paper would continue to grow. Although paper and board markets will continue to grow steadily in the long term, new manufacturing capacity is being introduced even faster. These are eventful times for the forest industry, especially in Southeast Asia, where pulp and paper manufacture is rapidly taking over from plywood production. Through the plywood business, the region's forest industry

companies have shown their alacrity and their ability to focus on what is essential, i.e. a good return on investment. The region's plentiful natural resources and good prospects for financial backing suggest that similar success can be achieved in the pulp and paper sector.

The appearance of new capacity outside Europe and North America is being encouraged partly by environmental protection considerations, which are imposing restrictions on forest utilization in the northern hemisphere. Finland, too, has reached the stage where a significant increase in forest utilization no longer seems possible in view of annual forest growth and increasingly strict environmental targets. Nevertheless, there is probably still sufficient raw material for the normal development of existing mills. This has given these production units a new value added.

The change in business climate has prompted the industry to seek greater integration, both in Finland and worldwide. The industry has sought to counter increasing competition by seeking greater efficiency and by forming ever larger units in order to win greater market shares. A

new way of thinking is emerging here, too. In the past, companies have relied on gaining full control of their competitors. Now, the growing importance of marketing and sales, coupled with the increasing size of companies, has stimulated interest in business alliances of one kind or another.

A new approach is also needed in the view of investors, who have been slightly sceptical of the forest industry's emphasis on production and the desire to expand through plant investments. Investors want to see a restructuring designed to achieve greater efficiency and larger market shares through mergers, participations, joint ventures and strategic alliances. The basic goal, naturally, is to improve profitability, in other words to increase the return on capital invested.

GROWTH AND RENEWAL FOR METSÄ-SERLA

Metsä-Serla is aware that the forest industry's altered business environment calls for change. The company has therefore taken steps to analyse the changes in the business environment and to assess

President's review

the prerequisites for successful business. A new strategy has been drawn up stressing the importance of marketing and customers' interests. At the same time, however, production processes must be economically efficient. The business areas have been reorganized accordingly.

The new focus on customers in the printing and packaging industries has meant giving up our profitable chemicals operations. We are now working more closely with UPM-Kymmene Corporation following the transfer of all Metsä-Serla's pulp- ing operations to our joint subsidiary Metsä-Botnia. The resulting pulp producing company is not only large by world standards, it is also highly efficient, with its output to a large degree integrated with the paper and board manufacture of its owners – Metsä-Serla and UPM-Kymmene. This affords the opportunity to divide the heavy investment needed in pulping between two major companies.

A key part of the new arrangements is the transfer to Metsä-Serla of the Simpele paper, board and packaging complex. This will elevate Metsä-Serla to second place in the European folding boxboard business, which is one of our core segments. At the same time, our known and respected Finnboard organization will regain both its suppliers and its market strength. The resulting growth in volume and the wider product range will strengthen our market positions considerably. We will also gain synergy benefits in production.

Through this reorganization, our majority shareholder Metsäliitto will be able to secure supplies of wood raw material on the increasingly competitive market in eastern Finland. Metsäliitto is taking over responsibility for supplying all Metsä-Botnia's wood, and in so doing is significantly strengthening its position. Together with Metsäliitto, we believe that through the Finnish system of family forestry we can meet the environmental challenges facing the forest industry both now and in the future. The arrangements outlined above still require final approval from the authorities in Finland and the European Union.

INTERNATIONALLY EXPANDING METSÄ-SERLA

From the point of view of the global economy, the forest industry is largely a domestic industry. In the face of increas-

ing competition, therefore, it is essential to maintain a local presence in marketing. Metsä-Serla's alliance with Myllykoski Oy is a good example of how to achieve a significant market position and at the same time become a local supplier.

Metsä-Serla Sales, our marketing organization which sells both the Myllykoski Group's and Metsä-Serla's papers, has become the leading supplier of printing papers to the important German market. Metsä-Serla Sales is now the second largest supplier of coated printing papers in the world. The alliance with Myllykoski has developed very successfully and has helped to raise the efficiency of sales and production for both parties.

Oversupply has forced the fine papers business into a difficult economic situation. Major restructuring has been necessary to revitalize this business.

The new fine paper machine at Kirkniemi has confirmed Metsä-Serla's commitment to fine paper production. As part of this same strategy, we were able to acquire, on extremely attractive terms, the Biberist fine paper mill in Switzerland. The mill's owner had run into financial difficulties because of a badly timed paper machine investment in the early 1990s. Biberist has a significant share of the fine papers market in Western Europe, and its production machinery is fairly modern. Its range of products is a good complement to our own. The acquisition has made Metsä-Serla Europe's third largest manufacturer of coated fine paper.

In the tissue segment, Metsä-Serla has increased its market share to become the leader in Scandinavia. Emphasis has been placed even more on the customer's interests and on the importance of marketing of what is, after all, entirely a consumer product. This has brought not just a large market share but also a high return on capital invested.

DIFFICULT YEAR FINANCIALLY

1996 was a difficult year for Metsä-Serla financially. We had to construct a new strategy at a time when the markets for pulp and for the papers we manufacture have been particularly difficult, a fact that has considerably reduced our sales revenues. However, we believe that arrangements so vital to the future of our company could not be put off until times

improved. Opportunities must be taken when they arise.

During the past two years we have made numerous major investments. The most significant was the new-generation fine paper mill at Kirkniemi. Start-up was an unprecedented success, and the new product has been well received by the market.

Even after the new arrangements, Metsä-Serla's equity ratio continues to be satisfactory. It is important for the future that we have streamlined our business ideas now. We have significantly increased our market shares in our core sectors. We now act as local suppliers to a large part of the European market. In Finland, our wood raw material supplies are secured well into the future, and our pulp manufacturing operations now have better prospects for efficient business.

1996 has been a real time of change for our company. It has required new ways of thinking and considerable adaptation from all our employees. The process of change has not been easy. Neither is it yet complete. Much still remains to be done. Our approach to marketing needs further refinement.

In production, we must find ways to raise efficiency levels even further. We must provide our employees with greater motivation by delegating responsibility and decision-making further down the line. With the help of our new strategy we shall make a positive impact on Metsä-Serla's profitability and thus on our financial standing, not least in the eyes of investors.



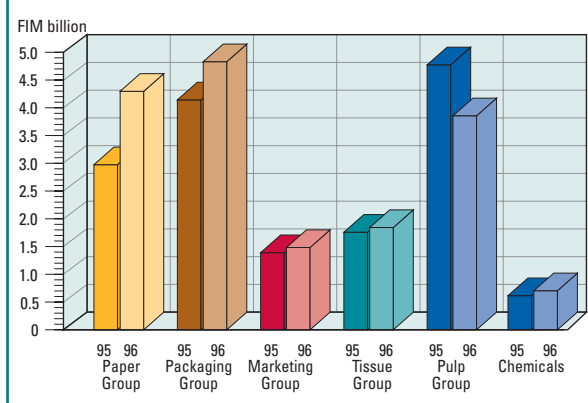
Jorma Vaajoki

The year 1996 in brief

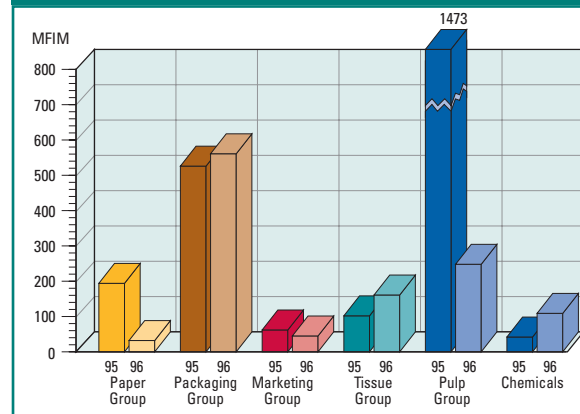
METSÄ-SERLA GROUP	1996	1995	Change
Turnover, MFIM	14 671	13 321	10 %
Operating profit, MFIM	902	2 387	-62 %
Profit after financial items, MFIM	315	1 914	-84 %
Return on assets, %	6.4	18.8	
Interest-bearing net liabilities, MFIM	8 465	6 595	28 %
Interest-bearing net liabilities/turnover, %	57.7	49.5	
Equity ratio, %	37.2	42.4	
Cash flow from operations, MFIM	1 413	1 943	-27 %
Earnings per share, FIM	1.65	8.74	-81 %
Shareholders' equity per share, FIM	51	49	-4 %
Dividend per share, FIM	1.00 *)	1.40	-29 %
Gross capital investments, MFIM	4 711	2 923	61 %
Personnel at 31 December	11 706	10 641	10 %

*) Board's proposal

TURNOVER



OPERATING PROFIT



Main events in 1996

FEBRUARY

Metsä-Serla bought the entire share capital of the German company MD Papier GmbH.

MARCH

The pulp mill built at Rauma by the associated company Oy Metsä-Rauma Ab was completed.

Tako's board machine no. 1 was started up after a rebuild.

JUNE

On 1 June, Jorma Vaajoki took over as Metsä-Serla's President & CEO. At the same time, Metsä-Serla's management was reorganized on the basis of the present business strategy.

Metsä-Serla purchased 35 % of Myllykoski Paper Oy, a company that comprises Myllykoski's Finnish paper mills, and 50 % of Myllykoski's German subsidiary Papierfabrik Albruck GmbH. At the same time, 50 % of MD Papier GmbH's shares were sold to Myllykoski Oy.



Papierfabrik Albruck GmbH, Germany

AUGUST

Kirkniemi's new fine paper mill started production. At a cost of FIM 2.4 billion, the mill is Metsä-Serla's biggest ever investment.



Kirkniemi paper mills, Finland

DECEMBER

Metsä-Serla announced its intention to buy the Simpele paper and board mills and carton plant from UPM-Kymmene. At the same time Metsä-Serla agreed to sell Metsä-Sellu Oy's business operations and UPM-Kymmene its Joutseno Pulp business operations, both to Oy Metsä-Botnia Ab.

Metsä-Serla strengthened its fine papers business by purchasing the Biberist fine paper operations in Switzerland.



Simpele mills, Finland

Metsä-Serla sold its chemicals business to the investment company Industri Kapital, but took a 20 % share in the new company set up to continue the business operations of Metsä-Serla Chemicals.

As part of its restructuring, Metsä-Serla sold Kyröskoski sawmill to the Metsäliitto Group company Oy Metsä Timber Ltd.

1996

Metsä-Serla Sales, the new paper and board sales organization, was formed.



Papierfabrik Biberist, Switzerland

1997

In 1997, Metsä-Serla will focus strongly on its core businesses. The emphasis will be on more efficient sales and service, and on improving the cost effectiveness of logistics, production and employment of capital. Attention will also be given to the company's strategic alliances. The main goal financially will be to strengthen the balance sheet and equity ratio.

Strategic Management

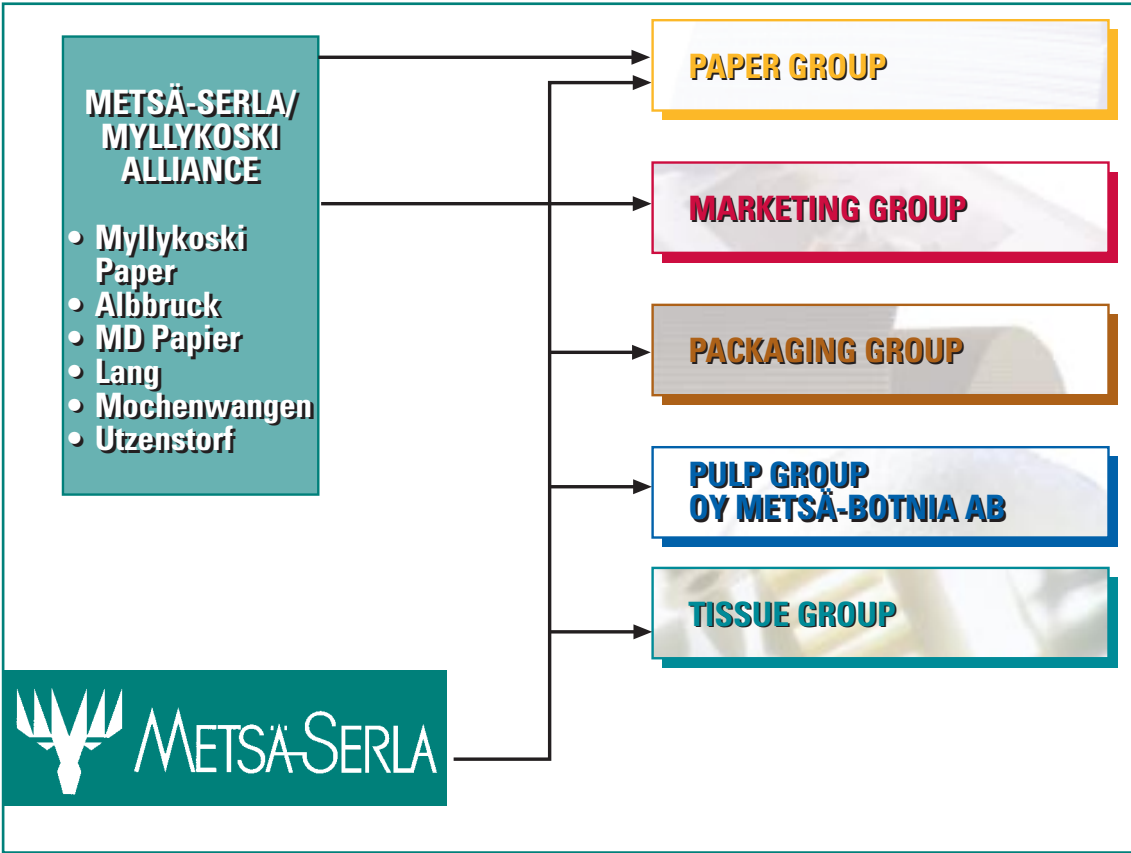


Strategic management from left:
 Olli Nuortila (secretary), Thomas Nystén, Ari Martonen, Jorma Vaajoki, Aarre Metsävirta, Antti Sojakka, and Erkki Varis

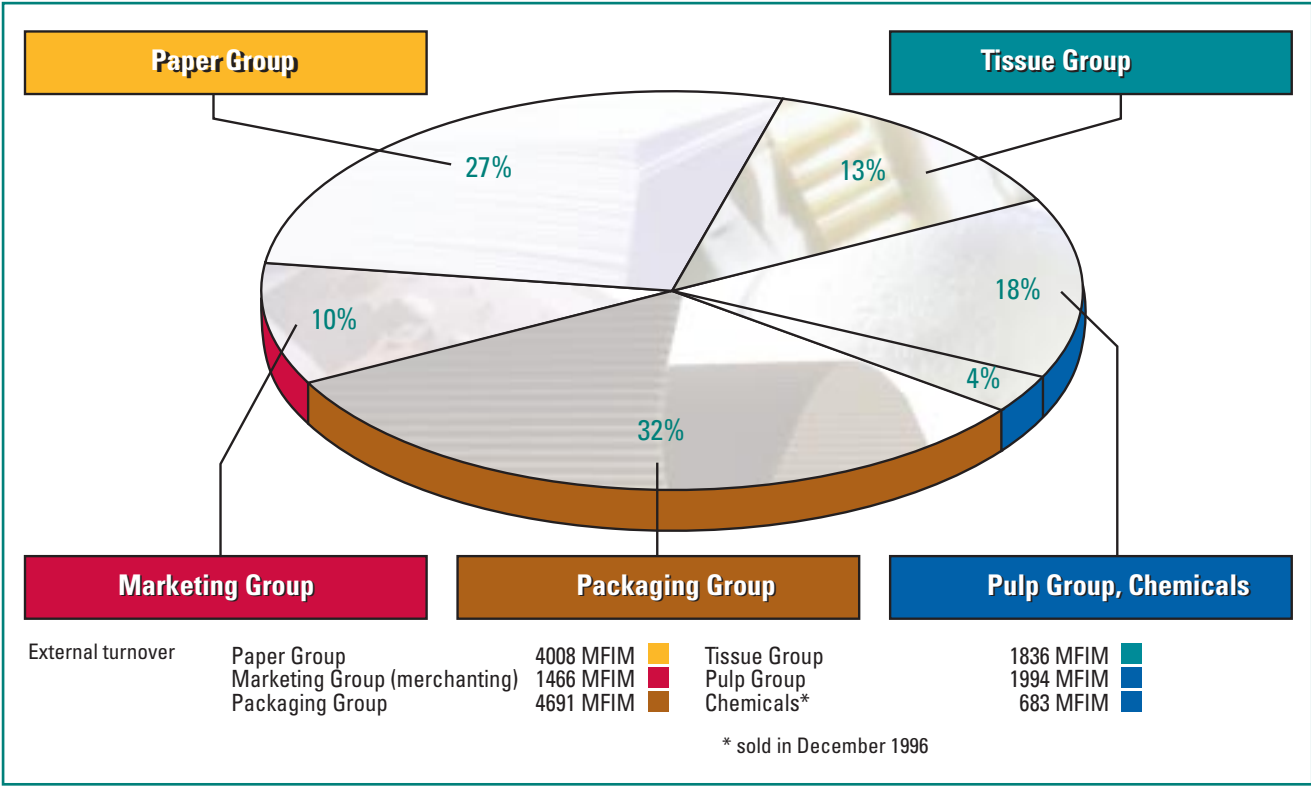
Organization 1997



Strategic business groups



Business areas



Paper Group



SR. VINCENTE GONZÁLEZ SIERRA, Director de organización y sistemas de información / Hachette Filipacchi, Madrid, España

Hachette Filipacchi es uno de los editores de revistas más importantes de España, publicando actualmente 15 revistas mensuales y semanales. A principios de los años noventa Hachette Filipacchi estaba buscando para su revista "ELLE" un papel estucado LWC que sea algo diferente, algo "chic". Al mismo tiempo la fábrica de papel Kirkiemi lanzó su nuevo producto Galerie Brite. Según Sr. González las características de Galerie Brite encajaron con las expectativas de Hachette Filipacchi: Galerie Brite ofrecía una combinación ideal entre brillo, blancura, tonalidad y mano. El servicio técnico ofrecido por Kirkiemi fue esencial en la primera fase del proyecto. Hoy Galerie Brite está utilizado en las revistas "ELLE" y también en una nueva revista "CAR&DRIVER". Hachette Filipacchi, siendo un editor relativamente joven y dinámico, quiere desarrollar nuevas ideas en colaboración con un productor de papel creador e innovador como Metsä-Serla, confiando en que Galerie Fine y otros nuevos productos tengan mucho éxito en el mercado Español.

MR. VINCENTE GONZÁLEZ SIERRA, Organization and information systems director / Hachette Filipacchi, Madrid, Spain

"Hachette Filipacchi is one of the most important magazine publishing houses in Spain, with a present output of 15 monthly and weekly reviews. In the beginning of the 90s Hachette Filipacchi searched for a new different type of "chic" LWC coated paper for its "ELLE" magazine. At this time Kirkiemi paper mill launched its new product Galerie Brite. According to Mr. González the characteristics of Galerie Brite fulfilled the expectations of Hachette Filipacchi: Galerie Brite provided the ideal combination of gloss, brightness, shade and body. The technical services of Kirkiemi were fundamentally important during the first phase of the project. Today Galerie Brite is used for "ELLE", as well as for the new magazine "CAR & DRIVER". Hachette Filipacchi, being a relatively young and dynamic publisher, desires to develop new ideas together with a creative and innovative paper producer such as Metsä-Serla, trusting that Galerie Fine and other such new products will have great success in the Spanish market."

DECLINE IN THE MARKET

The market for coated magazine paper (LWC), the Paper Group's main product, declined during 1996. Demand in Western Europe, the most important market, had risen by 7 per cent the previous year, although growth slackened appreciably towards the year's end. Expectations of a recovery in demand in the second quarter of 1996 proved over-optimistic. In fact, demand fell sharply, greatly reducing capacity utilization rates at the mills during the early part of the year.

Although demand recovered at the end of the year, the capacity utilization rate for 1996 was below 81 per cent (94 per cent in 1995). The poor demand also caused a collapse in prices, and by the end of the year LWC prices on the main markets were around 28 per cent below the peak level of autumn 1995. At the end of 1996, prices on certain of the main markets were at their lowest this decade. Average prices on the main markets were 9 per cent down on the year before.

The period of strong demand for fine paper had already come to an end in spring 1995. The massive stock reductions that followed continued until half-way through 1996. Demand slackened until

stocks had returned to normal level, and there was a strong rise from early summer onwards. The volume of deliveries for the year was 7 per cent up on the previous year. Capacity utilization rates also improved somewhat to reach 91 per cent (88 per cent). However, the poor demand early in the year meant that prices averaged 20 per cent lower.

Demand for magazine paper is expected to grow in 1997, with capacity utilization rates likely to reach around 85 per cent. In fine papers, delivery volumes are forecast to rise by an average of 2-3 per cent, but capacity utilization rates are expected to fall to below 90 per cent. Prices for both magazine paper and fine paper are expected to strengthen slightly in 1997.



Aarre Metsävirta, Senior Executive Vice President and head of the Paper Group, and Petra Lindholm, winder assistant, at Kirkiemi paper mill.

Paper Group

MORE EMPHASIS ON CUSTOMERS' INTERESTS

Successful marketing of the Paper Group's products is long-term work. Four out of every five customers can be described as long-term. This means that business has to be based on signals coming from the market and conducted in a way that suits the customer. A good example of this approach is Kirkiemi's Kiri project, in which feedback from the market and the opinions of customers formed the basis for the development of a completely new fine paper concept. The signs are that the project was a success. Customers' wishes and comments were also taken into account in building up the Galerie product family and making the Galerie brand name well known, to which a major marketing effort was devoted during 1996. Winning the confidence of customers naturally also requires that the entire chain of operations be designed and fine tuned to ensure that customers get the full service they need.

Marketing was faced with a tremendous challenge when, following the winding up of Finnapp, the paper industry's joint sales organization, Metsä-Serla had to set up its own sales and marketing organization. The strategic alliance with Myllykoski Oy, the related take-over and rejuvenation of the German paper mills, and agreeing on a joint marketing concept will all demand a major effort from the Paper Group. The purchase of a Swiss paper mill near the end of 1996 means new opportunities but also new challenges for marketing in 1997. At the same time the new arrangements have greatly strengthened the Group's position in European paper markets.

INVESTMENTS AND COMPANY ACQUISITIONS

Metsä-Serla's position in the fine papers market was substantially strengthened by the start-up of the new 350,000 t/a fine paper line at Kirkiemi at the end of August. The new fine paper, which is based on a special type of pulp, has already fulfilled all quality and runnability expectations, and in terms of certain quality characteristics is way ahead of its competitors. This is the result of innovative product development work and the ability to recognize the needs of the market.

The start-up of Kangas paper mill's automatic A4 sheeting line in spring doubled the mill's sheeting capacity for office papers.

