



Paloheimo 1996

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Paloheimo in brief

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

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

The Paloheimo Group's operations are concentrated within four companies: Paloheimo Parquets Oy, Paloheimo Wood Oy, Lundia Oy and Fenestra Oy. The most important of the associated companies is the power distribution company Elnova, in which Paloheimo Oy has a fifty per cent holding.

The Paloheimo Group's turnover target for 1997 is FIM 820 million and its personnel will number about 1300 people. Exports and international operations accounted for about 50% of consolidated turnover. The estimated net sales of the associated companies in 1997 is a total of about FIM 610 million and they will employ some 220 people.

1996

Paloheimo Group

Turnover 478 FIM*

Parquets

Turnover 155 FIM

Paloheimo Wood

Turnover 208 FIM

Lundia Oy

Turnover 64 FIM

Fenestra Oy

Turnover 301 FIM

Elnova

Turnover 517 FIM

*) Consolidated turnover does not include Fenestra Oy, which was still an associated company in 1996

Paloheimo's structure

<p>H.G. Paloheimo Osakeyhtiö</p>	<p>Group Administration (In March 1997)</p> <p><i>Station restaurant</i></p> <p>Board of Directors Arvi Paloheimo, Chairman E.J. Kilpi Björn Mattsson Martti Paloheimo Olli Paloheimo Teppo Taberman Petri Yrjö-Koskinen</p> <p>Managing Director Eero Raitio</p> <p>Group Management Team Eero Raitio, Chairman Hans-Göran Jansson Pekka Niini Erkki Puheloinen Anneli Tuominen Vesa Vihavainen</p>			
<p>Paloheimo Oy</p>				
<p>Paloheimo Oy Subsidiaries</p>	<p><i>Paloheimo Parquets Oy</i> Hans-Göran Jansson</p> <p><i>Parqueterie Lemoine SA</i> France</p> <p><i>Paloheimo Iberica SA</i> Spain</p> <p><i>Paloheimo Deutschland GmbH</i> Germany</p>	<p><i>Paloheimo Wood Oy</i> Eero Raitio</p> <p><i>Paloheimo B.V.</i> The Netherlands</p> <p><i>Paloheimo SARL</i> France</p>	<p><i>Lundia Oy</i> Vesa Vihavainen</p>	<p><i>Fenestra Oy</i> Anneli Tuominen</p> <p><i>Sasmo Ab</i> Sweden</p> <p><i>AS Parmek</i> Estonia</p>
<p>Associated companies</p>	<p><i>Elnova Uudenmaan Energia Oy</i> Jarmo Kurikka</p> <p><i>Uudenmaan Sähköverkko Oy</i> Erkki Puheloinen</p>	<p><i>Verkonrakentaja Wire Oy</i> Reijo Virtanen</p>	<p><i>Riihimäen Kaukolämpö Oy</i> Reino O. Kokko</p>	<p><i>Etelä-Hämeen Kunnossapito Oy</i> Timo Kolmonen</p>

In 1996

After the difficult market situation in the first part of the year, the trend in Paloheimo's operating environment was largely positive. For some of the companies, however, adjusting to the abrupt business upswing was problematical. Paloheimo's corporate structure underwent a major overhaul.

The economies of most of the EU countries recovered from the cyclical dip of the previous autumn and winter. Capital expenditures and production began to notch up. Construction investments and building construction in particular did not begin to grow significantly until the latter half of the year. There were nevertheless big differences in

the demand for building products from country to country. In Germany, for example, which is by far Europe's largest market area for building products, new building declined by 6%, and renovations too were at nearly the previous year's level. In Finland building construction rose by more than 10%. The revival in business activity in the late spring brought to an end the deep recession in construction that has lasted throughout the 1990s.

Despite the favourable trend in the demand for building products in the latter months of the year, the profitability of the Finnish construction industry, including Paloheimo, remained weak. Prices rose more slowly than the growth in output, and adjusting to the faster-than-anticipated upswing led to problems. In addition, in Paloheimo's product areas there was still plenty of oversupply.

Paloheimo Wood succeeded in offsetting the weak demand in the first part of the year with increased and even record-level deliveries in the latter part of the year. The unit achieved the figure of 200,000 cubic metres of sawn timber and its profitability rose to nearly the level that had been projected. The Parquets unit too was able to increase its deliveries, though its profitability remained poor. In the difficult market situation in the first part of the year, production had to be cut back, and problems cropped up in bringing newly acquired equipment on stream. The third group company, Lundia Oy, performed well both in Finland and in the export market, and its positive earnings were in line with the target set.

The earnings trend of Fenestra Oy, which still operated as an associated company in 1996, was poorer than anticipated. The company's downsizing costs, coupled with the standstill in demand during the winter and the problems of coping with an abrupt upswing in business, kept the company's earnings in the red. The profitability of our largest associated company, the power distribution utility Elnova, nevertheless developed favourably. Its profits were better than forecast.

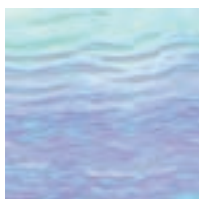
The consolidated result including associated companies was a loss and fell clearly short of our target.

Paloheimo's group structure was overhauled by making a number of changes reflecting our strategic policy lines. Our objective is to focus - either alone or with partners - on fields of business in which we see the potential to expand our operations and achieve an adequate share of the market.

The operations of Valotila Oy, which was established in 1988 and is specialized in glazed structures, were loss-making and its growth prospects were weak from our standpoint. We sold off the company in an MBO deal, after which it will continue its operations as two separate companies.

Since the value of real estate properties has remained depressed, there was no foreseeable payoff in developing Saastamoinen Oy, which operated as a real estate holding company. Paloheimo together with the other owners filed for placing the company in bankruptcy. This solution

improved our equity ratio substantially. At Sasmox Oy, which is partly owned by Paloheimo, balance sheet arrangements were carried out that improved the company's operating potential. Sasmox Oy has developed its export activities successfully.



At the beginning of 1997, Paloheimo Oy bought PMA-Yhtymä Oy's 50% holding in Fenestra Oy. Fenestra's integration as a full member of the Paloheimo Group is a matter of great significance. Fenestra supports and complements our other building product expertise. At the same time, it will increase our Group's turnover by more than 50%. We shall continue and further amplify the development programme that has been launched in order to improve Fenestra's competitive position.

At the very end of the year, we turned the Parquets and Paloheimo Wood units into independent companies in order to streamline our corporate structure and sharpen the management of our business functions. Paloheimo Parquets Oy assumed the responsibility for our entire parquets business and Paloheimo Wood Oy for our sawmill industry.

Over the past years we have carried out a wide-ranging structural change within the Paloheimo Group. Our Group's operations are now geared towards Paloheimo Oy's four