The acquisition in February by Metsä-Serla of the entire share capital of the German company MD Papier GmbH also signified a substantial increase in the volume of business. In June, Metsä-Serla purchased 35 per cent of the magazine paper manufacturer Myllykoski Paper Oy and 50 per cent of Myllykoski's German subsidiary Papierfabrik Albruck GmbH, which produces coated magazine paper. At the same time, Metsä-Serla sold 50 per cent of MD Papier GmbH's share capital to Myllykoski Oy.

In December, Metsä-Serla further expanded its paper business by buying the Swiss company Papierfabrik Biberist. The company has an annual capacity of 270,000 tonnes of coated and 60,000 tonnes of uncoated fine papers.

PROFITABILITY DOWN

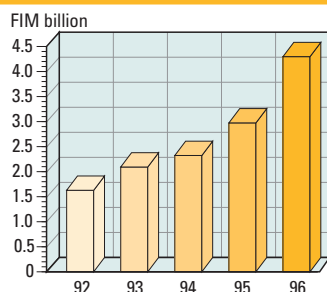
Profitability for the printing papers business was unsatisfactory in 1996. In the

case of coated magazine paper (LWC), profitability weakened towards the end of the year but nevertheless remained satisfactory. The fine papers business, on the other hand, made a loss, despite the improvement in sales prices later in the year. Start-up of the new fine paper machine at Kirkiemi also affected the Paper Group's profitability.

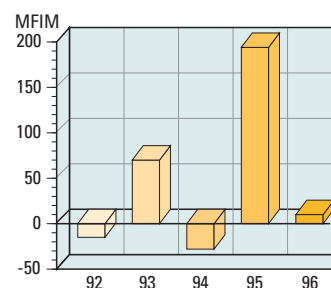
Turnover for the Paper Group was FIM 4,297 million (FIM 2,974 million) and operating profit FIM 10 million (FIM 194 million). The growth in turnover is attributable entirely to company acquisitions.

Extensive measures had to be introduced to improve profitability and to raise production efficiency at the different units. During the year, the Paper Group's workforce was reduced by almost 400 before the acquisition of Biberist. Measures will continue in 1997. Profitability will remain unsatisfactory, even though paper prices are expected to rise slightly.

TURNOVER 1992 – 1996



OPERATING PROFIT 1992 – 1996



KEY FIGURES

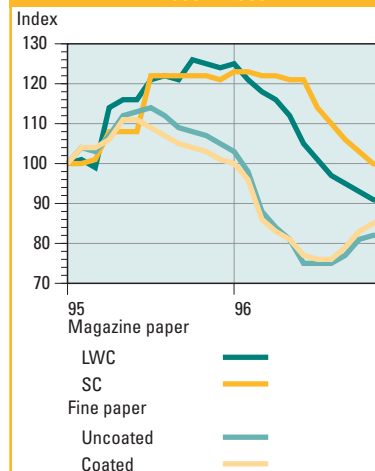
MFIM	1996	1995	Change
Turnover	4 297	2 974	44 %
Internal sales	-289	-227	
External turnover	4 008	2 747	46 %
Operating profit	10	194	-95 %
Personnel (average)	2894	1 701	70 %
Assets invested	4 109	1 991	
Return on assets, %	1.2	10.6	

PRODUCTION

1000 t/a	1996	1 995	Change
Magazine paper	564.8	707.8	-20 %
Fine paper			
Coated	226.2	145.8	55 %
Uncoated	173.8	157.8	10 %

Production figures for 1996 reflect the present Group structure, and figures for 1995 have been adjusted accordingly.

MARKET PRICES FOR PAPER
1995 – 1996



Packaging Group



香港森信洋紙有限公司創始人及總裁 岑傑先生：

紙板是森信向芬蘭林業購買之主要項目。芬蘭林業一向以來都能在品質與及供應量方面保持一定水準，以致貴公司所出產之紙板銷量一直以來都能名列前茅。森信做為一個分銷商之角色而言，我們除了要求一個穩定之供應量以外，我們能享有一個有競爭力之價錢及良好品質尤為重要。我們對於芬蘭林業提供之貨品質素相當滿意。有鑒于目前我們身處于一個競爭非常激烈的市場，我們必須與我們的長期生意伙伴，在互相信賴的情況下通力合作。

MR. SHAM KIT, founder and Chairman of Samson Paper Company Limited, Hong Kong

"Board is the main product we are buying from Metsä-Serla. Thanks to the producer's effort in stabilising the quality and maintaining a constant supply, it has been the best seller in this market. As a paper and board dealer, our main concerns in addition to constant supply are competitive prices and good quality. We are satisfied with the way Metsä-Serla offers us the products we need. Despite the competition, we prefer working with our old business partner because of the mutual trust we share."

REDEFINED STRATEGY

Metsä-Serla has selected packaging as one of its core businesses. During 1996, the Group's entire packaging operations were combined under the Packaging Group.

Metsä-Serla is a major manufacturer of packaging boards, cartons, container-boards and corrugated board boxes. The formation of the Packaging Group has given the company the opportunity to develop its packaging products as a business in its own right and to offer customers more comprehensive solutions. It has also combined the company's packaging expertise and development resources.

The purchase of the Simpele packaging board and carton operations from UPM-Kymmene is in line with this strategy. Simpele's products will provide an excellent addition to Metsä-Serla's range and allow the company to offer a more comprehensive service to customers.

PAPERBOARDS

Demand for cartonboards, graphic boards and wallpaper base was weaker during the first half of the year than for the same

period in 1995. However, following an improvement later in the year, demand for 1996 as a whole was about the same as the year before.

During 1996, market positions were strengthened in those segments of the packaging boards business of strategic importance to Metsä-Serla. As a result of recent investments and the acquisition of Kyro's board business, deliveries were

45 per cent up on the previous year at 447,000 tonnes. Deliveries in Europe rose by 30 per cent, and in Southeast Asia, another important market, by 70 per cent.

Having peaked early in the year, sales prices showed a downward trend until the beginning of the autumn, when there was a levelling off. Average prices in the currencies of the main markets were some 6 per cent lower than in 1995.



Antti Sojakka, Senior Vice President and head of the Packaging Group at the Kyro mill.

Packaging Group

The biggest investment projects completed in 1996 were the board machine rebuilds at the Tako and Kyro mills. The quality targets have been achieved and capacity has been raised by 30,000 t/a to 530,000 t/a.

CONTAINERBOARDS

Metsä-Serla's Packaging Group is a leading supplier of coated and uncoated white-top kraftliners and semi-chemical fluting. Kraftliner and fluting are used as raw materials for production of the corrugated board used to make high-quality transport, sales and consumer packagings.

The volume of production by the European corrugated board industry in 1996 was the same as the year before. Demand for white-top kraftliners is rising rapidly in Europe. The increasing popularity of high-quality flexographic printing in the corrugated board industry is boosting demand for coated liners. European demand for semi-chemical fluting fell slightly during the year under review.

Containerboard prices rose sharply up to August 1995, but then fell steadily for the 14 months up to October-November 1996. Prices for white-top liners fell by about 25 per cent from their peak, while those for semi-chemical fluting fell by around 30 per cent.

In the containerboards segment, Metsä-Serla's Packaging Group is stepping up product development and improving customer service. The goal is to develop ways of producing corrugated board boxes that are more cost-effective and have superior strength and printing characteristics.

CORRUGATED BOARD BOXES

Metsä-Serla's Packaging Group manufactures corrugated board boxes at its plants in Finland, Denmark, Greece, Russia and Estonia.

Demand for corrugated board on the company's main markets was about 2 per cent higher than in 1995. Prices for corrugated board boxes fell throughout the year. Raw material prices also fell until the end of the summer.

Metsä-Serla's total deliveries of corrugated board boxes were about 4 per cent up on the previous year. The units in

Finland, Estonia and Russia increased their deliveries, whereas volumes in Denmark and Greece were slightly down.

The mills in Finland increased their sales volume on 1995, and this growth looks set to continue. Several investments were made during the year to raise productivity and improve quality. The standard of customer service was improved through an extensive training programme. Further improvements will be made in 1997 through more training and investments in production machinery.

Metsä-Serla's Packaging Group purchased a new mill in the Estonian capital Tallinn, where production of corrugated board will begin in March 1997.

In Russia, production and sales at the St. Petersburg mill progressed in line with plans. Investment was directed at expanding the product range and improving product quality. The unit made a good profit in 1996 and business will be substantially developed during 1997.

Competition on the Danish and Greek markets has intensified. Metsä-Serla is responding by investing in greater efficiency and better quality and by rationalizing its operations.

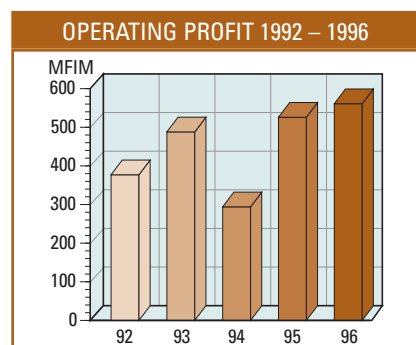
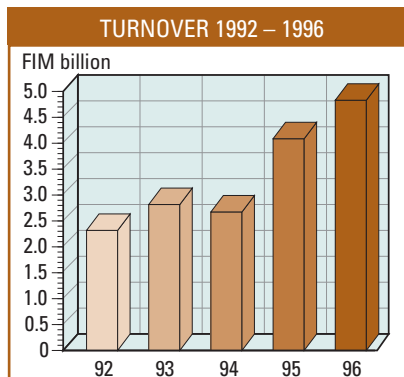
GOOD PROGRESS DURING 1996

Turnover for the Packaging Group in 1996 was FIM 4,830 million (FIM 4,142 million in 1995). Operating profit was FIM 561 million (FIM 526 million).

Metsä-Serla's Packaging Group is Europe's second largest producer of folding boxboards and the market leader in wallpaper baseboard. The company also enjoys a strong position in many containerboard markets. As a manufacturer of corrugated board boxes, Metsä-Serla has a strong position in its selected markets.

TARGETS

The prospects for 1997 are largely good. The addition of the Simpele mills will suitably expand the company's range of packaging boards. Customer service will be improved both in Finland and abroad. This will require the company to renew its logistics operations and to make efficient use of its international sales network.



KEY FIGURES

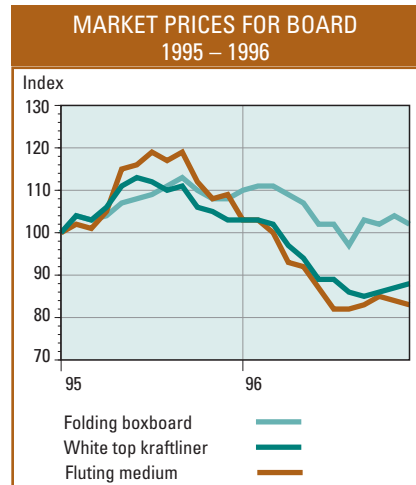
Metric	1996	1995	Change
Turnover	4 830	4 142	17 %
Internal sales	-139	-108	
External turnover	4 691	4 034	16 %
Operating profit	561	526	7 %
Personnel (average)	4 320	3 743	15 %

Assets invested	3 163	2 296
Return on assets, %	18.7	24.5

PRODUCTION

Metric	1996	1995	Change
Paperboard and wallpaper base papers	448.0	409.1	10 %
Corrugated board boxes	195.0	191.3	2 %
Containerboards			
Kraftliner	289.5	298.3	-3 %
Fluting	219.4	223.9	-2 %

Production figures for 1996 reflect the present Group structure, and figures for 1995 have been adjusted accordingly.



Marketing Group



*SALEHURST PAPER, London, England
At the meeting (from left to right) Michael Jackson, Managing Director, Dominic Blakey, Sales Executive, Matthew Valentine, Sales Director, Joyce Huie, Customer Services Manager, Keith Cleary, Sales Director, and Ken Dodge, Admin. Director.*

"Salehurst Paper are major suppliers to the magazine publishing industry, a highly demanding and competitive business area. Salehurst succeed by offering a unique and comprehensive paper management service to customers and are constantly developing to meet changing demands. In this respect the supplier relationship is critical and requires a great degree of mutual trust and confidence. Our long relationship with Metsä-Serla and particularly Kirkniemi reflects these values. The combination of product innovation and a consistent business approach will ensure future success."

METSÄ-SERLA SALES – Metsä-Serla's new international sales organization

Setting up a sales network covering all key markets was one of the biggest projects of the year. A total of 17 new paper and board sales outlets were opened for Metsä-Serla Sales, the company's new sales organization. Metsä-Serla's products serving printing and packaging are now represented on over 50 markets, and the company has its own sales offices in 23 countries.

More than 2.5 million t/a of paper and board are now being sold through the new network. Taking into account domestic sales by the paper mills in Germany and Finland, the sales arrangements in North



Thomas Nystén, Senior Vice President and head of the Marketing Group, and Kalevi Saastamoinen, Managing Director of the Martinpaino Oy printing house.

Marketing Group

America, and the latest company acquisitions, total sales by the Metsä-Serla/Myllykoski alliance are around 4 million t/a.

Sales by Metsä-Serla Sales will be worth roughly FIM 11 billion in 1997. The organization employs 370 people, most of them local experts in printing and packaging.

The purpose of Metsä-Serla Sales is to establish the market infrastructure and tools needed by the Group's business segments in marketing and sales to the printing and packaging industries. The aim is to provide all customers with the same high standard of service irrespective of where in the world the customers operate. How well the sales network succeeds will be measured through regular customer satisfaction surveys in the different markets as well as by the usual sales and cost analyses.

BROAD PRODUCT RANGE

Metsä-Serla's range of products was expanded considerably in 1996 through company acquisitions and through the company's own product development and investment. One major strength of Metsä-Serla Sales is its ability to offer customers total solutions for printing and packaging. While the range of products offered by the Metsä-Serla/Myllykoski alliance is already large, further products from other paper and board suppliers will be added during 1997 in response to customers' needs.

MAIN GOALS

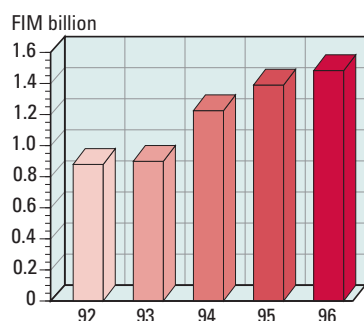
The new sales organization will be further developed during 1997. Service and cus-

tomers' satisfaction will be the vital tools in competition. This will form the basis for a revision of Metsä-Serla Sales' information and logistics systems. Projects will be launched to bring substantial improvements to the overall service to customers and to the cost-effectiveness of the delivery systems between Metsä-Serla's mills and customers.

MERCHANTING

Paper merchants are expected to strengthen their position in the market, and a major effort will be made to boost this activity in the near future. Deliveries rose to 224,000 tonnes in 1996 from 203,000 tonnes the year before. Turnover from merchanting operations was FIM 1,483 million (FIM 1,390 million in 1995) and operating profit FIM 45 million (FIM 62 million).

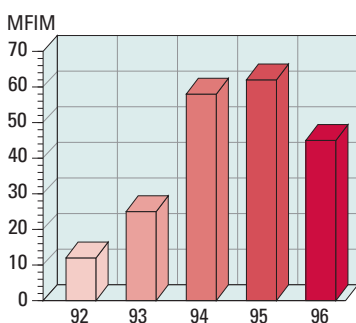
MERCHANTING TURNOVER 1992 – 1996



MERCHANTING KEY FIGURES

MFIM	1996	1995	Change
Turnover	1 483	1 390	7 %
Internal sales	-17	-15	
External turnover	1 466	1 375	7 %
Operating profit	45	62	-27 %
Personnel (average)	656	598	10 %
Assets invested	281	266	
Return on assets, %	16.5	24.1	

MERCHANTING OPERATING PROFIT 1992 – 1996



Tissue Group



PER JENSEN, butikschef, Wika Supermarked, Køge, Danmark

"En god leverandør skal kunne levere de varer vore kunder ønsker samt kunne tilbyde en god service samt holde en høj leveringssikkerhed. Det er også vigtigt at have et seriøst og troværdigt samarbejde og helt klart skal produkterne være af høj kvalitet. Ellers er man omgående ude af billedet. Det er også nødvendigt at leverandøren klarer produktudviklingen og det gør Metsä-Serla bestemt. Vi ser en fortsat, meget positiv salgsudvikling for Lambi. Det er nemlig et produkt med høj kvalitet og stemmer derfor godt overens med vor satsning på kvalitetsvarer."

MR. PER JENSEN, Store Manager of the Wika Supermarket in Køge, Denmark

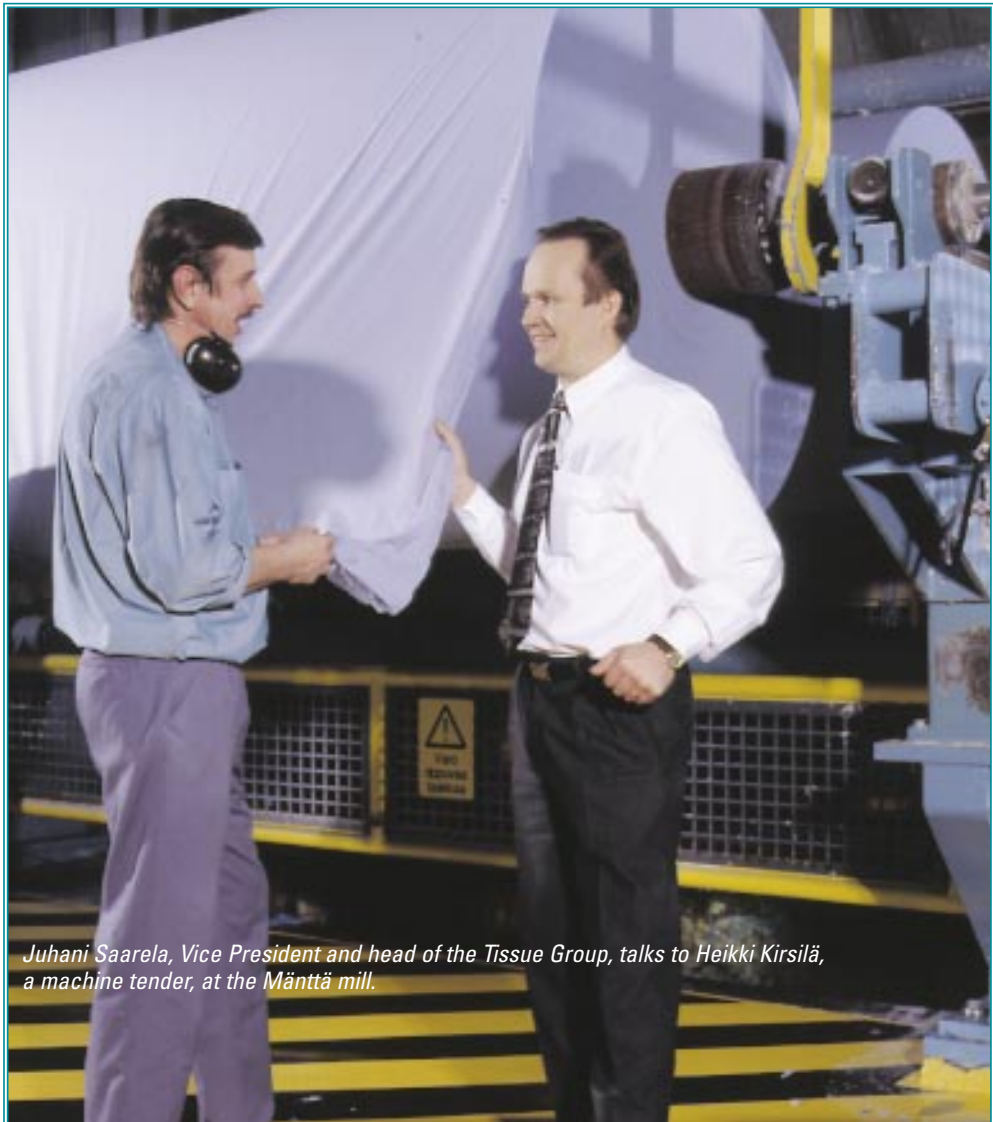
"A good supplier must be able to give customers what they want, as well as providing a good service and reliable deliveries. It's also important for cooperation with the supplier to be conducted professionally in every respect and to be based on mutual trust. And the products must naturally be of the very highest quality. Otherwise there's no deal. The supplier must also attend to product development, which is one of Metsä-Serla's strong points. Our sales of Lambi look set to continue at a very favourable level. It's a quality product that ties in very well with our general policy of focusing on quality goods."

MARKET STABLE

The market for tissue in 1996 was stable in the Nordic countries, the company's most important market. The favourable trend of the previous year also continued elsewhere in Europe. Overall demand for tissue in the Nordic countries rose by about 2 per cent in 1996, compared with less than 1 per cent the year before. Elsewhere in Europe, demand for tissue grew even faster.

The sharp fall in market pulp prices early in 1996 pushed tissue prices down by as much as 5-10 per cent. In the Nordic countries the fall was less pronounced. However, with consumers increasingly opting for higher quality products based on pure chemical pulp, average prices remained almost the same as at the end of the previous year.

The tissue market is expected to remain stable in 1997. The 2 per cent growth in demand is forecast to continue.



Juhani Saarela, Vice President and head of the Tissue Group, talks to Heikki Kirsilä, a machine tender, at the Mänttä mill.

Tissue Group

NEW NORDIC ORGANIZATION

At the end of 1996, the Tissue Group changed over to a new joint business organization in the Nordic countries. The group's new name is Metsä-Serla Tissue. In practice, this means that sales, marketing and administration for Serla Oy and Metsä-Serla Ab in Sweden will be combined. Both companies are clear leaders in their respective home markets, and bringing the two together will pave the way for a joint business strategy for marketing both consumer and away-from-home products. In the first stage, clearer product concepts will bring synergy benefits. Later, a clearer division of production responsibility between the mills will lead to a reduction in costs. The new organization will strengthen and clarify the Tissue Group's position as the market leader in all four Nordic countries.

MARKETING

The focus in the away-from-home market will be on Katrin products, with the corporate sector, schools, hospitals, hotels and restaurants the main target groups. The range offers special products for each particular purpose.

Consumer marketing is based on the particular requirements of different consumer groups. This demands a sharply focused brand name strategy. Super-soft Lambi, a tissue based on pure chemical pulp, has established a leading position in the Nordic tissue market. Sales of Lambi products rose by more than 10 per cent in 1996. Leni products, which are well known in Sweden, are produced from collected office waste paper. This tissue combines the strengths of Lambi and Serla.

INVESTMENTS

Metsä-Serla has invested heavily in tissue-making technology in recent years. At Mänttä, the tissue machine producing super-soft qualities for more discerning buyers was rebuilt in 1996. In Sweden, work continued on the modernization of PM 35 at the Katrinefors mill. The work will be complete in 1997.

HIGH-DENSITY PAPERS

High-density papers, which have a turnover of just under FIM 200 million, form a separate business area within the Tissue Group. The market for these papers, which are mainly used in baking and cooking, weakened considerably dur-

ing the year. Sales tend to be seasonally biased to the end of the year, and the market varies considerably from one year to the next. The strategy for high-density papers will be revised with a view to greater product upgrading.

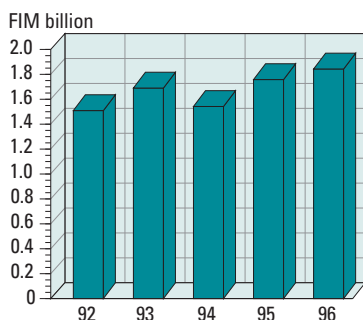
TURNOVER UP FIVE PER CENT

The Tissue Group's turnover for 1996 was FIM 1,843 million (FIM 1,758 million). This represents growth of 5 per cent on 1995. The Tissue Group improved its operating profit to FIM 161 million (FIM 102 million in 1995). The business trend is forecast to remain favourable in 1997.

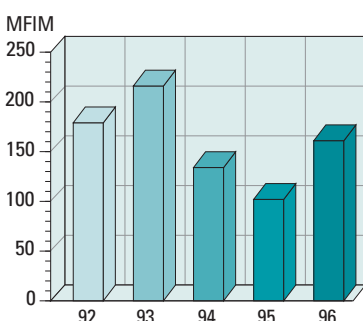
KEY FIGURES

MFIM	1996	1995	Change
Turnover	1 843	1 758	5 %
Internal sales	-7	-5	
External turnover	1 836	1 753	5 %
Operating profit	161	102	58 %
Personnel (average)	1 686	1 675	1 %
Assets invested	941	940	
Return on assets, %	17.8	11.6	
Production, 1 000 t/a	210.7	209.8	

TURNOVER 1992 – 1996



OPERATING PROFIT 1992 – 1996



Pulp Group



JUHANI JORONEN, toimitusjohtaja, Ahlström Kauttua Oy

"Yhteistyö Metsä-Serlan kanssa on ollut asiallista. Pidämme Metsä-Serlan tytäryhtiötä Metsä-Botniaa edelläkävijänä teknologia- ja laatuasioissa. Tästä ovat esimerkkeinä TCF-sellu ja Metsä-Rauman uusi tehdas. Kehitysasioissa pidämme tärkeimpänä Metsä-Rauman sellun laadun kehittämistä sellaiselle huipputasolle, että se sopii myös kaikkein vaativimpiin erikoispapereihin. Tulevaisuudessa koivumassan saatavuus on meille erityisen tärkeää."

MR. JUHANI JORONEN, Managing Director, Ahlstrom Kauttua Ltd, Finland

"We've worked together in a very businesslike way. We regard Metsä-Serla's subsidiary Metsä-Botnia to be a pioneer in matters related to technology and quality, good examples being TCF pulp and Metsä-Rauma's new pulp mill. In terms of development, it's most important that Metsä-Rauma's pulp be brought up to the very high standard required for production of the most demanding paper specialities. In future, the availability of birch pulp will be an especially important issue for us."

MAJOR FLUCTUATIONS IN MARKET PULP

Market pulp prices changed to an unprecedented degree during 1996. The decline in demand that started late in 1995, combined with over-capacity and over-production resulted in excessively high producer stocks. Softwood pulp prices collapsed from over USD 950 to less than USD 500/tonne in May.

During spring and summer fine paper mills raised their capacity utilization rates and pulp producers cut back production, bringing total Norscan stocks down to around 1.5 million tonnes. As a result, prices recovered to some extent. By the turn of the year, softwood pulp prices had levelled off at about USD 560/tonne. Prices are expected to improve during 1997 as demand strengthens.

The competitiveness of Metsä-Serla's pulp mills helped to secure business during this period of fierce price competition. Poor demand early in the year pushed the industry's utilization rate down to 89 per cent from the already appreciably reduced figure of 90 per cent the year before. Metsä-Serla's output of chemical pulp in 1996 was 1,314,000 tonnes, 41,000 tonnes less than the year before. Deliveries to buyers outside the Group totalled 479,000 tonnes, of which 155,000 tonnes was sold to UPM-Kymmene and 324,000 tonnes to the market. Deliveries to outside buyers were 9 per cent down on the year before.

CTMP IN DIFFICULTIES

The market for chemithermomechanical pulp (CTMP) was difficult throughout 1996. Lielahiti, Europe's biggest CTMP production unit, had to take several weeks of downtime early in the year, forcing its utilization rate down to below 80 per cent. Production reached just 84,000 tonnes, compared with 106,000 tonnes in 1995.

INVESTMENTS COMPLETED

The most significant investments in 1996 were the new turbine plant at Metsä-Botnia's Kemi mills and the activated sludge treatment plant built at Kaskinen pulp mill. At Äänekoski, wood handling was mod-

ernized and an oil-fired boiler plant built to act as a reserve energy source.

The Metsä-Serla associated company Oy Metsä-Rauma Ab pulp mill was completed early in the year and began production some two months ahead of the original schedule. The final cost of the mill was well below the FIM 2.5 billion budgeted.

PROFITABILITY BADLY HIT

Weak demand, prolonged production stoppages and the collapse in prices resulted in poor profitability for the pulp mills.

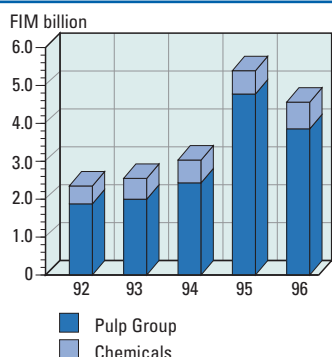
The Group's turnover was FIM 3,856 million (FIM 4,774 million) and operating profit FIM 220 million (FIM 1,473 million).



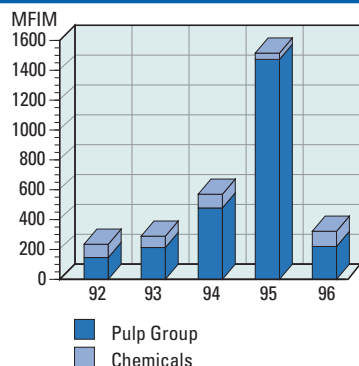
Erkki Varis, Managing Director of Oy Metsä-Botnia Ab, and Kalevi Kauppinen, a bleach plant worker at Kemi pulp mill.

Pulp Group

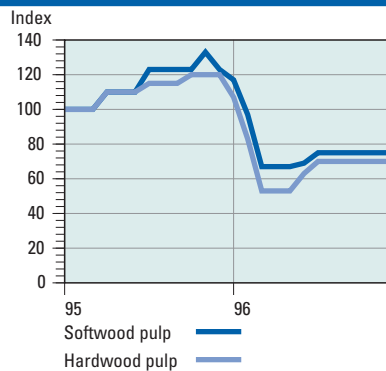
TURNOVER 1992 – 1996



OPERATING PROFIT 1992 – 1996



PULP WORLD MARKET PRICES 1995 – 1996



PULP PRODUCTION FOCUSED ON METSÄ-BOTNIA

In December, Oy Metsä-Botnia Ab and its shareholders Metsäliitto Osuuskunta, Metsä-Serla Oy and UPM-Kymmene Corporation signed a letter of intent under which Metsä-Botnia engaged to buy Metsä-Serla's Äänekoski pulp mill and UPM-

PULP KEY FIGURES

MFIM	1996	1995	Change
Turnover	3 856	4 774	-19 %
Internal sales	-1 862	-2 203	
External turnover	1 994	2 571	-22 %
Operating profit	220	1 473	-85 %
Personnel (average)	1 793	1 807	-1 %
Assets invested	5 656	4 182	
Return on assets, %	4.5	35.6	

Production

Pulp, 1 000 t/a	1996	1995	Change
Chemical pulp	1 313.8	1 355.1	-3 %
CTMP	84.0	105.8	-21 %
Sawn timber, 1 000 m ³	532.9	527.3	1 %

Kymmene's Joutseno Pulp pulp mill. This will give Metsä-Botnia a pulp production capacity of around 1.8 million t/a. The deal is expected to be finalized during the first quarter of 1997.

SAWN TIMBER MARKETS RECOVERING

Over-supply on the markets for sawn timber during 1995 led to a sharp fall in prices, and 1996 began in an atmosphere of uncertainty. Continuing over-supply forced prices down until the summer. Profitability was poor. Disruptions to wood procurement coupled with low capacity utilization rates caused by poor profitability led to supply problems early in the autumn. This was rapidly reflected in prices, for which a positive trend continued throughout the autumn. Profitability improved considerably from October onwards. 1997 has started with prices rising, and the situation looks much better than a year earlier.

Metsä-Serla's total sawmilling capacity was 620,000 cubic metres, of which the Metsä-Botnia subsidiary Botnia Wood accounted for 460,000 and Kyröskoski sawmill for 160,000 cubic metres. Because of weak demand, only 86 per cent (533,000 cubic metres) of this total capacity was in use in 1996. At the end of the year, Metsä-Serla sold Kyröskoski sawmill to the Metsäliitto subsidiary Oy Metsä Timber Ltd, which has already been marketing output from Metsä-Serla's sawmills.

CHEMICALS BUSINESS SOLD

Demand for carboxymethylcellulose (CMC) remained steady throughout the year, despite lower capacity utilization rates in the paper industry. The introduction of new coated paper capacity in different parts of the world improved sales of CMC. The company increased its share of the US market, and this, together with overall growth in CMC consumption, increased sales to this difficult market.

Prices were relatively quiet throughout the year. The fall in prices of raw materials, mainly chemical pulp, put pressure on CMC prices. Despite this, prices were kept reasonably stable. Thanks to the favourable price trend, the higher than predicted sales volume, and the correct product range, the chemicals business recorded good profitability in 1996.

Production went particularly well at the Äänekoski mills, and a new production record was set. The most notable investment was the rebuild of the distillation plant at Äänekoski.

The Group's decision to focus on serving the printing and packaging industries led to the sale of the chemicals business to Industri Kapital towards the end of 1996. Metsä-Serla is a still the biggest single shareholder in the new company set up to continue this business.

CHEMICALS KEY FIGURES

MFIM	1996	1995	Change
Turnover	704	615	14 %
Internal sales	-21	-19	
External turnover	683	596	15 %
Operating profit	102	42	143 %
Personnel (average)	330	353	-6 %
Assets invested	738	697	
Return on assets, %	16.3	6.8	
Production, 1 000 t/a	57.2	60.0	-5 %

The figures for 1996 are for 11 months up until the time the business was sold.

Four-month data

	1996 Total	9-12	5-8	1-4	1995 Total	9-12	5-8	1-4
TURNOVER, MFIM								
Paper Group	4 297	1 585	1 273	1 439	2 974	1 013	997	964
Packaging Group	4 830	1 635	1 570	1 625	4 142	1 536	1 463	1 143
Marketing Group	1 483	521	458	504	1 390	468	456	466
Tissue Group	1 843	621	594	628	1 758	659	580	519
Pulp Group	3 856	1 322	1 155	1 379	4 774	1 652	1 804	1 318
Chemicals	704	198	241	265	615	193	207	215
Internal sales	-2 342	-737	-668	-937	-2 332	-836	-984	-512
TOTAL	14 671	5 145	4 623	4 903	13 321	4 685	4 523	4 113

	1996 Total	9-12	5-8	1-4	1995 Total	9-12	5-8	1-4
OPERATING PROFIT, MFIM								
Paper Group	10	-16	-27	53	194	50	86	58
Packaging Group	561	199	184	178	526	127	216	183
Marketing Group	45	17	12	16	62	19	21	22
Tissue Group	161	54	60	47	102	42	35	25
Pulp Group	220	102	-98	216	1 473	545	574	354
Chemicals	102	30	34	38	42	1	19	22
Others	-197	-59	-63	-75	-12	48	-93	33
TOTAL	902	327	102	473	2 387	832	858	697

	1996 Total	9-12	5-8	1-4	1995 Total	9-12	5-8	1-4
TURNOVER BY BUSINESS UNIT, MFIM								
Paper	4 297	1 585	1 273	1 439	2 974	1 013	997	964
Paperboard	2 390	848	793	749	1 704	661	581	462
Corrugated board	1 232	404	395	433	1 214	428	398	388
Containerboards	1 381	428	438	515	1 437	562	525	350
Marketing	1 483	521	458	504	1 390	468	456	466
Tissue	1 843	621	594	628	1 758	659	580	519
Pulp	3 280	1 099	965	1 216	3 975	1 461	1 638	876
Sawmills	683	261	221	201	888	230	197	461
Chemicals	704	198	241	265	615	193	207	215
Internal sales	-2 622	-820	-755	-1 047	-2 634	-990	-1 056	-588
TOTAL	14 671	5 145	4 623	4 903	13 321	4 685	4 523	4 113

Report of the Board of Directors

The European economy showed only modest growth in 1996. Industrial production rose by only 1.5 % in the EU countries as a whole and by less than 1 % in Germany and France. The growth in the world economy in general continued strong throughout 1996 and averaged 4 %. This was sustained by the favourable trend in the US economy and by strong economic growth in the countries of Southeast Asia. The Japanese economy did not develop in line with expectations.

Having been allowed to float for the past four years, the Finnish markka was linked to the ERM in October. The average exchange rate for the markka is about 5 % lower than when it was first allowed to float and 20 % lower than when it was first linked to the ECU in spring 1991. Membership of the ERM is central to the future of the forest industry.

Demand for forest industry products began to weaken substantially in the second

half of 1995 and remained weak throughout almost the whole of 1996. Only towards the end of the year did the market show signs of recovery. Paper and board deliveries in Western Europe fell by 1 % in 1996. Capacity utilization by the Finnish forest industry fell from 91 % in 1995 to 85 % in 1996.

As a result of weak demand, sales prices for many products fell sharply. Market pulp prices were particularly badly hit.

For these reasons, the forest industry's profitability was much poorer than in 1995.

TURNOVER AND PROFITS

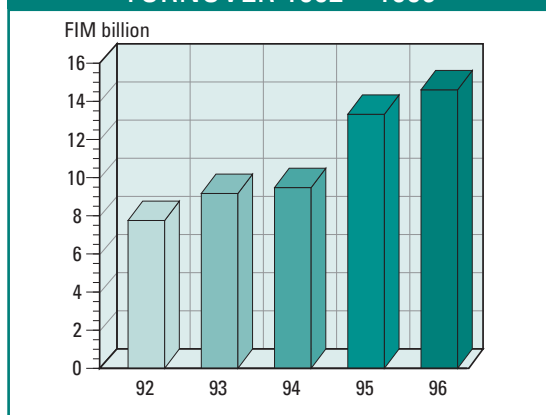
Consolidated turnover for 1996 was FIM 14,671 million (FIM 13,321 million in 1995). Exports from Finland and sales by foreign subsidiaries represented 84 % of turnover (78 %). Altogether 33 % (25 %) of turnover was derived from operations outside Finland. Other income from operations was

FIM 143 million, including FIM 48 million in profit from the sale of fixed assets.

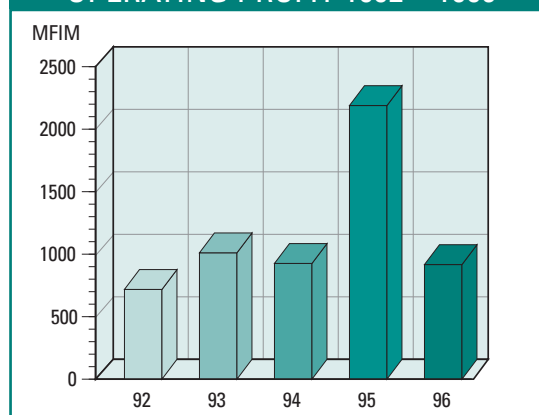
Operating profit was FIM 902 million (FIM 2,387 million), 6.1 % (17.9 %) of turnover. The decrease is due largely to lower prices for market pulp and paper and to the fall in demand for printing papers. Machine start-ups following completion of investment projects also reduced the operating profit.

Operating profit for the Paper Group fell to FIM 10 million (FIM 194 million). Operating profit for the Packaging Group was slightly changed at FIM 561 million (FIM 526 million). The Marketing Group generated an operating profit of FIM 45 million (FIM 62 million). The Tissue Group improved its operating profit to FIM 161 million from FIM 102 million the previous year. Operating profit for the Pulp Group fell to FIM 220 million (FIM 1,473 million).

TURNOVER 1992 – 1996



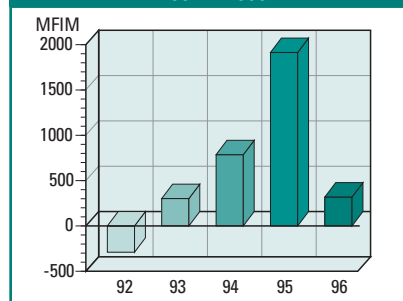
OPERATING PROFIT 1992 – 1996



TURNOVER, OPERATING PROFIT, FIM MILLION PERSONNEL, AVERAGE

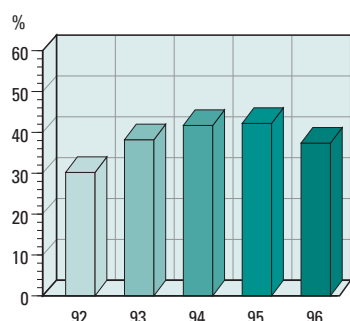
	Turnover		Operating profit		Personnel	
	1996	1995	1996	1995	1996	1995
Paper Group	4 297	2 974	10	194	2 894	1 701
Packaging Group	4 830	4 142	561	526	4 320	3 743
Marketing Group	1 483	1 390	45	62	656	598
Tissue Group	1 843	1 758	161	102	1 686	1 675
Pulp Group	3 856	4 774	220	1 473	1 793	1 807
Chemicals	704	615	102	42	330	353
Others			-197	-12	268	229
Internal sales	-2 342	-2 332				
Total	14 671	13 321	902	2 387	11 947	10 106

PROFIT AFTER FINANCIAL ITEMS 1992 – 1996



Report of the Board of Directors

EQUITY RATIO*)



Net financial expenses were FIM 587 million (FIM 473 million), 4.0 % (3.5 %) of turnover. Net interest expenses were FIM 471 million (FIM 503 million). The profit and loss account shows net exchange losses of FIM 296 million on the hedging of foreign currency exposure, of which FIM 131 million has been entered under financial items and FIM 165 million as adjustment to turnover. In 1995 there were exchange gains of FIM 210 million, of which FIM 12 million was entered under financial items and FIM 198 million as adjustment to turnover. Financial income includes FIM 85 million in dividends (FIM 48 million).

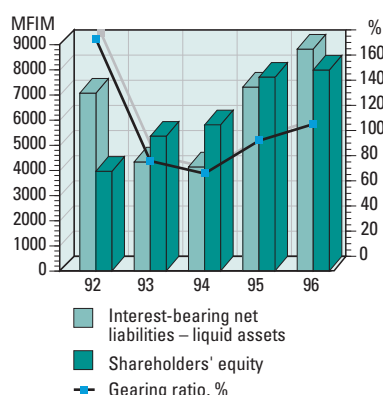
Metsä-Serla has the right to settle the difference in share price for some or all of the shares at a time of its own choosing.

Liquid funds and committed but unused credit facilities were FIM 4,294 million (FIM 2,398 million). Liquidity is good.

The equity ratio at 31 December was 43.0 % (46.4 %) and the gearing ratio 95.3 % (86.6 %). Taking into account the provision for deferred tax, the equity ratio was 37.2 % and the gearing ratio 110.4 %.

Distributable shareholders' equity at 31 December was FIM 1,044 million (FIM 1,111 million).

NET GEARING*)



After financial items there was a profit of FIM 315 million (FIM 1,914 million). Extraordinary income, net of expenses, was FIM 384 million. Extraordinary income includes FIM 313 million in profits from the sale of the chemicals business and FIM 122 million from the sale of UPM-Kymmene shares. The main extraordinary expenditure item is a FIM 46 million provision for expenses that will arise in the future from unemployment pensions in previous financial periods.

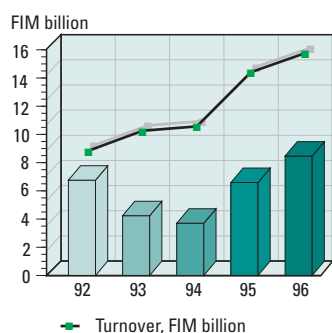
FOREIGN CURRENCY EXPOSURE

Metsä-Serla's net foreign currency exposure from exports, imports and other foreign currency income and expenditure rose to more than FIM 8.5 billion as a result of the Group's growth. This exposure was hedged using foreign currency loans and derivatives. Roughly 50 % of the net foreign currency exposure was hedged at the beginning of the year and around 40 % at the end.

Before taxes and minority interests there was a profit of FIM 700 million (FIM 1,913 million). Minority interests were FIM 4 million (FIM 318 million) and direct taxes, including the change in the provision for deferred tax, were FIM 224 million (FIM 486 million). Earnings per share were FIM 1.65 (FIM 8.74). The return on assets was 6.4 % (18.8 %).

Exchange differences arising from foreign currency hedging have been entered in the profit and loss account, with differences on foreign loans shown under financial items and differences on derivatives entered as a sales adjustment item under turnover.

INTEREST BEARING NET LIABILITIES



FINANCIAL POSITION

Metsä-Serla's financial position was good throughout 1996. Interest-bearing net liabilities increased by FIM 1,870 million to stand at FIM 8,465 million at the end of the year (FIM 6,595 million at 31 December 1995). Funds from operations were FIM 1,891 million (FIM 2,429 million).

The foreign currency receivables and debts of Metsä-Serla's Finnish companies outstanding at 31 December have been converted into Finnish markka using the Bank of Finland's average exchange rate at that date.

SHARES AND BOARD OF DIRECTORS

The company's Annual General Meeting on 11 April 1996 decided to change the nominal value of the company's share from FIM 50 to FIM 10. This increased the total number of shares from 27,799,885 to 138,999,425.

In April, Metsä-Serla raised a USD 560 million syndicated loan on the international market. The loan matures in seven years. Early in the year a FIM 850 million bond loan was issued for subscription by Finnish investors. The bonds carry a fixed coupon and mature in six years.

The meeting authorized the Board of Directors to increase the company's share capital by up to FIM 125 million through the issue of new shares and/or the exchange of convertible bonds. The

In June, Metsä-Serla sold its 13.6 million shares in UPM-Kymmene. In connection with the sale, an agreement was signed under which Metsä-Serla is committed to any changes in the quotation price in respect of all the shares for up to six years.

*) In 1992 deferred tax liability and minority interest in untaxed reserves included in equity.

Report of the Board of Directors

authorization provided for the share capital to be increased either in accordance with or in disapplication of shareholders' existing rights. The increase may represent no more than one-fifth of the company's registered share capital and of the total number of votes carried by the shares.

The meeting elected Seppo T. Niemi and Eero Oittila new members of the Board of Directors. The term of Gustaf Serlachius as a member of the Board expired on 11 April 1996.

Also at the meeting, § 15 of the company's Articles of Association was amended so that the company shall have at least one and no more than three auditors. The auditors appointed were SVH Coopers & Lybrand Oy (CPA), Antti Helenius (CPA) and Ilkka Haarlaa (CPA).

A total of 49.7 million Metsä-Serla shares were traded on the Helsinki Stock Exchange (43.98 million) and 25.8 million on SEAQ International in London (13.5 million). At the end of the year 41.6 % of the company's shares were held by non-Finnish citizens (45.6 %). The market capitalization at 31 December 1996 was FIM 4.8 billion (FIM 3.7 billion).

The companies Metsä-Serla Paper and Board Ltd and Jalassaari Oy were merged with Metsä-Serla during the year.

INVESTMENTS

Gross capital expenditure for 1996 was FIM 4,711 million (FIM 2,923 million). Company acquisitions accounted for FIM 1,959 million of this. Sales of fixed assets totalled FIM 1,813 million. In 1997, investment in fixed assets is expected to be around FIM 800 million.

COMPANY ACQUISITIONS

In February 1996, Metsä-Serla purchased the entire share capital of the German paper manufacturer MD Papier GmbH. The acquisition has made Metsä-Serla one of Europe's leading manufacturers of magazine papers. The company operates two mills in Germany with a total production capacity of 560,000 t/a. The cost of the acquisition was FIM 1.27 billion.

In June 1996, Metsä-Serla purchased 35 % of Myllykoski Paper Oy, which comprises Myllykoski's Finnish paper mills, and 50 % of Myllykoski's German subsidiary Papierfabrik Albrbruck GmbH for a

total sum of FIM 1.25 billion. At the same time, 50 % of MD Papier GmbH's share capital was sold to Myllykoski Oy. Myllykoski Paper has a capacity of 500,000 t/a of magazine papers and Albrbruck produces 230,000 t/a of coated magazine papers.

Metsä-Serla's 50 % interest in MD Papier GmbH and Papierfabrik Albrbruck GmbH has been included in the consolidated profit and loss account and balance sheet from 1 January 1996. Metsä-Serla's 35 % share of the financial result of Myllykoski Paper Oy, including the latter's 50 % interest in Sunila Oy, has been entered under interests in associated companies from 1 January 1996.

In December, Metsä-Serla bought the Papierfabrik Biberist fine papers business in Switzerland. Biberist has a production capacity of 270,000 t/a of coated and 60,000 t/a of uncoated fine papers. The total cost, after deduction of liabilities, was around FIM 270 million, comprising fixed assets and inventories, and sales receivables. The acquisition has given Metsä-Serla a share of the core market for fine papers in the heart of Europe, and raised the Group's fine paper capacity to over 1 million t/a. The deal became effective on 31 December 1996.

COMPANY DISPOSALS

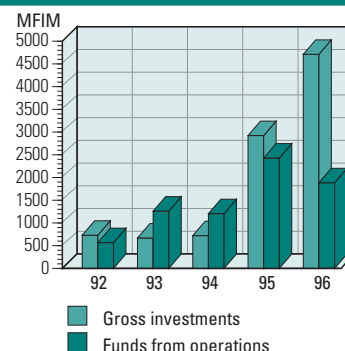
In December, Metsä-Serla sold its chemicals business to the investment company Industri Kapital for FIM 1,060 million. Metsä-Serla has a 20.0 % interest (19.9 % of the voting rights) in the new company set up to continue the business, which was previously operated by Metsä-Serla Chemicals.

At the end of December, Metsä-Serla sold the business operations of Kyröskoski sawmill to Oy Metsä Timber Ltd, a member of the Metsäliitto Group. The price of the fixed assets sold was FIM 87 million. The deal is part of Metsäliitto's policy of putting its operations on a clearer basis. Kyröskoski sawmill has a capacity of 160,000 m³/a. Metsä-Serla acquired the sawmill in June 1995 when it purchased Kyro's paperboard business.

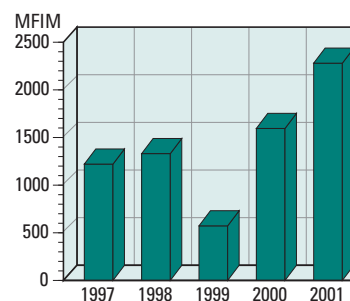
INVESTMENT IN FIXED ASSETS

The main capital investment projects during 1996 were Kirkniemi's third paper machine, the rebuilt board machine at Tako board mill, and the turbine plant at the Kemi mills.

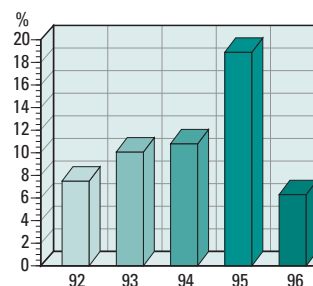
INVESTMENTS AND FUNDS FROM OPERATIONS



AMORTIZATION PLAN FOR LONG-TERM LOANS (Situation at 31.12.1996)

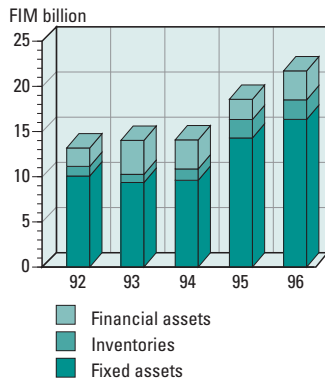


RETURN ON ASSETS

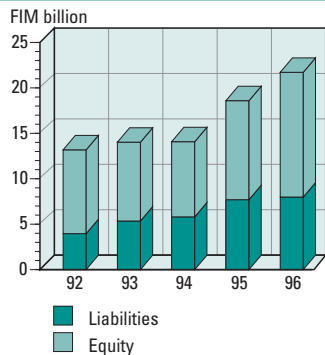


Report of the Board of Directors

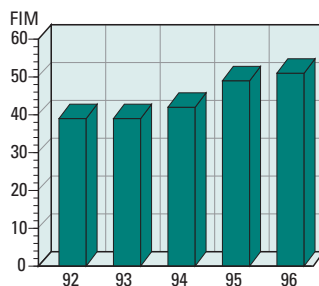
ASSETS



FINANCIAL STRUCTURE



EQUITY PER SHARE



Kirkniemi's new fine paper mill, which cost over FIM 2.4 billion, started up in August. The mill has the capacity to produce 350,000 t/a of double-coated fine paper. The chemical pulp needed in production is supplied by Metsä-Rauma's new pulp mill. The fine paper mill is Metsä-Serla's biggest ever investment. The machine produces 8.36 metre-wide paper at a speed of 1,500 metres/minute.

The new pulp mill operated by Metsä-Rauma Oy, in which Metsä-Serla has a 27.8 % interest, was completed in March. The mill was started up ahead of schedule and below its original budget. The cost of the investment was around FIM 2.5 billion. The Metsä-Rauma mill has a capacity of 500,000 t/a, which can be raised to 600,000 t/a when required.

Tako's rebuilt board machine no. 1 was started up in March. The web width is 3.35 metres and the speed 500 metres/minute. As a result of the rebuild, the machine's capacity has risen from 55,000 t/a to 80,000 t/a. The total cost of the rebuild was FIM 260 million.

The new turbine plant at the Kemi mills was completed in autumn at a cost of FIM 128 million.

The new sheeting and wrapping line for copier papers at Kangas paper mill went into production in March. The line, which cost around FIM 85 million, allows the mill's entire 190,000 t/a of office papers to be sheeted at the mill.

To improve the efficiency of waste water treatment, an activated sludge plant was started up at Kaskinen pulp mill towards the end of the year. The cost of the project, which includes modernization of the bark-fired boiler, is around FIM 110 million.

At the Mänttä mill, a rebuild was carried out on paper machine no. 9, which produces grades for facial tissues and paper handkerchiefs. The cost of the investment was around FIM 60 million.

A new oil-fired boiler went into operation at Metsä-Sellu's pulp mill in September at a cost of FIM 45 million. The boiler will meet peak heat demand for the Äänekoski mill site. Metsä-Sellu's deparking station was modernized at a cost of FIM 44 million. This is the biggest investment in the company's ongoing Production 2000 programme. The programme is aimed at raising the pulp mill's production capacity to 500,000 t/a by the end of the decade.

The programme began in 1995 and is due for completion in 1998.

The wet end of the board machine at the Kemi mill is to be rebuilt during 1997 at a cost of over FIM 100 million. Modernization of Metsä-Serla AB's paper machine no. 35 will also be completed in 1997. The estimated cost is around FIM 100 million.

BUSINESS AREA REVIEWS

During 1996 Metsä-Serla revised the strategic structure of its business operations by shifting the focus to businesses where it can achieve strong market and competitive positions as well as credibility as a local supplier. The core business areas selected are packaging and printing, backed up by competitive chemical pulp production.

Setting up a sales network covering all key markets was one of the biggest projects of the year. A total of 17 new paper and board sales outlets were opened for Metsä-Serla Sales, the company's new sales organization. Metsä-Serla's products serving printing and packaging are now represented on over 50 markets, and the company has its own sales offices in 23 countries.

Demand for coated magazine paper (LWC) in Western Europe fell by 11 % during 1996, and prices collapsed. By the end of the year, LWC prices on the main markets were about 28 % down on the peak prices of autumn 1995. The industry operated at around 81 % of capacity, compared with 95 % in 1995.

In fine papers, the growth in demand that had started in autumn 1993 came to an end in spring 1995. Stocks continued to be reduced until mid-1996. Demand subsequently picked up, and total deliveries for 1996 showed growth of 7 %. Around 91 % of fine paper production capacity was in use (88 % in 1995). Prices were about 20 % lower, on average, than in 1995.

Demand for cartonboards, graphic boards and wallpaper base materials was weaker during the first half of the year than in 1995. However, following an improvement later in the year, demand for 1996 as a whole was about the same as the year before. Thanks to the recent investments and the purchase in mid-1995 of the Kyrö paperboard business, Metsä-Serla's board deliveries were up by over 45 %.

Report of the Board of Directors

Average prices in the currencies of the main markets were roughly 6 % lower than the year before.

The fall in prices for containerboards (white-top kraftliners, coated liners and semi-chemical fluting) that began in August 1995 continued until October-November 1996. White-top liner prices have fallen by about 25 % from their peak, and prices for semi-chemical fluting by around 30 %. Containerboard deliveries were roughly the same as the year before.

Demand for corrugated board boxes on Metsä-Serla's main markets was about 2 % higher than the year before. Prices fell throughout the year. Total deliveries of corrugated board boxes by Metsä-Serla were roughly 4 % higher than in 1995. Deliveries by the units in Finland, Estonia and Russia all increased, while those in Denmark and Greece dropped slightly.

Demand for tissue in the Nordic countries, Metsä-Serla's main market, rose by around 2 %, compared with less than 1 % the year before. The substantial fall in market pulp prices pushed tissue prices down by as much as 5-10 %. Metsä-Serla's tissue deliveries showed little change on 1995.

The fall in demand for chemical pulp that began on world markets in autumn 1995 continued into the first half of 1996. However, demand began to pick up slightly late in the year. Having been over USD 950 per tonne in November 1995, market pulp prices collapsed to under USD 500 per tonne by spring 1996. At the end of the year, long-fibre pulp was selling for around USD 560 a tonne. Long production stoppages early in the year forced the industry's capacity utilization rate down to 89 % from the previous year's already low figure of 90 %. The weakening pulp market also intensified competition on the market for Lielähti CTMP mill's products. The mill operated at under 80 % of capacity.

Demand for carboxymethylcellulose (CMC) was steady throughout the year, despite lower capacity utilization rates in the paper industry. Prices were relatively stable all year, although the fall in raw material prices led to pressure to reduce the price of CMC. Metsä-Serla's decision to focus on serving the printing and packaging sectors led to the sale of the chemicals business to Industri Kapital at the end of the year.

The oversupply that began on sawn timber markets in 1995 pushed prices down right until the summer. Profitability was weak. Difficulties in wood trading coupled with low capacity utilization rates led to supply problems early in the autumn. This was quickly reflected in prices, which rose throughout the autumn. Slack demand meant that of Metsä-Serla's total sawmilling capacity of 620,000 cubic metres only 86 %, or 533,000 cubic metres, was in use. At the end of the year Metsä-Serla sold Kyröskoski sawmill's business operations to Oy Metsä Timber Ltd, a member of the Metsäliitto Group.

WOOD AND ENERGY PROCUREMENT

Metsä-Serla's parent company, Metsäliitto Cooperative, handles wood procurement for the entire Metsäliitto Group. Wood consumption by Metsä-Serla's Finnish mills in 1996 was 9.4 million m³ (8.7 million m³). The average mill price of pulpwood rose 2 % while that of sawlogs fell by 1 %.

At the end of the year, Metsä-Serla owned 150,000 hectares of forest containing an estimated 11.7 million m³ of wood. Felling in the company's forests totalled 227,000 m³ (107,000 m³). The company's land and forest is currently estimated to be worth around FIM 1.3 billion (FIM 1.3 billion).

Electricity consumption by Metsä-Serla's Finnish mills was 3,170 GWh, 47 % of which was generated at the mills and 28 % purchased through the company's shareholding in Pohjolan Voima Oy. Fuel consumption for heat generation was 14,000 GWh. Fuels from the processes at Metsä-Serla's mills (spent process liquors and wood waste) accounted for 74 % of the heat generated.

The natural gas fired combined cycle power plant built in conjunction with Kirkiemi's PM 3 will be operational in summer 1997, when the natural gas pipeline is due for completion.

New electricity supply legislation introduced in Finland in 1995 opened the power networks to transmissions, giving industry greater opportunity to use and optimize the power supply resources available. A decision to revise energy taxation made towards the end of the year will impose a tax on electricity consumption that will particularly affect pulp production.

RESEARCH AND DEVELOPMENT

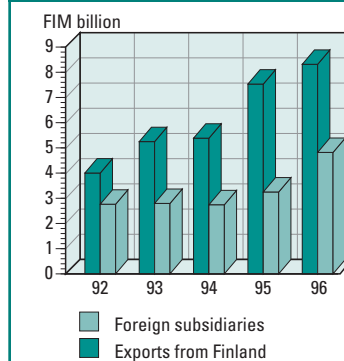
R & D expenditure was FIM 90 million (FIM 90 million).

On the printing papers side, the main emphasis was on completing the Kirkiemi paper machine project. The purchase of MD Papier has greatly stepped up

TURNOVER BY MARKET AREA

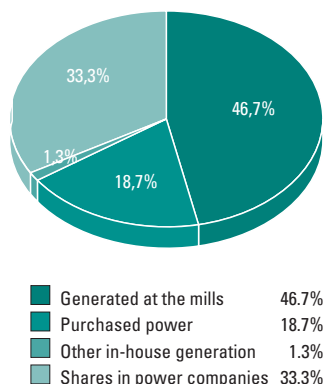
MFIM	1996	1995
Great Britain	2 586	2 220
Finland	2 276	2 857
Germany	1 905	1 117
France	888	654
Denmark	851	830
Sweden	680	633
Spain	494	455
The Netherlands	433	357
Italy	411	325
USA	365	291
Greece	348	378
Norway	332	318
Russia and former CIS countries	307	194
China	296	121
Japan	260	146
Switzerland	250	206
Australia	232	277
Belgium	167	186
Austria	125	102
Ireland	119	112
Canada	99	78
Indonesia	54	12
Malesia	37	33
Singapore	26	21
Other Asian countries	442	457
Other European countries	547	406
Other countries	305	337
Others	-165	198
Total	14 671	13 321

EXPORT AND FOREIGN SUBSIDIARIES



Report of the Board of Directors

ELECTRICITY PROCUREMENT



research into paper specialities, and future development work on these papers will be carried out at Dachau's laboratory. A programme was started to develop new applications for high-density paper.

The three-year investment programme at Äänekoski's laboratory of paper chemistry and physics was completed at a total cost of FIM 13 million. The laboratory is now better equipped to provide analytical services and to investigate paper chemistry and coating.

MANAGEMENT OF ENVIRONMENTAL RISKS

The environmental issues of particular interest to customers were related to forest management and the origins of wood raw material. In 1996, Metsä-Serla was closely involved in helping to prepare the way for forest certification.

The move to reduce consumption of materials in line with the principle of sustainable development is well supported by Kirkniemi's new fine paper, Galerie Fine, which gives substantially more printing area per tonne than competing papers.

The new activated sludge treatment plant built at Kaskinen pulp mill will cut emissions still further during 1997. The start-up of Kirkniemi's new paper mill was successful in an environmental sense, too. At Mänttä, the joint treatment of effluents from the mill and the local municipality got off to a good start. Air emissions at Kirkniemi will be further reduced when the natural gas fired power plant comes on stream.

PERSONNEL

In 1996, Metsä-Serla and its subsidiaries had an average of 11,947 employees (10,106 in 1995). At the end of the year the number stood at 11,706 (10,641), of whom 4,869 (3,423) worked outside Finland. The net increase in the workforce due to company acquisitions and disposals was 1,400. The parent company had an average of 981 employees (800).

EVENTS OCCURRING AFTER THE CLOSING OF ACCOUNTS

In December, Metsä-Serla, UPM-Kymmene and Metsä-Botnia signed a

letter of intent under which Metsä-Serla engaged to buy the Simpele board, paper and carton businesses owned by UPM-Kymmene. Metsä-Serla also engaged to sell the business operations of Metsä-Sellu Oy to Metsä-Botnia, while UPM-Kymmene undertook to sell Joutseno Pulp's business operations, also to Metsä-Botnia. The respective companies' interests in Metsä-Botnia will remain unchanged, with Metsä-Serla continuing to hold a 52 % stake. Simpele board mill has one machine producing 130,000 t/a of coated folding boxboard. The paper mill has a capacity of 45,000 t/a of specialities. The carton plant's capacity is 10,000 t/a. Joutseno Pulp's pulp mill has a capacity of 320,000 t/a of bleached softwood sulphate pulp.

OUTLOOK

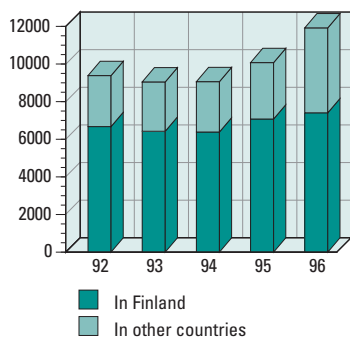
The market for forest industry products will continue to be difficult during 1997. Despite steady growth in demand, capacity utilization rates are not expected to show any substantial rise in the near future because of the start-up of additional capacity. The steep decline in product prices that started in 1996 is likely to come to an end. However, with supply and demand out of balance, no significant strengthening of product prices is anticipated.

Under such difficult market conditions the ability to compete will be even more important. New measures are needed to improve the turnover of capital, productivity and the efficiency of the whole supply chain.

The prospects for Metsä-Serla's different business areas are somewhat variable in 1997. Competitiveness will have to be strengthened, especially in the paper business. One cannot rely on hopes of better prices. A stronger competitive base is also needed in the packaging business, as there are already signs that prices will fall in certain markets.

For most of 1997 we shall have to live with the lower prices inherited from the previous year. Although a turn for the better is likely before the end of the year, the benefits will not be reaped until 1998. The more we strengthen competitiveness this year, the more we shall benefit from the improvement when it comes.

PERSONNEL, AVERAGE



PERSONNEL 31.12.

	1996	1995
Finland	6 837	7 218
Germany	1 005	5
Sweden	805	883
Switzerland	797	7
Denmark	621	664
Russia	571	731
Greece	479	482
Great Britain	389	382
The Netherlands	80	161
Others	122	108
Total	11 706	10 641

Consolidated profit and loss account

	1.1.-31.12.1996		1.1.-31.12.1995	
	FIM million	%	FIM million	%
TURNOVER (6)	14 670.5	100.0	13 320.5	100.0
CHANGE IN INVENTORIES OF FINISHED GOODS	-144.3		234.2	
INTERESTS IN ASSOCIATED COMPANIES (1)	-36.6		28.2	
OTHER OPERATING INCOME (2)	143.0		114.6	
OPERATING EXPENSES				
Materials, supplies and goods				
Purchases during the financial period	7 175.6		6 380.2	
Change in inventories	130.6		-49.7	
External charges	636.1		454.2	
Wages, salaries and social expenses (3)	2 593.0		2 079.5	
Rental costs	143.9		126.9	
Other operating expenses	1 923.3		1 508.3	
Depreciation according to plan (4)	1 128.2	13 730.7	811.1	11 310.5
OPERATING PROFIT	901.9	6.1	2 387.0	17.9
FINANCIAL INCOME AND EXPENSES				
Dividend income	84.8		47.7	
Interest income from non-current financial assets	15.8		29.3	
Interest income from current financial assets	55.5		88.9	
Other financial income	0.2		0.6	
Interest expenses	-542.5		-620.9	
Net exchange gains/losses (6)	-130.9		12.1	
Other financial expenses	-69.5	-586.6	-30.9	-473.2
PROFIT AFTER FINANCIAL ITEMS	315.3	2.1	1 913.8	14.4
EXTRAORDINARY INCOME AND EXPENSES (7)				
Extraordinary income	441.4		22.2	
Extraordinary expenses	-57.0	384.4	-22.6	-0.4
PROFIT BEFORE TAXES AND MINORITY INTEREST	699.7	4.8	1 913.4	14.4
Direct taxes (8)	-224.0		-486.2	
PROFIT FOR THE FINANCIAL PERIOD BEFORE MINORITY INTEREST	475.7	3.2	1 427.2	10.7
Minority interest	-4.0		-317.8	
PROFIT FOR THE FINANCIAL PERIOD	471.7	3.2	1 109.4	8.3

Consolidated balance sheet

ASSETS	31.12.1996		31.12.1995	
	FIM million	%	FIM million	%
FIXED ASSETS AND OTHER NON-CURRENT ASSETS (9)				
Intangible assets				
Intangible rights	49.4		30.1	
Purchased goodwill	8.2		17.6	
Consolidation goodwill	720.8		486.8	
Other capitalized expenditure	162.6	941.0	36.1	570.6
		4.3		3.1
Tangible assets				
Land and water property	1 423.2		1 173.5	
Buildings and constructions	2 906.9		2 257.2	
Machinery and equipment	8 835.7		6 497.3	
Other tangible assets	100.8		77.5	
Construction in progress	413.9	13 680.5	1 306.9	11 312.4
		63.0		60.9
NON-CURRENT FINANCIAL ASSETS				
Interests in associated companies	844.0		156.3	
Other shares (12)	368.9		1 449.6	
Loans receivable (10, 14)	267.1		446.8	
Other investments (11)	91.2	1 571.2	239.1	2 291.8
		7.2		12.4
FIXED ASSETS AND OTHER NON-CURRENT ASSETS TOTAL				
		16 192.7		14 174.8
		74.5		76.4
VALUATION ITEMS (13)				
		151.6		113.9
		0.7		0.6
CURRENT ASSETS				
Inventories				
Materials and supplies	571.2		525.8	
Finished goods and work in progress	1 276.3		1 198.5	
Advance payments	315.0	2 162.5	318.9	2 043.2
		10.0		11.0
Receivables (14, 15)				
Accounts receivable	1 864.8		1 230.6	
Loans receivable	76.5		109.7	
Accrued income	446.4		493.3	
Other current receivables	50.4	2 438.1	29.3	1 862.9
		11.2		10.0
CURRENT FINANCIAL ASSETS				
CASH IN HAND AND AT BANK	271.6		23.8	
	496.6		347.6	
		1.2		0.1
		2.3		1.9
CURRENT ASSETS TOTAL				
		5 368.8		4 277.5
		24.7		23.0
ASSETS TOTAL				
		21 713.1		18 566.2
		100.0		100.0

Consolidated balance sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	31.12.1996		31.12.1995	
	FIM million	%	FIM million	%
SHAREHOLDERS' EQUITY (16)				
Restricted equity				
Share capital	1 390.0		1 390.0	
Revaluation reserve	635.5		613.7	
Other restricted reserves	1 550.6	3 576.1	1 548.8	3 552.5
		16.5		19.1
Unrestricted equity				
Equity in previous years' untaxed reserves	2 128.0		1 531.1	
Retained earnings	922.3		624.4	
Profit for the financial period	471.7	3 522.0	1 109.4	3 264.9
		16.2		17.6
SHAREHOLDERS' EQUITY TOTAL	7 098.1	32.7	6 817.4	36.7
MINORITY INTEREST	889.2	4.1	879.7	4.7
PROVISIONS FOR FUTURE COSTS (17)	189.0	0.9	13.2	0.1
VALUATION ITEMS (14, 18, 19)				
Long-term				
Bonds and debentures	1 789.4		1 625.9	
Loans from financial institutions	4 062.4		2 088.4	
Pension premium loans	1 539.8		1 484.4	
Accounts payable	25.0		6.4	
Pension liabilities	141.6		49.8	
Deferred tax liabilities (20)	1 297.3		771.5	
Other long-term loans	84.5	8 940.0	49.4	6 075.8
		41.1		32.7
Short-term				
Bonds and debentures	686.5		461.5	
Loans from financial institutions	1 083.2		1 752.4	
Pension premium loans	121.6		111.0	
Advance payments	219.7		407.4	
Accounts payable	1 073.8		1 020.5	
Promissory notes	23.6		1.6	
Accrued liabilities	1 018.1		953.0	
Other short-term liabilities	370.3	4 596.8	72.7	4 780.1
		21.3		25.8
LIABILITIES TOTAL	13 536.8	62.3	10 855.9	58.5
SHAREHOLDERS' EQUITY AND LIABILITIES TOTAL	21 713.1	100.0	18 566.2	100.0

Cash flow statement

	Group		Parent company	
	1996 FIM million	1995 FIM million	1996 FIM million	1995 FIM million
FUNDS PROVIDED FROM OPERATIONS				
Operating profit	938.5*	2 358.8*	-37.0	170.2
Depreciation according to plan	1 128.2	811.1	110.8	80.9
Change in provisions for future costs	106.4	-4.5	6.4	-2.8
Net financial items	-578.4*	-473.2	-50.8	-29.4
Extraordinary items	384.4	-0.4	1 000.5	620.2
Direct taxes	-88.4*	-263.3	-23.8	-184.1
Total	1 890.7	2 428.5	1 006.1	655.0
CHANGE IN WORKING CAPITAL				
Inventories (- = increase, + = decrease)	-119.2	-787.4	51.1	-12.2
Interest-free current receivables (- = increase, + = decrease)	-608.5	-418.5	-506.7	-429.0
Interest-free current liabilities (+ = increase, - = decrease)	249.7	719.9	-610.1	152.1
Total	-478.0	-486.0	-1 065.7	-289.1
CASH FLOW FROM OPERATIONS	1 412.7	1 942.5	-59.6	365.9
CHANGES IN FIXED ASSETS				
Capital expenditures	-4 711.0	-2 923.0	-917.6	-1 453.2
Sales and other changes in fixed assets	1 675.4*	405.1*	1 252.9	274.9
CASH FLOW AFTER CAPITAL EXPENDITURES	-1 622.9	-575.4	-275.7	-812.4
CHANGE IN GROUP STRUCTURE	0.0	-2 355.0		
FINANCING				
Change in interest-bearing liabilities	1 905.7	1 674.2	-955.4	382.8
Change in interest-bearing long-term receivables	360.7	-282.5	1 409.7	-1 240.8
Dividend	-194.6	-136.5	-194.6	-136.5
Share issue		105.0		105.0
Other items	-52.0	72.2		-10.6
CHANGE IN LIQUID FUNDS	396.9	-1 498.0	535.4	-1 712.5
GROUP	31.12.1996 FIM million	Change FIM million	31.12.1995 FIM million	Change FIM million
INTEREST-BEARING LIABILITIES	9 583.0	1 905.7	7 677.3	1 674.2
INTEREST-BEARING RECEIVABLES	-349.9	360.7	-710.6	-282.5
LIQUID FUNDS	-768.2	-396.9	-371.3	1 498.0
INTEREST-BEARING NET LIABILITIES	8 464.9	1 869.5	6 595.4	2 889.7

* Stated after the elimination of effect of associated company accounting.

Parent company figures stated after elimination of effect of mergers and change in valuation items.

Parent company profit and loss account

	1.1.-31.12.1996		1.1.-31.12.1995	
	FIM million	%	FIM million	%
TURNOVER (6)	1 601.1	100.0	1 468.9	100.0
CHANGE IN INVENTORIES OF FINISHED GOODS	-25.1		25.8	
OTHER OPERATING INCOME (2)	81.5		80.6	
OPERATING EXPENSES				
Materials, supplies and goods				
Purchased during the financial period	901.9		860.5	
Change in inventories	13.5		-6.8	
External charges	100.7		59.7	
Wages, salaries and social expenses (3)	249.4		182.3	
Rental costs	28.0		33.7	
Other operating expenses	290.2		194.8	
Depreciation according to plan (4)	110.8	1 694.5	80.9	1 405.1
OPERATING PROFIT	-37.0	-2.3	170.2	11.6
FINANCIAL INCOME AND EXPENSES (5)				
Dividend income	208.4		103.2	
Interest income from non-current financial assets	296.3		164.0	
Interest income from current financial assets	77.5		98.3	
Other financial income	0.2		0.5	
Interest expenses	-450.9		-408.5	
Net exchange gains/losses (6)	-126.8		31.9	
Other financial expenses	-58.9	-54.2	-22.2	-32.8
PROFIT AFTER FINANCIAL ITEMS	-91.2	-5.7	137.4	9.4
EXTRAORDINARY INCOME AND EXPENSES (7)				
Extraordinary income	1 009.6		658.9	
Extraordinary expenses	-858.6	151.0	-38.6	620.3
PROFIT BEFORE APPROPRIATIONS AND TAXES	59.8	3.7	757.7	51.6
APPROPRIATIONS				
Change in depreciation difference	92.6		-171.4	
DIRECT TAXES (8)	-23.8		-184.1	
PROFIT FOR THE FINANCIAL PERIOD	128.6	8.0	402.2	27.4

Parent company balance sheet

ASSETS	31.12.1996		31.12.1995	
	FIM million	%	FIM million	%
FIXED ASSETS AND OTHER NON-CURRENT ASSETS (9)				
Intangible assets				
Intangible rights	28,7		4,9	
Goodwill	8,2		10,6	
Other capitalized expenditure	156,4	193,3	2,5	18,0
Tangible assets				
Land and water property	1 005,8		997,9	
Buildings and constructions	1 062,9		285,4	
Machinery and equipment	4 172,7		730,0	
Other tangible assets	38,2		17,9	
Advance payments and construction in progress	38,3	6 317,9	6,1	2 037,3
Non-current financial assets				
Interests in subsidiary companies	2 620,1		3 459,2	
Interests in associated companies	869,1		139,5	
Other shares (12)	298,2		1 382,2	
Loans receivable (10, 14)	1 569,8		2 606,5	
Other investments (11)	80,5	5 437,7	200,1	7 787,5
FIXED ASSETS AND OTHER NON-CURRENT ASSETS TOTAL		11 948,9		9 842,8
		74,9		85,8
VALUATION ITEMS (13)		111,1		31,2
		0,7		0,3
CURRENT ASSETS				
Inventories				
Materials and supplies	135,3		33,1	
Finished goods and work in progress	511,5		124,2	
Advance payments	52,9	699,7	25,0	182,3
Receivables (14, 15)				
Accounts receivable	656,0		112,3	
Loans receivable	160,2		384,0	
Accrued income	343,4		146,6	
Other current receivables	1 444,6	2 604,2	708,1	1 351,0
Current financial assets				
Cash in hand and at bank	263,5	1,7	18,1	0,2
	331,1	2,1	40,3	0,3
CURRENT ASSETS TOTAL		3 898,5		1 591,8
		24,4		13,9
ASSETS TOTAL		15 958,5		11 465,7
		100,0		100,0

Parent company balance sheet

SHAREHOLDERS' EQUITY AND LIABILITIES	31.12.1996		31.12.1995	
	FIM million	%	FIM million	%
SHAREHOLDERS' EQUITY (16)				
Restricted equity				
Share capital	1 390.0		1 390.0	
Revaluation reserve	485.7		485.7	
Other restricted reserves	1 548.4	3 424.1	1 548.4	3 424.1
		21.5		29.8
Unrestricted equity				
Retained earnings	1 202.8		995.2	
Profit for the financial period	128.6	1 331.4	402.2	1 397.4
		8.3		12.2
SHAREHOLDERS' EQUITY TOTAL		4 755.5		4 821.5
		29.8		42.0
UNTAXED RESERVES				
Accumulated depreciation difference	1 893.0		472.6	
Untaxed reserves	98.8	1 991.8	55.1	527.7
		12.5		4.6
PROVISIONS FOR FUTURE COSTS (17)		42.5		8.1
		0.3		0.1
LIABILITIES (14, 18)				
Long-term				
Bonds and debentures	1 789.5		1 626.0	
Loans from financial institutions	2 332.8		817.7	
Pension premium loans	1 119.1		868.1	
Pension liabilities	25.1		26.5	
Other long-term loans	62.6	5 329.1	6.9	3 345.2
		33.4		29.2
Short-term				
Bonds and debentures	686.5		461.5	
Loans from financial institutions	729.0		882.8	
Pension premium loans	89.9		68.3	
Advance payments	115.1		55.7	
Accounts payable	413.6		122.8	
Accrued liabilities	535.9		334.2	
Other short-term loans	1 269.6	3 839.6	837.9	2 763.2
		24.1		24.1
LIABILITIES TOTAL		9 168.7		6 108.4
		57.5		53.3
SHAREHOLDERS' EQUITY AND LIABILITIES TOTAL		15 958.5		11 465.7
		100.0		100.0

Accounting principles

PRINCIPLES OF CONSOLIDATION

SUBSIDIARIES

The consolidated financial statements include the accounts of Metsä-Serla Oy and all those subsidiaries in which the parent company controlled, directly or indirectly, over 50% of the voting rights at 31 December 1996.

The financial period for all such companies ended on 31 December 1996.

Subsidiaries acquired or established during the 1996 financial period have been consolidated from the date of their acquisition or formation.

Certain housing and property subsidiaries have been excluded from the consolidated financial statements; their exclusion has no material effect on the Group's unrestricted shareholders' equity.

The accounts of overseas subsidiaries have been consolidated using uniform accounting principles conforming to Finnish accounting practice.

The purchase method of consolidation has been adopted. Goodwill, being the excess of purchase consideration over the fair value of net assets of acquired companies, is amortized on a straight-line basis over a period not exceeding ten years.

All intra-Group balances, transactions and unrealized profits have been eliminated.

Minority interest has been disclosed separately from the Group shareholders' equity in the consolidated balance sheet and has been recorded as a separate deduction in arriving at the profit for the period in the consolidated profit and loss account.

ASSOCIATED COMPANIES

Those companies in which Metsä-Serla Oy controls, either directly or indirectly, 20-50 % of the shares and voting rights are dealt with as associated companies.

Associated companies are consolidated using the equity method. Metsä-Serla's share of the results of such companies is included in the profit and loss account under "Interests in associated companies".

Straight-line amortization of goodwill is charged under "Interests in associated companies".

Companies in which the Group has a 50 per cent interest are consolidated using the proportional method. For each such company, the appropriate lines in the profit and loss account, balance sheet and notes to the accounts have been entered in the consolidated financial statements to reflect the 50 per cent ownership.

Goodwill arising on interests in associated companies represents the excess of the cost of investment over the Group's share of the net assets, as at the date when the associated company was first included in the consolidated financial statements using the equity method or at the date of acquisition, where this is later. Such goodwill is amortized on a straight-line basis over a period not exceeding ten years.

Interests in associated companies which are not material to consolidated profits or shareholders' equity are included in the consolidated balance sheet at cost. A list of associated companies is given under Shares and Investments on pages 44 and 46.

TURNOVER

Turnover is calculated after deduction of indirect sales taxes, trade discounts, refunds and exchange differences on sales. Freight costs and other sales and delivery costs as well as bad debts are dealt with in the profit and loss account as operating expenses.

FOREIGN CURRENCIES

The profit and loss accounts of overseas subsidiaries have been translated into Finnish markka at the average of the Bank

of Finland's selling and buying exchange rates for the financial period and the balance sheets at the average of the Bank of Finland's selling and buying exchange rates at the year end. Exchange differences arising on the translation of shareholders' equity have been entered under unrestricted shareholders' equity.

Transactions in foreign currencies are recorded at the rates of exchange prevailing at the date of the transaction. For Group companies based in Finland, assets and liabilities in foreign currencies are translated into Finnish markka using the average of the Bank of Finland's selling and buying exchange rates at the end of the accounting period. Exchange differences arising on such translations are entered in the profit and loss account either as adjustments to sales or purchases, or as net exchange gains/losses under financial income and expenses.

Realized exchange differences arising from the derivative agreements used in hedging foreign currency turnover are entered as adjustments to turnover.

PENSIONS AND PENSION FUNDING

Statutory pension cover for employees of the parent company and its subsidiaries in Finland is provided by payments to insurance companies. In addition, some salaried employees have supplementary pension arrangements, which are either funded (by contributions to insured schemes or to the Metsäliitto Employees' Pension Foundation) or unfunded.

The Metsäliitto Employees' Pension Foundation is fully funded based on the current value of its assets.

Contributions to the funded schemes, which are based on wage and salary costs, are charged in the profit and loss account on an accrual basis. Unfunded pensions liabilities are included in the balance sheet under long-term liabilities with a corresponding amount included as a valuation item in the balance sheet. The costs of unfunded pension liabilities will be charged to income by the year 2000 at the latest.

Accounting principles

Overseas subsidiaries make pension arrangements in accordance with local practice.

RESEARCH AND DEVELOPMENT

Research and development costs are expensed as incurred.

INVENTORIES

Inventories are valued at the lower of cost and net realizable value at the end of the financial period. Cost is determined on either a FIFO or an average cost basis. Cost is calculated to include the variable cost of manufacture and an appropriate proportion of the fixed costs of acquisition and manufacture.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less accumulated depreciation according to plan except for certain land, buildings and investments, which are stated at revalued amounts.

Depreciation charged in the profit and loss account is calculated on a straight-line basis so as to write off the cost of fixed assets over their expected useful lives. The principal annual rates adopted are as follows:

Buildings and constructions	2.5 – 5 %
Machinery and equipment	5 – 20 %
Other items	10 – 20 %

LEASING

Major assets held under finance leases are included in fixed assets and the capital element of the leasing commitments is included under liabilities. The capital element of lease payments is then applied to reduce the outstanding liability and the interest element is charged against profits. Payments made under other leases are charged against profits as rental costs.

EXTRAORDINARY INCOME AND EXPENSES

Substantial income and expenses arising on transactions of an abnormal nature, such as the divestment of businesses, are presented in the profit and loss account as extraordinary items.

Extraordinary items also include prior period adjustments arising from changes in accounting principles and practices.

APPROPRIATIONS, INCLUDING UNTAXED RESERVES

Taxable profit is based on profit before taxes and appropriations as increased or reduced by appropriations to or from untaxed reserves or accumulated depreciation difference. Certain appropriations are only deductible for tax purposes if they are recorded in the financial statements of the taxable entities within the Group.

In the financial statements of the parent (and other taxable entities), these appropriations to or from untaxed reserves or accumulated depreciation difference are recorded as an adjustment to profits before appropriations and taxes in arriving at the profit for the financial period, and accumulated appropriations are shown as a separate reserve in the balance sheet without tax effect. On consolidation, these appropriations are tax effected in the profit and loss account and the accumulated tax effect is recorded as a deferred tax liability in the balance sheet with the after-tax balance of appropriations included as part of unrestricted shareholders' equity.

FUTURE COSTS AND LOSSES

Future costs and losses to which the Group is committed and which are likely to be realized are included in the profit and loss account under the appropriate

expense heading and in the balance sheet under provisions for future costs.

DIRECT TAXES

The consolidated profit and loss account includes direct taxes for the period calculated according to the accruals convention on the basis of the financial results of Group companies for the period and in accordance with local tax regulations, together with tax payable or refunded in respect of previous financial periods. Income taxes also includes the charge or credit for the period in respect of deferred tax.

The corporate tax credit arising on intra-Group dividends has been eliminated in the consolidated profit and loss account by deducting it from direct taxes for the period.

Notes to the accounts, profit and loss account

1. INTERESTS IN ASSOCIATED COMPANIES

	Percentage holdings	Share of profit	Goodwill amortization	Total
Myllykoski Paper Oy	35.0	27.5	-49.2	-21.7
Metsä-Rauma Oy	27.8	-34.9	6.9	-28.0
Other associated companies		9.1	4.0	13.1
		1.7	-38.3	-36.6

2. OTHER OPERATING INCOME

	1996	Group 1995	Parent company 1996	Parent company 1995
Rental income	25.9	25.2	38.5	39.3
Gains on disposals of fixed assets	48.2	21.0	20.8	7.5
Service revenues	30.2	36.2	15.5	26.3
Other items	38.7	32.2	6.7	7.5
	143.0	114.6	81.5	80.6

3. WAGES, SALARIES AND SOCIAL EXPENSES

Wages and salaries for working hours	1 599.5	1 276.1	142.0	107.4
Holiday pay and sick pay	412.6	352.3	47.0	33.9
Pension expenses	285.9	253.8	41.8	23.3
Statutory social expenses	273.7	179.2	17.7	16.8
Voluntary social expenses	21.3	18.1	0.9	0.9
	2 593.0	2 079.5	249.4	182.3
Benefits-in-kind	14.9	13.8	2.6	1.8

Salaries and fees paid to the members of the Boards, the President and Managing Directors: Group MFIM 25.4 (21.8 in 1995). Parent company MFIM 3.9 (MFIM 1.7 in 1995). Bonuses paid to the members of the Boards, the President and Managing Directors: Group MFIM 2.1 (MFIM 1.6 in 1995). Parent company MFIM 0.1 (MFIM 0.1 in 1995).

Pension agreements with the members of the Boards, the President and Managing Directors

The President and the Senior Executive Vice President of the Parent Company as well as certain other members of the Group's Management have the right to retire on a pension at the age of 62 years.

4. DEPRECIATION

Depreciation according to plan				
Intangible rights	12.6	8.6	1.8	1.9
Purchased goodwill	3.7	2.5	2.4	1.2
Consolidation goodwill	117.3	70.6		
Other capitalized expenditure	17.9	9.1	0.6	0.9
Land and water property	0.3	0.2	0.3	0.2
Buildings and constructions	112.1	83.0	16.2	10.9
Machinery and equipment	854.2	627.2	87.8	64.1
Other tangible assets	10.1	9.9	1.7	1.7
Total depreciation according to plan	1 128.2	811.1	110.8	80.9
Depreciation difference	701.4	948.1	-101.0	69.8
Total depreciation	1 829.6	1 759.2	9.8	150.7
Accumulated depreciation difference, Jan. 1				
Depreciation difference for companies acquired and sold	706.1	8.7	1 513.0	301.3
Exchange differences	-6.3	0.4		
Depreciation difference for the period	701.4	948.1	-101.0	69.8
Depreciation difference on assets sold during the period	-194.7	109.0	8.4	101.5
Accumulated depreciation difference, Dec. 31	4 084.9	2 878.4	1 893.0	472.6

Notes to the accounts, profit and loss account

5. FINANCIAL INCOME AND EXPENSES FROM/TO GROUP COMPANIES	Group		Parent company	
	1996	1995	1996	1995
Dividend income			118.0	55.0
Interest income from non-current financial assets			286.3	139.0
Other interest income			37.4	41.0
Interest expenses			-61.1	-60.2
Net exchange gains/losses			-16.0	-4.1
			364.6	170.7
<hr/>				
6. EXCHANGE GAINS/LOSSES IN THE PROFIT AND LOSS ACCOUNT				
Exchange differences on sales				
Exchange differences on derivatives	-165.0	197.5	-63.4	145.6
Other exchange differences	39.9	-23.1	3.2	-3.5
	-125.1	174.4	-60.2	142.1
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Exchange differences on financing				
Exchange gains				
Realized	85.3	78.2	42.6	42.9
Unrealized	196.5	149.3	191.0	25.5
Exchange losses				
Realized	-185.2	-41.1	-139.4	-14.6
Unrealized	-227.5	-174.3	-221.0	-21.9
	-130.9	12.1	-126.8	31.9
<hr/>				
7. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income				
Profit on sales of shares	121.9		121.9	3.2
Group contributions, received			802.0	632.0
Profit on company disposals	313.3	21.2	79.5	
Other items	6.1	1.0	6.2	23.7
	441.3	22.2	1 009.6	658.9
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Extraordinary expenses				
Provision for unemployment pension	45.6		3.0	
Losses on company disposals		22.5		1.4
Losses due to mergers			850.5	37.1
Other items	11.4	0.1	5.1	0.1
	57.0	22.6	858.6	38.6
<hr/>				
8. DIRECT TAXES				
Income taxes for the financial period	-89.0	-260.4	-22.3	-179.9
Income taxes for previous periods	2.7	-3.0	-1.5	-4.2
Change in deferred tax liability	-137.7	-222.8		
	-224.0	-486.2	-23.8	-184.1

Notes to the accounts, balance sheet

9. INTANGIBLE AND TANGIBLE ASSETS

	Acquisition costs 1 Jan.	Increase during the period	Decrease during the period	Accumulated depreciation 1. Jan.	Accumulated depreciation on decrease	Depreci- ation for the period	Book value 31 Dec.	Accumulated depreciation difference 31 Dec.
Group								
Intangible assets								
Intangible rights	78.0	58.4	-2.0	-73.9	1.5	-12.6	49.4	8.7
Purchased goodwill	25.3	0.0	-13.5	-7.4	7.5	-3.7	8.2	0.0
Consolidation goodwill	782.5	349.9	0.0	-294.3	0.0	-117.3	720.8	0.0
Other capitalized expenditure	151.6	155.3	-13.2	-116.2	3.0	-17.9	162.6	24.6
Group 1 Jan. – 31 Dec. 1996	1 037.4	563.6	-28.7	-491.8	12.0	-151.5	941.0	33.3
Group 1 Jan. – 31 Dec. 1995	542.5	525.6	-34.9	-382.9	11.1	-90.8	570.6	0.7
Tangible assets								
Land and water property	1 175.6	253.6	-3.5	-2.2	0.0	-0.3	1 423.2	0.0
Buildings and constructions	2 926.5	922.3	-210.8	-665.9	46.8	-112.0	2 906.9	660.0
Machinery and equipment	10 558.2	3 623.2	-718.4	-4 052.8	279.7	-854.2	8 835.7	3 387.4
Other tangible assets	139.5	41.6	-11.8	-62.0	3.6	-10.1	100.8	4.2
Construction in progress	1 305.8	3 239.4	-4 131.3	0.0	0.0	0.0	413.9	0.0
Group 1 Jan. – 31 Dec. 1996	16 105.6	8 080.1	-5 075.8	-4 782.9	330.1	-976.6	13 680.5	4 051.6
Group 1 Jan. – 31 Dec. 1995	11 083.4	6 234.7	-1 237.6	-4 356.4	308.6	-720.3	11 312.4	2 877.7

Increases/decreases include fixed assets of subsidiaries acquired/sold.

"Machinery and equipment" account includes FIM 8,600 million for production machinery and equipment.

Parent company								
Intangible assets								
Intangible rights	21.7	40.3	-0.6	-31.3	0.4	-1.8	28.7	5.6
Goodwill	11.7	0.0	0.0	-1.2	0.0	-2.3	8.2	0.0
Other capitalized expenditure	24.9	168.0	-0.1	-35.8	0.0	-0.6	156.4	24.5
Group 1 Jan. – 31 Dec. 1996	58.3	208.3	-0.7	-68.3	0.4	-4.7	193.3	30.1
Group 1 Jan. – 31 Dec. 1995	50.8	15.9	-8.3	-39.7	3.3	-4.0	18.0	-3.5
Tangible assets								
Land and water property	998.6	9.1	-0.9	-0.7	0.0	-0.3	1 005.8	0.0
Buildings and constructions	396.4	911.1	-47.2	-194.7	13.5	-16.2	1 062.9	136.9
Machinery and equipment	1 040.3	4 335.0	-64.5	-1 062.3	12.0	-87.8	4 172.7	1 726.7
Other tangible assets	33.8	28.1	-3.6	-20.0	1.6	-1.7	38.2	-0.7
Construction in progress	6.1	34.6	-2.4	0.0	0.0	0.0	38.3	0.0
Group 1 Jan. – 31 Dec. 1996	2 475.2	5 317.99	-118.6	-1 277.7	27.1	-106.0	6 317.9	1 862.9
Group 1 Jan. – 31 Dec. 1995	2 009.6	805.6	-340.0	-528.1	167.2	-77.0	2 037.3	476.1

"Machinery and equipment" account includes FIM 4 106 million for production machinery and equipment.

Revaluation amounts in fixed assets and other non-current assets	Group		Parent company	
	1996	1995	1996	1995
Revaluations are based upon estimates, provided by independent valuers of the current value of assets at the dates of valuation.				
Land and water	977.4	857.9	803.3	803.3
Buildings	250.5	222.9		
Investments	40.0	40.0	10.0	10.0
	1 267.9	1 120.8	813.3	813.3

Taxation value of fixed assets and other non-current assets

If the taxation value hasn't been available, the book value has been stated.

Land and water	591.9	524.7	460.1	438.6
Buildings	1 395.5	1 097.7	336.4	157.8
Investments	599.2	1 285.5	2 143.2	3 575.8
	2 586.6	2 907.9	2 939.7	4 172.2

Notes to the accounts, balance sheet

10. LOANS RECEIVABLE FROM THE MEMBERS OF THE BOARDS, THE PRESIDENT AND MANAGING DIRECTORS

Loans receivable from the members of the Boards, the President and Managing Directors are FIM 0.4 million. Interest rates in the loans are 4–6 % and repayment is within 2–6 years.

11. OTHER INVESTMENTS

	1996	Group 1995	Parent company 1996	Parent company 1995
Credit loss and other deposits at sales associations	38.8	38.8	28.2	
Bond issues	52.0	199.9	52.0	199.9
Other items	0.4	0.4	0.3	0.2
	91.2	239.1	80.5	200.1

12. MARKET VALUE OF FIXED ASSET SECURITIES

Stock Exchange listed shares had a book value of FIM 40.7 million and a market value of FIM 91.6 million.

Stock Exchange listed bond issues had a book value of FIM 52.0 million and a market value of FIM 53.3 million.

13. VALUATION ITEMS

Group	1 Jan.	Increase	Decrease	31 Dec.
Expenses on bond issues	3.0	0.0	-3.0	0.0
Unfunded pension obligations	44.6	0.0	-1.5	43.1
Interest costs on construction in progress	66.3	83.2	-41.0	108.5
	113.9	83.2	-45.5	151.6
Parent company				
Expenses on bond issues	3.0	0.0	-3.0	0.0
Unfunded pension obligations	27.8	0.0	0.0	27.8
Interest costs on construction in progress	0.4	83.3	-0.4	83.3
	31.2	83.3	-3.4	111.1

14. RECEIVABLES AND PAYABLES FROM/TO GROUP AND ASSOCIATED COMPANIES

	1996	Group 1995	Parent company 1996	Parent company 1995
Receivables from Group companies				
Long-term loans receivable			1 313.2	2 172.7
Accounts receivable			72.0	40.0
Short-term loans receivable			92.4	285.2
Accrued income			41.4	4.0
Other current receivables			1 440.1	701.9
			2 959.1	3 203.8
Payables to Group companies				
Accounts payable, short-term			40.8	7.9
Accrued liabilities			1.4	9.2
Other current liabilities			1 219.0	829.1
			1 261.2	846.2
Receivables from associated companies				
Long-term loans receivable	79.2	60.4	79.2	59.1
Accounts receivable	6.8	2.5	0.6	0.1
Short-term loans receivable	5.0			
Accrued income	6.2	0.8	6.2	
Other current liabilities				
	97.2	63.7	86.0	59.2
Payables to associated companies				
Other long-term liabilities		0.2	5.0	0.2
Accounts payable, short-term	33.1	20.1	19.3	0.8
Accrued liabilities	0.4	1.0	0.1	
	33.5	21.3	24.4	1.0

Notes to the accounts, balance sheet

15. RECEIVABLES WITH MATURITY OVER 12 MONTHS INCLUDED IN CURRENT ASSETS	Group		Parent company	
	1996	1995	1996	1995
Accounts receivable	0.3	1.2		1.0
Other receivables	1.4	3.4	1 440.2	704.1
	1.7	4.6	1 440.2	705.1
16. SHAREHOLDERS' EQUITY				
Restricted shareholders' equity				
Share capital, Jan. 1				
Series A	363.4	363.4	363.4	363.4
Series B	1 026.6	1 001.6	1 026.6	1 001.6
Total	1 390.0	1 365.0	1 390.0	1 365.0
Share issue				
Series A				
Series B		25.0		25.0
Total		25.0		25.0
Share capital, Dec. 31				
Series A	363.4	363.4	363.4	363.4
Series B	1 026.6	1 026.6	1 026.6	1 026.6
Total	1 390.0	1 390.0	1 390.0	1 390.0
Revaluation reserve, Jan. 1	613.7	614.0	485.7	487.5
Increases/decreases during the period	21.8	-0.3		-1.8
Revaluation reserve, Dec. 31	635.5	613.7	485.7	485.7
Other restricted shareholders' equity, Jan. 1	1 548.8	1 468.4	1 548.4	1 468.4
Premium on share issue		80.0		80.0
Other increase/decrease	1.8	0.4		
Other restricted shareholders' equity, Dec. 31	1 550.6	1 548.8	1 548.4	1 548.4
Restricted shareholders' equity total	3 576.1	3 552.5	3 424.1	3 424.1
Unrestricted shareholders' equity				
Retained earnings and other unrestricted equity, Jan. 1	3 264.9	2 301.2	1 397.4	1 131.7
Dividends paid	-194.6	-136.5	-194.6	-136.5
Transfer to unrestricted equity	-1.0	-0.5		
Change in translation differences	-14.9	-19.6		
Other increase/decrease	-4.1	10.9		
Retained earnings and other unrestricted equity, Dec. 31	3 050.3	2 155.5	1 202.8	995.2
Profit for the financial period	471.7	1 109.4	128.6	402.2
Unrestricted shareholders' equity total	3 522.0	3 264.9	1 331.4	1 397.4
SHAREHOLDERS' EQUITY TOTAL	7 098.1	6 817.4	4 755.5	4 821.5
Distributable funds				
Unrestricted shareholders' equity	3 522.0	3 264.9		
Untaxed reserves in shareholders' equity	-2 477.8	-2 153.6		
Distributable funds	1 044.2	1 111.3		
Untaxed reserves, Dec. 31				
Accumulated depreciation difference	4 084.9	2 878.4		
Transitional reserve	164.1	218.6		
Other reserves	57.0	33.2		
	4 306.0	3 130.2		
Deferred tax liability in untaxed reserves	-1 260.6	-738.0		
	3 045.4	2 392.2		
Minority interest in untaxed reserves	-230.2	-238.6		
	2 815.2	2 153.6		
Reserves at the date of acquisition	-337.4			
Untaxed reserves in shareholders' equity, Dec. 31	2 477.8	2 153.6		

Notes to the accounts, balance sheet

17. PROVISIONS FOR FUTURE COSTS	Jan. 1	Increase	Decrease	Dec. 31
Group				
Provision for unemployment costs	0.0	62.2	0.0	62.2
Provision for expenses on closure of businesses	8.1	149.9	-38.9	119.1
Other provisions	5.1	2.6	0.0	7.7
	13.2	214.7	-38.9	189.0
Parent company				
Provision for unemployment costs	0.0	36.2	0.0	36.2
Provision for expenses on closure of businesses	8.1	0.0	-1.8	6.3
	8.1	36.2	-1.8	42.5

18. LIABILITIES	Group 1996	Group 1995	Parent company 1996	Parent company 1995
Long-term				
Non-interest bearing	1 322.3	777.9		
Interest bearing	7 617.7	5 297.9	5 329.1	3 345.2
	8 940.0	6 075.8	5 329.1	3 345.2
Short-term				
Non-interest bearing	2 631.5	2 400.6	1 065.5	516.6
Interest bearing	1 965.3	2 379.5	2 774.1	2 246.6
	4 596.8	4 780.1	3 839.6	2 763.2
Bonds				
	Interest %			
1991 - 1998	4.33	617.5	926.2	617.5
1992 - 1997	12.30	150.0	150.0	150.0
1992 - 1997	12.30	75.0	75.0	75.0
1993 - 1999	3.78	383.2	536.0	383.2
1994 - 2001	3.90	400.0	400.0	400.0
1996 -	7.55	850.0		850.0
Total		2 475.7	2 087.2	2 475.7
Bonds with equity warrants				
1994 - 1999	5.00	0.3	0.3	0.3
		2 476.0	2 087.5	2 476.0

Bonds with equity warrants have been issued to the Group's Management. The maturity of the bonds is five years and interest is 5 %. The issue consists of 260 bonds in denominations of FIM 1000 each. Each bond carries 200 I equity warrants and 400 II equity warrants.

Each I equity warrant is exercisable into one Metsä-Serla Series B share of nominal value FIM 10 at a fixed subscription price of FIM 52. The subscription period is 3.5.1997 to 2.5.1999.

Each II equity warrant is exercisable into one Metsä-Serla Series B share of nominal value FIM 10 at a fixed subscription price of FIM 56. The subscription period is 3.5.1999 to 2.5.2001.

Notes to the accounts, balance sheet

19. LONG-TERM DEBTS WITH AMORTIZATION PLAN	Bonds	Bank loans	Pension loans	Other loans	Total
1997	686.5	1 005.3	121.6	5.9	1 819.3
1998	461.5	756.8	116.7	5.7	1 340.7
1999	78.0	390.4	109.6	7.9	585.9
2000	0.0	1 085.4	103.2	4.0	1 192.6
2001	400.0	804.9	97.3	3.6	1 305.8
2002-	850.0	1 024.8	1 113.2	60.2	3 048.2
Total Dec. 31 1996	2 476.0	5 067.6	1 661.6	87.3	9 292.5

20. DEFERRED TAX	Group 1996	Group 1995	Parent company 1996	Parent company 1995
On untaxed reserves	1 260.6	738.0		
Other deferred tax	36.7	33.5		
	1 297.3	771.5		

Untaxed reserves consist mainly of the accumulated difference between total depreciation made and depreciation according to plan for the Group's domestic subsidiaries. Deferred tax on untaxed reserves is calculated in accordance with the rate of taxation in the country concerned (Finland 28 %). Deferred tax is not computed for those companies which have loss carryovers in taxation.

Other deferred tax relates to non-Finnish Group companies.

The Group's non-interest bearing liabilities, including provisions for future costs, were FIM 4,142.9 million (FIM 3,191.7 million in 1995).

Notes to the accounts

21. SECURITIES AND GUARANTEES

	Group		Parent company	
	1996	1995	1996	1995
Mortgages as securities				
For own loans	3 067.5	4 005.6	1 246.9	1 340.1
For subsidiary companies' loans				5.0
For associated companies' loans	1.5	1.5	1.5	1.5
For shareholders' loans	22.0	2.5	22.0	2.5
For others	0.2	1.5		
Assets pledged as security				
For own loans	6.3	15.0		
For others	0.3			
Guarantees				
For subsidiary companies			204.8	509.8
For associated companies	92.7	76.4	85.1	67.9
For shareholders	9.2	25.4	9.2	22.8
For others	20.8	50.7	2.7	5.8
Promissory notes				
For others	15.2			
Other liabilities				
As security for own liabilities	0.4	2.1		
Leasing commitments				
Payments due in following year	54.3	67.5	12.6	19.5
Payments due in subsequent years	247.0	192.4	172.3	125.5
Total				
Mortgages	3 091.2	4 011.1	1 270.4	1 349.1
Pledges	6.6	15.0		
Guarantees	122.7	152.5	301.8	606.3
Promissory notes	15.2			
Other liabilities	0.4	2.1		
Leasing liabilities	301.3	259.9	184.9	145.0
	3 537.4	4 440.6	1 757.2	2 100.4

Group

	1996 Gross amount	Unrecognized valuation difference	1995 Gross amount
Liabilities due to open derivative contracts			
Interest rate derivatives			
Forward agreements	1 496.0	-2.5	67.0
Options			
Purchased	1 000.0	-3.4	343.0
Sold	0.0	0.0	0.0
Interest rate swap agreements	1 013.0	16.9	865.0
Currency derivatives			
Forward agreements	5 718.0	-5.3	7 026.0
Options			
Purchased	569.0	-1.2	623.0
Sold	1 294.0	-4.4	904.0
Foreign exchange swap agreements	0.0	0.0	0.0
Equity derivatives			
Equity swap agreements	1 225.0	57.1	0.0

Liabilities corresponding to assets pledged as security for the Group's own commitments were FIM 6.3 million.

In accordance with the regulations of the forest industry sales associations, the company is also contingently liable for the debts of those sales associations of which the company is a member.

Group companies do not have chattel mortgages or contingent liabilities on behalf of the management.

Notes to the accounts

22. SUBSIDIARIES AND GROUP SHAREHOLDINGS	Number of shares	Percentage holdings	Nominal value in thousands	Book value FIM 1,000
Shares owned by parent company				
In Finland				
Alakoski Oy	5 278	52.78	5	158
Amerpap Oy	4 200	75.00	21 000	21 000
Oy Board International Ab	371	46.60 *)	37	37
CMM Logisware Oy	900	60.00	900	2 672
KMV-Turvapalvelut Oy	75	25.00 **)	8	8
Kovetun Saha Oy	18 100	100.00	3 620	0
Oy Metsä-Botnia Ab	10 083	21.60 ***)	100 830	301 493
Metsä-Sellu Oy	36 600	100.00	366 000	865 367
Metsä-Serla Chemicals Oy	25 000	100.00	25 000	75 000
Neopac Oy	22 000	100.00	11 000	33 519
Savon Sellu Oy	200 010	100.00	20 001	70 001
Serla Oy	9 000 000	100.00	90 000	278 970
Suomen Keittiö-Eurooppa Oy	30	100.00	15	15
Takon Kotelotehdas Oy	100 101	100.00	10 000	14 769
Äänekoski Oy	250 000	100.00	2 500	2 500
Housing and property companies				19 630
In other countries				
A/S Neopac-Elkson	5 000	100.00	EEK 500	199
A/S Rönngaslill	3	100.00	EEK 0	3
Carl Jonsson Papper A/S	5 227	67.00	NOK 1 307	3 778
Grafiskt Papper Norden AB	11 000	100.00	SEK 957	1 916
Metsä-Serla Finance B.V.	400	100.00	NLG 40	84
Metsä-Serla Holding AB	100 000	100.00	SEK 10 000	445 020
Metsä-Serla NL Holding B.V.	5 350	100.00	NLG 4 650	25 362
Metsä-Serla Holding Ltd	188	94.00	CHF 94	141
Metsä-Serla Papper A/S	50	100.00	NOK 50	32
Metsä-Serla PLC	14 750 000	100.00	GBP 14 750	107 386
Neopac A/S	189 000	100.00	DKK 18 900	66 558
OA0 Komsomolets	236 296	69.32	MRUR 21 267	29 373
Silva International Paper Holdings B.V.	670	67.00	NLG 670	56 956
Tissu Canarias S.A.	39 092	63.05	ESB 19 546	1 189
Vermögensverwaltung Wilka GmbH		100.00	DEM 50	196 955
Total investments in subsidiaries				2 620 091

- *) Metsä-Serla Group percentage 58.30 %
 **) Metsä-Serla Group percentage 51.00 %
 ***) Metsä-Serla Group percentage 52.00 %

	Number of shares	Percentage holdings	Nominal value in thousands	Book value FIM 1,000 Company	Group
Investments in associated companies					
Kiinteistö Oy Jämkipohja	20	30.80	20	84	84
Kiinteistö Oy Vilpunpohja	27	30.00	135	135	135
Metsämannut Oy	30	30.00 *)	30	30	45
Metsä-Rauma Oy	2 665 920	27.77	133 296	133 296	107 048
Myllykoski Paper Oy	105 000	35.00	105 000	726 439	704 749
Mäntän Energia Oy	1 000	25.00 **)	500	500	1 407
Paperinkeräys Oy	18 186	20.20	182	182	8 350
Tietopari Oy	150	50.00	1 500	1 502	4 927
Oy Transfennica Ab	27 306	27.30 ***)	2 731	6 889	5 883

- *) Metsä-Serla Group percentage 35.2 %
 **) Metsä-Serla Group percentage 50.0 %
 ***) Metsä-Serla Group percentage 29.8 %

Notes to the accounts

OTHER INVESTMENTS	Number of shares	Percentage holdings	Nominal value in thousands	Book value FIM 1,000 Company	Group
Other investments					
In Finland					
Aamulehti-Yhtymä Oy	3 031	0.05	30	206	206
Finnforest Oy	2 400 000	10.00	24 000	24 000	24 000
Hangö Stevedoring Ab	15			203	203
Hankoniemen kehitysysteistyö Oy	160	2.00	160	160	160
Helsingin Puhelin Oy	99			323	323
Inkoo Shipping Oy	250	5.00	250	250	250
Investa obligaatiorahasto	11 911			512	512
Investa osakerahasto	7 866			512	512
Keräyskuitu Oy	4 378	14.60	4 378	4 586	4 586
Keskuslaboratorio Oy	669 418	18.40	669	1 107	1 107
Liikkeenjohdon koulutuskeskus Oy	4	2.60	200	200	200
Lohjan Puhelin Oy	685		69	174	174
Merita Oy	168 199		1 682	3 326	3 326
Metsäliitto Osuuskunta	179 171		3 583	3 608	3 608
Mikkelin Arkistotalo Oy	1		100	102	102
MSC Metsa Specialty Chemicals Oy	600 000	19.24	18 000	60 000	60 000
Pohjois-Hämeen Puhelin Oy	4 903		98	182	182
Pohjolan Voima Oy	847 455	2.70	8 474	141 144	141 144
Rantasalmi Oy	100	10.00		141	141
Starckjohann Oy	6 000 000	4.62	6 000	30 000	30 000
Suomen Osakekeskusrekisteri Osuuskunta	15		700	1 050	1 050
Tahkoluodon Polttoöljy Oy	270	13.50	270	270	270
Tampereen Puhelinosuuskunta	253			217	217
UPM-Kymmene Oy	9 176		92	885	885
Vakuutusosakeyhtiö Sampo	103 600		2 072	5 796	68
Vierumäen Kuntorinne Oy	97	0.69	10	1 499	1 499
Muut puhelinosakkeet ja -osuudet				234	234
Muut kotimaiset				909	909
Asunto- ja kiinteistöosakeyhtiöt				15 434	15 434
In other countries					
Finnlandhaus GmbH	1	5.00	DEM 90	119	119
Other companies				1 008	1 008
Total investments, parent company			1 167 213	1 125 056	
Unconsolidated housing and property companies, parent company				19 653	

Notes to the accounts

OTHER INVESTMENTS	Number of shares	Percentage holdings	Nominal value in thousands	Book value Company	FIM 1,000 Group
SHARES OWNED BY SUBSIDIARIES					
Investments in subsidiaries					
Oy Board International Ab	179	22.50 ¹	18	18	
Botnia Pulps GmbH	250	25.00 ²	DEM 25	77	
Botnia Pulps Ltd.	250	25.00 ²	GBP 6	47	
KMV-Turvapalvelut Oy	78	26.00 ³	8	8	8
Oy Metsä-Botnia Ab	14 190	30.40 ⁴	141 900	656 387	
MD Espana S.A.	1	50.00	ESP 5 000	451	451
MD of North America Inc.	50	50.00	USD 35	176	176
Unconsolidated housing and property companies				1 170	1 170
Investments in associated companies					
Kemi Shipping Oy	140 000	50.00	1 400	483	2 427
Mäntän Energia Oy	1 000	25.00 ⁵	500	500	1 407
Plastiroll Oy	39	39.00	39	500	5 878
Simon Turvejaloste Oy	10	33.33	100	101	100
Oy Transfennica Ab	4 800	4.80 ⁶	480	1 211	1 121
Other associated companies				410	420
Other investments					
Finnlandhaus GmbH	1	5.00	DEM 90	119	119
Fin-Trans A/S	54	5.40	DKK 54	230	230
Holy Oy	4 482	29.85	45	191	191
Keskuslaboratorio Oy	185	5.10	185	315	315
Pohjolan Voima Oy	707 451	2.30	7 075	40 978	40 978
Teollisuuden Sähkömyynti	280	10.00	280	280	280
Vakuutusosakeyhtiö Sampo	20 000	0.13	400	400	400
Varant N.V.	800	2.50	BEF 800	576	576
Varma Services Ltd.	320	3.20	GBP 0	375	375
Warico GmbH	64	3.20	DEM 16	1 043	1 043
Housing and property companies				8 517	8 517
Telephone shares				189	189
Other investments				1 934	1 830
Total investments (Group)					1 212 909

¹ Group percentage 58,3 %

³ Group percentage 51,0 %

⁵ Group percentage 50,0 %

² Group percentage 64,0 %

⁴ Group percentage 52,0 %

⁶ Group percentage 29,8 %

Notes to the accounts

OTHER INVESTMENTS	Number of shares	Percentage holdings	Nominal value in thousands		Book value in thousands	
SUBGROUPS IN FINLAND						
Amerpap Oy						
- Amerpap Balti A/S	100	100.00	EEK	100	FIM	39
- Paperet AS	6	50.00	EEK	12	EEK	513
- Amerpap Baltija SIA	20	100.00	LVL	2	FIM	17
- Amerpap East Ltd	9 996	51.00	USD	137	FIM	610
- Paperet AS	6	50.00	EEK	12	FIM	300
Oy Board International Ab						
- Board AG	500	100.00	CHF	50	FIM	77
Oy Metsä-Botnia Ab						
- Botnia Pulps GmbH	750	75.00	DEM	75	FIM	231
- Botnia Pulps Ltd.	750	75.00	GBP	19	FIM	139
- Oy Botnia-Wood Ab	52 000	100.00	FIM	5 200	FIM	16 857
- Kaskisten Lämpö Oy	350	70.00	FIM	350	FIM	352
- Kaskö Shipbroker Oy	1 076	99.63	FIM	11	FIM	31
- Ab Kaskö Stevedoring Ltd.	300 000	100.00	FIM	1 500	FIM	1 741
Serla Oy						
- Kotkan Paperi Oy	30	100.00	FIM	15	FIM	15
SUBGROUPS IN OTHER COUNTRIES						
Metsä-Serla Holding AB						
- Metsä-Serla AB	2 000 000	100.00	SEK	200 000	SEK	576 450
- Dambi AB	500	100.00	SEK	50	SEK	60
- Metsä-Serla Tissue S.a.r.l.	99	99.00	FRF	50	SEK	54
- Metsä-Serla Tissue A/S	1 000	100.00	DKK	500	SEK	270
- Metsä-Serla Tissue A/S	6 020	100.00	NOK	602	SEK	482
Wilka GmbH						
- Metsä-Serla Tissue GmbH		100.00	DEM	100	DEM	101
- Sonra Vermögensverwaltungs-gesellschaft mbH	1 965	100.00	DEM	60	DEM	61
- Papierfabrik Albruck GmbH & Co.KG	2 100	50.00			DEM	172 332
- MD Papier GmbH & Co.KG	2 100	50.00			DEM	213 079
- MD Espana S.A.	1	100.00	ESP	10 000	DEM	302
- MD of North America Inc.	100	100.00	USD	70	DEM	118
- MD Verwaltungs GmbH		50.00	DEM	25	DEM	29
- Verwaltungsgesellschaft Papierfabrik Albruck GmbH		50.00	DEM	25	DEM	25
Metsä-Serla NL Holding B.V.						
- Finnforests Nederland B.V.	40	100.00	NLG	40	NLG	40
- Papierfabrik Biberist AG	2 000	100.00	CHF	2 000	NLG	2 626
- Winpac B.V.	3 000	100.00	NLG	3 000	NLG	11 110
Metsä-Serla plc						
- Alliance Paper Group plc	16 829 997	100.00	GBP	1 041	GBP	16 830
- Kilgallon Clegg Ltd	100 000	100.00	GBP	100	GBP	100
- Mailers Stationers Ltd	2	100.00	GBP	0	GBP	0
- Prestige Paper Ltd	2	100.00	GBP	0	GBP	0
- Sellens Paper (London)	1 000	100.00	GBP	1	GBP	1
- Sellens Storage Ltd	100	100.00	GBP	0	GBP	0
- T.H. Sellen Ltd	2 100	100.00	GBP	2	GBP	2
- Finnforests Ltd	25 000	100.00	GBP	25	GBP	0
- Hedsor Ltd	494 999	100.00	GBP	495	GBP	5 527
- Metsä-Serla Softwood Ltd	100	100.00	GBP	0	GBP	0
- Metsä-Serla Tissue Ltd	100	100.00	GBP	0	GBP	0
- Metsä-Serla (UK) Ltd	100	100.00	GBP	20	GBP	0
Neopac A/S						
- Søren Berggreen & CO. A/S	300	100.00	DKK	3 000	DKK	50 463
Silva International Paper Holdings B.V.						
- Cartonpack S.A.	326 596	91.80	GRD	1 071 235	NLG	29 323
	28 998	8.20	USD	2 900		
- Cretan Paper Mill S.A.	337 630	100.00	GRD	337 630	GRD	319 876

Shares and shareholders

SHARE CAPITAL AND SHARES AT 31 DECEMBER 1996

The company's paid-in share capital at 31 December 1996 was FIM 1,389,994,250.

The company has a total of 138,999,425 shares, which are divided into 36,340,550 Series A shares and 102,658,875 Series B shares.

All shares have a nominal value of FIM 10. Each Series A share entitles the holder to 20 votes at a General Meeting of Shareholders, and each Series B share entitles the holder to one (1) vote. All shares carry the same right to receive dividend.

The company's issued share capital may not be less than FIM 650 million and not more than FIM 2,600 million. The issued share capital may be increased or reduced within these limits without amendment to the Articles of Association.

STOCK EXCHANGE LISTINGS

Metsä-Serla Series A and Series B shares are listed on the Helsinki Stock Exchange. Series B shares are also quoted on SEAQ International in London and on the Bavarian Stock Exchange.

CHANGE IN NOMINAL VALUE OF SHARES

Metsä-Serla's Annual General Meeting of 11 April 1996 decided to change the nominal value of the company's shares from FIM 50 to FIM 10. Trading in shares with the new FIM 10 nominal value began on 23 April 1996.

BOARD'S AUTHORITY TO ISSUE SHARES

Metsä-Serla's Board of Directors was authorized by the Annual General Meeting of 11 April 1996 to decide, within one year of the Meeting, to increase the company's share capital by a maximum of FIM 125 million through the issue of new shares and/or the exchange of convertible bonds. Under the authorization the Board may increase the share capital in accordance with shareholders' existing rights or in disapplication of such rights through a placement of shares or convertible bonds. The resulting increase in share capital may not exceed one-fifth of the company's registered share capital and of the total voting rights carried by the shares.

BOND LOAN WITH EQUITY WARRANTS AND DIRECTORS' INTERESTS

The 1994 Annual General Meeting decided to offer bonds with equity warrants totalling FIM 260,000 for subscription by the company's management. The loan period is 2 May 1994 to 2 May 1999, i.e. five years, and the interest is 5%. Each FIM 1000 bond carries 200 I warrants and 400 II warrants.

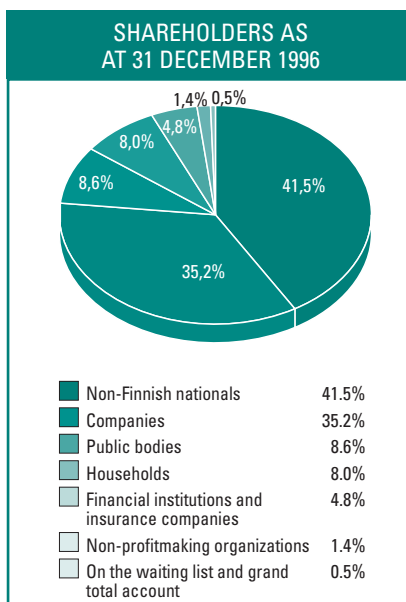
Each I warrant entitles the holder to subscribe five Metsä-Serla Series B share, nominal value FIM 10, at a fixed price of FIM 52 during the period 3 May 1997 to 2 May 1999.

Each II warrant entitles the holder to subscribe five Metsä-Serla Series B share, nominal value FIM 10, at a fixed price of FIM 56 during the period 3 May 1999 to 2 May 2001.

Exercise of the warrants will increase the number of Series B shares by a maximum of 780,000 and the share capital by a maximum of FIM 7.8 million. This represents 0.56% of the company's share capital and 0.09% of the votes.

The company has no other equity warrants or convertible bonds currently in issue.

The members of the Board of Directors, the Chief Executive Officer and the Senior Executive Vice President owned a total of 4,895 Metsä-Serla shares at 31 December 1996. This represents 0.00% of the company's shares and 0.00% of the voting rights carried by the shares. No director owns shares in any company belonging to Metsä-Serla Group.



Notes to the accounts

METSÄ-SERLA'S MAIN SHAREHOLDERS

SHARE REGISTER AT 31 DECEMBER 1996	Series A	Series B	Total	% of votes	% of shares
1. Metsäliitto Osuuskunta	25 111 535	16 993 000	42 104 535	62.6 %	30.3 %
2. Eläke-Varma Mutual Insurance Company	2 251 930	293 675	2 545 605	5.5 %	1.8 %
3. Industrial Insurance Company Ltd.	1 624 005		1 624 005	3.9 %	1.2 %
4. Pension Insurance Company Ilmarinen Ltd.	1 013 325	775 000	1 788 325	2.5 %	1.3 %
5. Eläke-Sampo Insurance Company Ltd.	778 785	1 186 450	1 965 235	2.0 %	1.4 %
6. Mutual Insurance Company Tapiola	576 000	290 000	866 000	1.4 %	0.6 %
7. Mutual Life Insurance Company Tapiola	509 370	630 630	1 140 000	1.3 %	0.8 %
8. The Local Government Pensions Institution	240 000	1 666 100	1 906 100	0.8 %	1.4 %
9. Mutual Pension Insurance Company Tapiola	293 000	178 000	471 000	0.7 %	0.3 %
10. Yritys-Sampo Insurance Company Ltd.	300 000		300 000	0.7 %	0.2 %

Shares owned by non-Finnish nationals, total 57 664 585, representing 8.2 % of voting rights and 41.5 % of the shares.

Shares registered in a nominee's name represented 8.0 % of the voting rights and 41.3 % of the shares.

BREAKDOWN OF SHAREHOLDINGS

Series A Shares

	Number of shareholders	% of shareholders	Total shares	% of all shares	Number of votes	% of all votes
1 - 20	110	4.3	1 405	0.0	28 100	0.0
21 - 50	183	7.1	7 392	0.0	147 840	0.0
51 - 100	274	10.7	21 658	0.1	433 160	0.1
101 - 500	1 177	45.9	318 277	0.9	6 365 540	0.9
510 - 1.000	375	14.6	296 190	0.8	5 923 800	0.8
1.001 - 5.000	374	14.6	796 753	2.2	15 935 060	2.2
yli 5.000	72	2.8	34 882 900	96.0	697 658 000	96.0
On the waiting list			500	0.0	10 000	0.0
Grand total account			15 475	0.0	309 500	0.0
Total	2 565	100.0	36 340 550	100.0	726 811 000	100.0

Sarja B Osakkeita

	Number of shareholders	% of shareholders	Total shares	% of all shares	Number of votes	Osuus äänistä %
1 - 20	6 895	20.1	88 938	0.1	88 938	0.1
21 - 50	6 692	19.5	243 272	0.2	243 272	0.2
51 - 100	6 600	19.3	485 592	0.5	485 592	0.5
101 - 500	9 681	28.2	2 202 206	2.1	2 202 206	2.1
510 - 1.000	2 053	6.0	1 577 703	1.5	1 577 703	1.5
1.001 - 5.000	1 936	5.7	4 164 728	4.1	4 164 728	4.1
yli 5.000	421	1.2	93 074 348	90.7	93 074 348	90.7
On the waiting list			55 848	0.1	55 848	0.1
Grand total account			766 240	0.7	766 240	0.7
Total	34 278	100.0	102 658 875	100.0	102 658 875	100.0

SHARE ISSUES 1992–1996

Type of issue	Subscription period	Ratio of issue or subscriber	Subscription price, FIM	Number of new shares	Date of payment	Increase in share capital MFIM	New share capital MFIM
Rights issue	9.12.1991-17.1.1992	1 new for 12 old	A:105 B:55	559084 1020809	17.1.1992	28,0 51,0	1020,2
Targeted issue	29.6.1993		B:167	3460000	29.6.1993	173,0	1193,2
Subscription through warrants (B)	1988		149,37	148		0,0	
	1989		149,37	1272		0,1	
			143,01	1844		0,1	
	1990		143,01	80		0,0	
	1991		143,01	-		0,0	
	1992		143,01	-		0,0	
	1993		143,01	3185492		159,3	
				3188836		159,5	1352,5
Placement	18.11.1993		B:225	250000	18.11.1993	12,5	1365,0
Placement	30.6.1995	Oy Kyro Ab	B:210,12	500000	30.6.1995	25,0	1390,0

The change in the nominal value of the company's shares from FIM 50 to FIM 10 (11 April 1996) has not been taken into account in the table.

Notes to the accounts

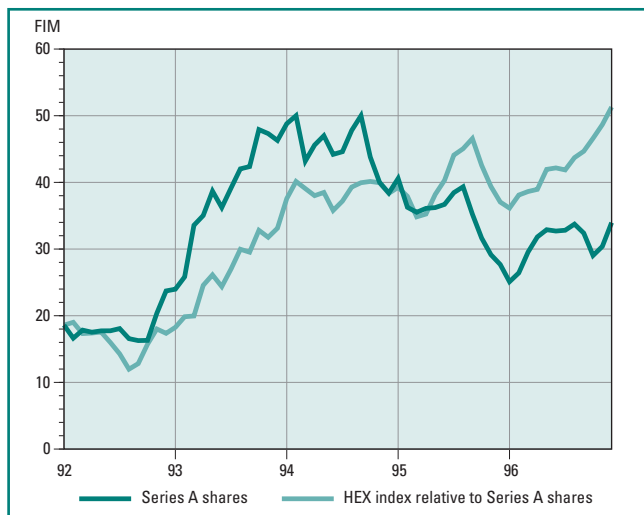
FIGURES PER SHARE	1996	1995	1994	1993	1992
CALCULATION OF EARNINGS PER SHARE, FIM MILLION					
Profit after financial items	315.3	1 913.8	785.9	302.3	-289.9
-/+ share of results of associated companies	0.0	0.0	0.0	-152.7	-339.9
- dividends and avoif fiscal tax	0.0	0.0	0.0	0.0	-34.3
+ reversal of amortization on goodwill attributable to Metsä-Botnia	39.4	39.4	39.4	-	-
- minority interest	-4.0	-317.8	-14.6	-10.1	-3.9
- direct taxes	-224.1	-486.1	-197.9	-54.3	-31.5
+ tax adjustment for extraordinary items	102.1	54.6	-	-	-
= EARNINGS, FIM MILLION	228.8	1 203.9	612.8	85.2	-699.5
- Adjusted number of shares (average)	138 999 425	137 711 755	136 499 425	115 035 825	100 245 665
= Earnings per share, FIM	1.65	8.74	4.49	0.74	-6.98
Shareholders' equity per share, FIM	51	49	42.2	38.8	38.6
Dividend per share, FIM	1.00 ¹⁾	1.40	1.00	0.40	-
Dividend per profit, %	60.6 ¹⁾	16.0	22.3	54.0	-
Nominal value per share, FIM	10	10	10	10	10
DIVIDEND YIELD, %					
Series A	2.9	5.2	2.4	0.9	-
Series B	2.9	5.2	2.4	0.9	-
Price per equity ratio (P/E ratio)					
Series A	21.0	3.1	9.1	62.9	-
Series B	21.0	3.1	9.3	62.6	-
P/BV, %					
Series A	67.7	55.0	97.2	120.1	62.2
Series B	67.6	54.6	98.6	119.6	47.9
¹⁾ Board's proposal					

SHARE PERFORMANCE	1996	1995	1994	1993	1992	
Adjusted prices, FIM						
Series A	highest	36.50	43.00	51.60	51.00	26.00
	lowest	24.40	24.40	36.00	21.60	14.20
	at the end of year	34.59	27.00	41.00	46.60	24.00
	average price	30.54	36.08	47.20	43.60	19.56
Series B	highest	37.00	43.20	52.00	51.60	20.00
	lowest	24.60	23.60	35.20	18.50	9.60
	at the end of year	34.51	26.80	41.60	46.40	18.50
	average price	30.27	34.46	46.00	39.04	14.80
Traded volumes on the Helsinki Stock Exchange, units						
Series A	1 698 835	2 525 125	4 213 110	4 133 490	665 570	
% of total no. of Series A	4.7	6.9	11.6	11.4	1.8	
Series B	48 018 128	41 389 460	69 719 420	57 992 930	9 536 220	
% of total no. of Series B	46.8	40.3	69.6	57.9	14.5	
Trading in shares on SEAQ International ¹⁾	25 783 447	67 562 555	105 557 345	109 968 080		
% of total no. of Series B ¹⁾	25.1	65.8	105.4	109.8		
Number of shares at the end of year						
Series A	36 340 550	36 340 550	36 340 550	36 340 550	36 340 550	
Series B	102 658 875	102 658 875	100 158 875	100 158 875	65 681 415	
Total	138 999 425	138 999 425	136 499 425	136 499 425	102 021 965	
Adjusted number of shares at 31 Dec.	138 999 425	138 999 425	136 499 425	136 499 425	102 021 965	
Market capitalization at 31 Dec., FIM million	4 800	3 732	5 657	6 341	2 082	
Number of shareholders ²⁾	35 302	35 371	35 412	35 979	94 692	
Change in nominal value of shares taken into account.						
¹⁾ On SEAQ International, the purchase and sale of one lot of shares is recorded as two transactions.						
²⁾ Shareholders in book entry system since 1993.						

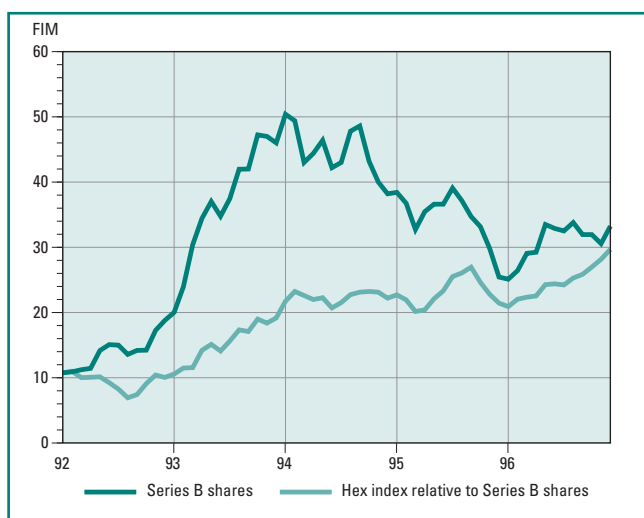
Notes to the accounts

METSÄ-SERLA'S SHARES ON THE HELSINKI STOCK EXCHANGE

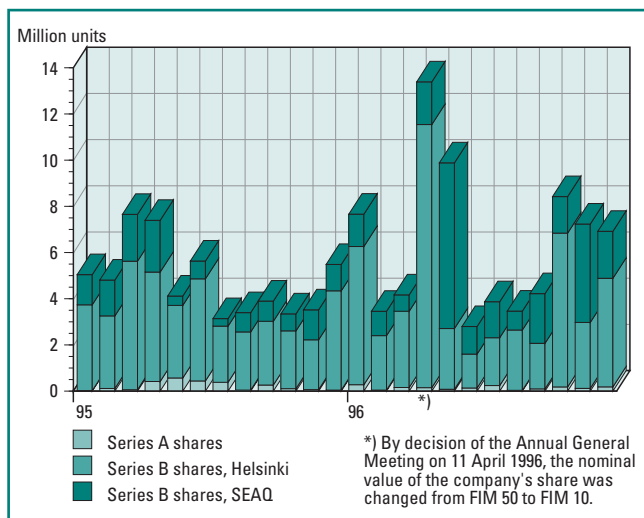
SERIES A SHARES, AVERAGE MONTHLY SHARE PRICE



SERIES B SHARES, AVERAGE MONTHLY SHARE PRICE



TRADED VOLUMES IN 1995 AND 1996



CALCULATION OF KEY RATIOS

Return on equity (%)	=	$\frac{\text{Profit after financial items} - \text{direct taxes}}{\text{Shareholders' equity} + \text{minority interest (average)}}$
Return on assets (%)	=	$\frac{\text{Profit after financial items} + \text{interest expense net exchange gains/losses and other financial expenses}}{\text{Total assets} - \text{non-interest-bearing liabilities (average)}}$
Equity ratio (%)	=	$\frac{\text{Shareholders' equity} + \text{minority interest}}{\text{Total assets} - \text{advance payments received}}$
Gearing ratio (%)	=	$\frac{\text{Interest-bearing liabilities} - \text{liquid assets}}{\text{Shareholders' equity} + \text{minority interests}}$
Earnings per share	=	$\frac{\text{Profit after financial items} - \text{minority interest} - \text{direct taxes}}{\text{Adjusted number of shares (average)}}$
Shareholders' equity per share	=	$\frac{\text{Shareholders' equity}}{\text{Adjusted number of shares at 31.12.}}$
Dividend per share	=	$\frac{\text{Dividends}}{\text{Adjusted number of shares at 31.12.}}$
Dividend per profit (%)	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$
Dividend yield (%)	=	$\frac{\text{Dividend per share}}{\text{Share price at 31.12.}}$
Price/equity ratio (P/E ratio)	=	$\frac{\text{Adjusted share price at 31.12.}}{\text{Earnings per share}}$
P/BV (%)	=	$\frac{\text{Adjusted share price at 31.12.}}{\text{Shareholders' equity per share}}$
Adjusted average share price	=	$\frac{\text{Total traded volume of the share (FIM)}}{\text{Total adjusted traded volume of the share (units)}}$
Market capitalization	=	Number of shares x market price at 31.12.
Interest-bearing net liabilities/turnover (%)	=	$\frac{\text{Interest-bearing liabilities} - \text{interest-bearing financial assets}}{\text{Turnover}}$
Internal financing of investments (%)	=	$\frac{\text{Funds from operations}}{\text{Gross investments}}$
Interest cover	=	$\frac{\text{Funds from operations} + \text{net interest expenses}}{\text{Net interest expenses}}$
Profit after financial items	=	Profit before extraordinary items
Divisional result	=	Profit after financial items
Funds from operations	=	Funds from operations in the cash flow

Ten years in figures

	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
PROFIT AND LOSS ACCOUNT, FIM MILLION										
Turnover	14 671	13 321	9 477	9 169	7 752	7 737	8 737	8 679	7 597	7 001
- change%	10.1	40.6	3.4	18.3	0.2	-11.4	0.7	14.2	8.5	17.1
Exports from Finland	8 316	7 532	5 385	5 248	4 002	3 786	4 520	4 752	4 512	3 987
Exports and foreign subsidiaries	12 395	10 464	7 799	7 720	6 397	6 066	6 177	5 931	5 202	4 800
Operating profit	902	2 387	926	1 011	718	391	461	793	1 064	734
- % of turnover	6.1	17.9	9.8	11.0	9.3	5.1	5.3	9.1	14.0	10.5
Profit after financial items	315	1 914	786	302	-290	-635	-134	470	713	261
- % of turnover	2.1	14.4	8.3	3.3	-3.7	-8.2	-1.5	5.4	9.4	3.7
Profit before taxes and minority interest	700	1 913	759	755	90	-559	-41	565	1 020	380
- % of turnover	4.8	14.4	8.0	8.2	1.2	-7.2	-0.5	6.5	13.4	5.4
Balance sheet, FIM million										
Balance sheet total	21 713	18 566	14 078	14 023	13 183	13 355	14 227	13 463	11 477	9 722
Shareholders' equity	7 098	6 817	5 749	5 304	3 935	3 958	5 019	4 317	3 786	2 538
Interest-bearing net liabilities	8 465	6 595	3 706	4 241	6 760	6 923	6 675	4 643	4 399	5 062
DIVIDENDS AND FIGURES PER SHARE*										
Dividends, FIM million	139.0 ¹⁾	194.6	136.5	54.6	-	-	65.9	95.7	85.0	68.3
Dividend per share, FIM	1.00 ¹⁾	1.40	1.00	0.40	-	-	0.70	1.10	1.07	0.94
Dividend/profit, %	60.6 ¹⁾	16.0	22.3	54.0	-	-	-	19.3	12.0	30.3
Earnings per share, FIM	1.65	8.74	4.49	0.74	-6.98	-13.98	-0.08	5.71	8.93	3.10
Shareholders' equity per share, FIM	51	49	42	39						
Shareholders' equity per share (adjusted), FIM ²⁾	62	56	46	42	39	41	53	50	47	35
PROFITABILITY										
Return on assets, %	6.4	18.8	10.8	10.1	7.5	4.9	5.9	10.1	13.0	10.5
Return on equity, %	2.5	22.0	10.5	5.3	neg	neg	neg.	11.5	21.6	9.3
FINANCIAL POSITION										
Equity ratio, %	37.2	42.4	41.7	38.2						
Equity ratio (adjusted) ²⁾	43.0	46.4	45.3	41.0	30.2	29.9	35.5	32.3	33.5	27.3
Gearing ratio, %	110.4	94.9	71.2	80.9						
Gearing ratio (adjusted) % ²⁾	95.3	86.6	65.4	73.6	178.3	181.3				
Interest-bearing net liabilities/turnover, %	57.7	49.5	39.1	46.3	87.2	89.5	76.4	53.5	57.9	72.3
Funds from operations, FIM million	1891	2429	1205	1261	568	-82	1126	1387	1463	780
Internal financing of investments, %	40.1	81.8	167.1	188.6	94.2	neg.	29.7	90.8	129.2	81.2
Net interest expenses, FIM million	471.1	502.7	347.1	584.9	731.5	654.7	637.3	336.2	374.8	425.4
Interest cover	5.0	5.8	4.5	3.2	1.8	0.9	2.8	5.1	4.9	2.8
OTHER INFORMATION										
Gross capital expenditure, FIM million	4 711	2 923	721	669	603	548	3 790	1 528	1 132	961
- % of turnover	32.1	21.9	7.6	7.3	7.8	7.1	43.4	17.6	14.9	13.7
R&D expenditure, FIM million	90	90	76	75	65	61	55	50	46	40
- % of turnover	0.6	0.7	0.8	0.8	0.8	0.8	0.6	0.6	0.6	0.6
Personnel, average	11 947	10 106	9 061	9 047	9 384	10 522	13 049	12 994	12 116	12 865
-of whom in Finland	7 490	7 162	6 385	6 425	6 674	7 529	9 718	10 287	10 250	10 963

¹ Board's proposal

² Deferred tax liability and minority interest in untaxed reserves included in equity.

* Change in nominal value of shares taken into account.

Figures for 1993–1996 comply with Finland's revised accounting practice. For this reason, figures for earlier years are not fully comparable with those for 1993–1996.

Calculation of key ratios is presented on page 51.

Board's proposal for the distribution of profits

Unrestricted shareholders' equity in the consolidated balance sheet, 31.12.1996	FIM	3 521 937 000,00
of which distributable funds	FIM	1 044 168 000,00

Unrestricted shareholders' equity in the parent company balance sheet, 31.12.1996		
Retained earnings	FIM	1 202 820 260,23
Net profit for 1996	FIM	128 551 753,74

Total	FIM	1 331 372 013,97
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The Board of Directors proposes the following to the Annual General Meeting:

A dividend of FIM 1.00 per share be paid on 138,999,425 Series A and B shares	FIM	138 999 425,00
For use by the Board of Directors in the general interest	FIM	250 000,00
To be retained on "Retained earnings"	FIM	1 192 122 588,97

Total	FIM	1 331 372 013,97
--------------	------------	-------------------------

Espoo, 10 February 1997

Antti Oksanen	Arimo Uusitalo	
Asmo Kalpala	Erkki Karmila	Curt Lindbom
Seppo T. Niemi	Eero Oittila	Antti Tanskanen

Jorma Vaajoki, President and CEO

Report of the Auditors

TO THE SHAREHOLDERS OF METSÄ-SERLA OY

We have examined the accounting records, financial statements and administration of Metsä-Serla Oy for the financial period 1 January to 31 December 1996. The financial statements prepared by the Board of Directors and the President and CEO consist of the annual report, consolidated and parent company profit and loss accounts and balance sheets, and notes to the accounts. On the basis of our audit we provide the following opinion on the company's financial statements and administration.

The audit has been performed in accordance with good auditing practice. The accounting records and the principles used in the accounts, as well as their content and presentation, have been examined in sufficient depth to show that all essential information in the financial statements has been correctly prepared. Our audit of the administration has included obtaining assurance that the members of the Board of Directors and the President and CEO have acted in compliance with the provisions of the Companies Act.

In our opinion, the financial statements have been prepared in accordance with the Accounting Act and other relevant provisions and regulations, and give a true and fair view of the results from operations and financial position of both the group and the parent company. The financial statements for the group and the parent company may be adopted, and the members of the Board of Directors and the President and CEO may be discharged from responsibility for the financial period. The proposal of the Board of Directors for the disposition of unrestricted shareholders' equity as shown in the balance sheet is in accordance with the Companies Act.

We have reviewed the Interim Reports published during the financial year. In our opinion these have been prepared in accordance with the relevant regulations.

Espoo, 13 February 1997

SVH Coopers & Lybrand Oy
Authorised Public Accountants



ANTTI HELENIUS
CPA



ILKKA HAARLÄÄ
CPA



BJÖRN RENLUND
CPA

Board of Directors and Auditors



*Board of Directors from upper left:
Eero Oittila, Erkki Karmila, Curt Lindbom, Asmo Kalpala, Seppo T. Niemi, Antti Tanskanen,
Arimo Uusitalo, and Antti Oksanen.*

METSÄ-SERLA OY'S BOARD OF DIRECTORS

Chairman
ANTTI OKSANEN, 52
Master of Science in Forestry
President of Metsäliitto Group
Member of the Board since 1993
Chairman since 20 November 1995

Vice Chairman
ARIMO UUSITALO, 54
Master of Science in Agriculture
and Forestry
Member of the Board since 1994
Vice Chairman since 1994

ASMO KALPALA, 46
Master of Science in Economy
CEO, Tapiola Insurance Group
Member of the Board since 1990

ERKKI KARMILA, 55
Master of Laws
Deputy Managing Director,
NordicInvestment Bank
Member of the Board since 1992

CURT LINDBOM, 54
Member of the Board of
CapMan Capital Management Oy
Member of the Board since 1992

SEPPO T. NIEMI, 59
Farmer
Member of the Board since 1996

EERO OITTILA, 60
Master of Science in
Agriculture and Forestry
Member of the Board since 1996

ANTTI TANSKANEN, 50
Professor
Chairman and CEO
OKOBANK Group
Member of the Board since 1992

AUDITORS

SHV COOPERS & LYBRAND OY
Authorised Public Accountants
Responsible for the audit
Björn Renlund, CPA

ANTTI HELENIUS, CPA
SHV Coopers & Lybrand Oy

ILKKA HAARLAA, CPA
SHV Coopers & Lybrand Oy

Group Management



Jorma Vaajoki, 47, President & CEO



Aarre Metsävirta, 52
Senior Executive Vice President
Paper Group



Ari Martonen, 41, Senior Vice President
Controller, Business Development



Thomas Nystén, 57, Senior Vice President
Marketing Group



Heikki Järvinen, 56, Senior Vice President
Corporate Communications



Antti Sojakka, 46, Senior Vice President
Packaging Group



Olli Nuortila, 42, Senior Vice President
General Counsel



Erkki Varis, 48, Managing Director
Oy Metsä-Botnia Ab

Information for shareholders

ANNUAL GENERAL MEETING

The Annual General Meeting of Metsä-Serla Oy will be held at Metsä-Serla Head Office, Revontulentie 6, 02100 Espoo, on Wednesday 19 March 1997 beginning at 10.00 a.m. Finnish time.

Shareholders wishing to take part in the Annual General Meeting and to exercise their right to vote must be registered in the list of shareholders kept in the Central Share Register of Finland by 7 March 1997 at the latest and should announce their intention to attend the meeting before 4.00 p.m. Finnish time on 14 March 1997 either by telephoning Ms Ulla Nurminen on +358 9 469 4694 or by writing to Metsä-Serla Oy, Ms Ulla Nurminen, Revontulentie 6, FIN-02100 Espoo, Finland. Any letters of attorney should be submitted at the time such shareholders notify the company of their intention to attend.

The Board of Directors proposes that a dividend of FIM 1.00 be paid for the 1996 financial year on 27 March 1997 to shareholders entered in the list of shareholders by 24 March 1997 at the latest.

SHARE REGISTER

Shareholders are requested to inform the book entry register holding their book entry account of any changes of name, address or share ownership.

FINANCIAL INFORMATION

Financial reports to be published in 1997:

10 February	UNAUDITED FIGURES FOR 1996
Week beginning 3 March	ANNUAL REPORT FOR 1996
12 May	INTERIM REPORT FOR JANUARY-MARCH 1997
7 August	INTERIM REPORT FOR JANUARY-JUNE 1997
6 November	INTERIM REPORT FOR JANUARY-SEPTEMBER 1997

All the above reports are published in Finnish, Swedish, English and German. Copies can be obtained from Metsä-Serla Oy, Corporate Communications, Revontulentie 6, FIN-02100 Espoo, Finland, tel. +358 9 469 431, fax +358 9 469 4355. Metsä-Serla's environmental report can be ordered from the same address.

SHARES

The company has a total of 138,999,425 shares. Each share has a nominal value of FIM 10. Information on Metsä-Serla's shares is given on pages 48-51.

Metsä-Serla's Series A and Series B shares are quoted on the Helsinki Stock Exchange. Quotations can be found on Reuters with the following symbols: Series A MESSa.HE and Series B MESSb.HE. Metsä-Serla's Series B shares are also quoted on SEAQ in London and on the Bavarian Stock Exchange.

Exchange rates

BANK OF FINLAND EXCHANGE RATES AT 31.12.

	1996	1995	1994	1993	1992
GBP	7.8690	6.7410	7.4090	8.5540	7.9570
USD	4.6439	4.3586	4.7432	5.7845	5.2450
DEM	2.9880	3.0435	3.0615	3.3350	3.2485
FRF	0.8862	0.8906	0.8873	0.9817	0.9532
SEK	0.6748	0.6546	0.6358	0.6945	0.7436
NLG	2.6624	2.7185	2.7337	2.9812	2.8928

International operations

METSÄ-SERLA'S PRODUCTION FACILITIES AND MARKETING NETWORK



Setting up a sales network covering all key markets was one of the biggest projects of 1996. A total of 17 new paper and board sales outlets were opened for Metsä-Serla Sales, the company's new sales organization. Metsä-Serla's products serving printing and packaging are now represented on over 50 markets, and the company has its own sales offices in 23 countries.

Market pulp is sold through the Botnia Pulps marketing organization. Metsä-Serla's sawn timber is marketed by Oy Metsä Timber Ltd, a member of the Metsäliitto Group.

Contact information is available from Metsä-Serla Oy, Marketing Communications, Revontulentie 8 C, 02100 ESPOO, Finland, tel. +358 9 468 4512.

PRODUCTION FACILITIES:

FINLAND: Jyväskylä, Järvenpää, Kaskinen, Kemi, Kyröskoski, Kirkiemi, Kuopio, Merikarvia, Mänttä, Nokia, Tampere, Tohmajärvi, Vihti, Äänekoski

SWEDEN: Mariestad, Pauliström, Kvillefors

DENMARK: Næstved, Randers, Vejle

RUSSIA: Kommunar

ESTONIA: Jõelähtme

GREAT BRITAIN: Belvedere (Kent)

THE NETHERLANDS: Winschoten

GERMANY: Albruck, Dachau, Plattling

GREECE: Korinth, Crete, Tesseloniki

SPAIN: Gran Canaria

SWITZERLAND: Biberist

Metsä-Serla and the environment



The Metsä-Serla Group introduced its own environmental policy and guidelines back in 1989. The revised principles were approved by the Operative Management Board in 1993. In these statements, Metsä-Serla has repeated its wish to lead the forest industry in environmental protection. In 1996, the company again published its own environmental report.

Proper management of environmental issues is vital to a company's success. Adverse environmental impacts can make products difficult to market or cause serious financial losses. Metsä-Serla's environmental principles have been developed and put into practice through, for example, environmental management systems. Such systems have been created or are nearing completion at most of Metsä-Serla's production plants.

Of the biggest environmental problems recognized in Europe, those which most concern Metsä-Serla are acidification and freshwater pollution. Significance is also attached to climate change caused by greenhouse gases, declining forest biodiversity, the formation of ozone due to nitrogen oxides and other gaseous emis-

sions, pollution of coastal waters by effluents, and the final siting of solid wastes.

THE FOREST

Finland's forest legislation was substantially revised in 1996. Biodiversity now ranks alongside issues such as forest management and economical utilization of forest resources.

Quality and environmental management systems for wood production and procurement are being established and prepared for certification. Information on the origins of wood raw material is now available thanks to sophisticated information systems. Metsäliitto has also stepped up its control of imported wood by centralizing its purchases and by opening up its own office in Estonia. Metsäliitto and Metsä-Serla are also actively involved in the development of forest certification systems.

In 1996, Metsä-Serla's Finnish mills used a total of 9.4 million m³ of wood, comprising 82 per cent roundwood with the rest mainly purchased sawmill chips and by-products from mechanical wood processing.

Almost two-thirds of all wood raw material was purchased from Metsäliitto Cooperative's members. Small quantities, comprising largely birch and aspen pulpwood for fine paper manufacture, were imported from the Baltic states and Russia.

REDUCING EMISSIONS

Emissions from Metsä-Serla's mills have been reduced systematically ever since the 1970s. The most significant emissions at present are nitrogen oxides (NO_x), which cause acidification, and the chemical oxygen demand (COD) of effluents, which reflects the concentration of slowly biodegradable organic matter.

Limits on flue gas emissions and the cost of reducing emissions are met by Metsä-Serla in the same way as in energy generation elsewhere. However, the high proportion of wood-based energy at Metsä-Serla's mills means that carbon dioxide emissions are less important.

Most of the investment in external effluent treatment at Metsä-Serla's mills was carried out between 1983 and 1996. In the future, internal process modifications and

Metsä-Serla and the environment



cutting water consumption will play an increasing role in reducing effluent loadings. Water consumption at the company's newest mills is 50-75 per cent below the industry's present average. Lower water consumption means smaller COD and other effluent loads.

ENERGY CONSUMPTION

As in the production of base materials in general, energy consumption in the paper industry is high compared with that in later stages of processing. Half of all energy used by Metsä-Serla is generated from renewable fuels, with fossil fuels accounting for only about a third and nuclear energy for about a seventh.

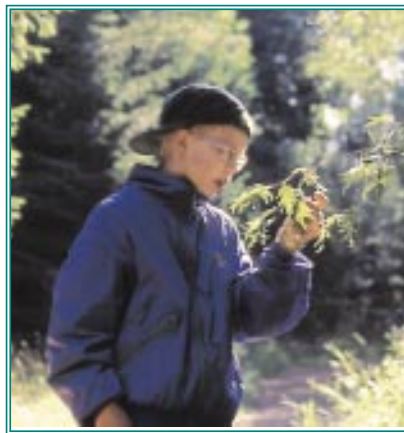
The environmental impact of energy consumption is being reduced in several ways from product planning and more efficient processes to the careful choice of fuels. Metsä-Serla will reduce the use of coal in its future energy production. More use will be made of natural gas, which will become Metsä-Serla's main source of fossil-based energy.



TRANSPORT

In the forest industry, the correct planning of logistics is of major significance, not just in serving customers and minimizing costs but also in reducing the environmental effects of transport. Metsä-Serla operates a system of centralized transport control, in which the aim is to find efficient, economical transport options in conjunction with companies offering different forms of transport. The environmental impact of transport can be reduced by careful choice of transport vehicles and routes and by arranging return transports.

Metsä-Serla is involved in developing a logistics information system designed to analyse alternative transport chains in terms of their environmental and other



implications. The system helps a company to take account of environmental impacts in its logistics operations, to analyse present forms of transport, and to explore alternative transport chains.

RECYCLING

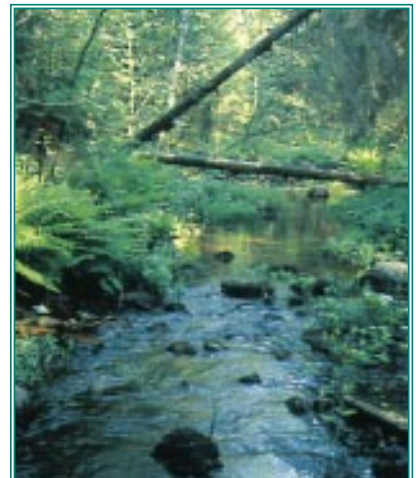
Recovered waste paper is an economical raw material for the production of many fibre-based products. In Western Europe, collection rates vary between 35 and 65 per cent. Rising collection rates in the 1980s swelled waste paper stocks, prompting fears of a decline in demand for primary wood fibre. However, the effect was to boost industrial consumption of waste paper. Today, collected waste paper is used efficiently, and it is unlikely that recycled fibre will replace primary wood fibre to any significant degree in the production of paper and board. Metsä-Serla currently uses some 200,000 tonnes of recovered waste paper per year.

The unit cost of the final siting of waste is expected to continue to rise over the next few years. Metsä-Serla is investigating ways to reduce waste volumes and step up the use of wastes in an attempt to prevent waste disposal costs from rising further.

In many sectors of industry, producers are taking greater responsibility for waste disposal. They are being required to plan and manufacture products which, when used and disposed of, cause minimum environmental damage. Studies by Metsä-Serla into the recyclability of its products have shown, among other things, that coated papers are easier to deink than uncoated papers. In Finland, Metsä-Serla is also helping to arrange the recovery of packaging materials in line with the EU's packaging directive.

MATERIALS MANAGEMENT

For a long time, recycling was seen as the only way to prevent material flows ending up as waste. In future, however, materials management will have to be improved at all stages of the production chain. Metsä-Serla has already developed several "lean-resource" products, in which the use of materials is minimized. The latest example is Galerie Fine, a fine paper designed to save natural resources and reduce the customer's costs. Galerie Fine offers all the most important characteristics required of a printing paper at 20 per cent lower grammage than competing fine papers.



Production capacity 1997

SITUATION AT 1.3.1997	CAPACITY 1000 T/A	MACHINES	MILL
Coated magazine paper	350	2	Kirkniemi Mill (Kirkniemi), Finland
	510	4	MD Papier GmbH (Plattling, Dachau)*, Germany
	230	3	Papierfabrik Albbbruck GmbH*, Germany
Coated fine paper	150	1	Äänekoski Art Paper Mill (Äänekoski), Finland
	350	1	Kirkniemi Mill (Kirkniemi), Finland
	270	2	Papierfabrik Biberist AG, Switzerland
Uncoated fine paper	190	1	Kangas Office Paper Mill (Jyväskylä), Finland
	60	1	Papierfabrik Biberist AG, Switzerland
Paper specialities	50	1	MD Papier GmbH / Dachau*, Germany
	70	1	Kangas Speciality Paper Mill (Jyväskylä), Finland
Packaging board and graphic board	200	3	Tako Board Mill (Tampere), Finland
	120	1	Kyro Board Mill (Kyröskoski), Finland
Wallpaper base board and graphic board	110	1	Äänekoski Board Mill (Äänekoski), Finland
	100	1	Kyro Board Mill (Kyröskoski), Finland
Cartons	15		Tako Carton Plant Ltd. (Tampere), Finland
Kraftliner	310	1	Oy Metsä-Botnia Ab (Kemi), Finland
Fluting (corrugated board)	240	1	Savon Sellu Oy (Kuopio), Finland
Corrugated board boxes	60		Neopac Oy, Finland
	70		Neopac A/S, Denmark
	30		OAO Komsomolets, Russia
Corrugated board boxes and paper sacks	70		Cartonpack S.A., Greece
Tissue	120	6	Metsä-Serla AB, Sweden
	90	3	Metsä-Serla Tissue Oy (Mänttä), Finland
High-density paper	20	2	Metsä-Serla Tissue Oy (Mänttä), Finland
Softwood and hardwood pulp	550		Oy Metsä-Botnia Ab (Kemi), Finland
	420		Oy Metsä-Botnia Ab (Kaskinen), Finland
	470		Metsä-Sellu Oy (Äänekoski), Finland
CTMP (fluff)	110		Lielhti CTMP Mill (Tampere), Finland
Sawn goods	460 000 m ³		Oy Botnia Wood Ab (Kaskinen, Kemi, Merikarvia), Finland

* Metsä-Serla's share of production capacity 50 %.

MINORITY SHAREHOLDINGS

Softwood and hardwood pulps	500	Metsä-Rauma Oy (interest 28 %), Finland
	320	Sunila Oy (interest 17 %), Finland
Coated magazine paper	160	Myllykoski Paper Oy (interest 35 %), Finland
Uncoated magazine paper	360	Myllykoski Paper Oy (interest 35 %), Finland

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Planning and layout:	Raili Halme Oy
Photographs:	Mikael Kaplar (personnel) Kauppamainos Bozell, Erkki Ruokonen (Board of Directors and Auditors) Archives of Metsä-Serla and customers (products, customers, and other photographs)
Printing house:	Martinpaino Oy, Helsinki
Paper:	Metsä-Serla Oy
Cover:	Largo 300 g/m ³ , Biberist, Switzerland
Pages:	Galerie Art Silk 150 g/m ³



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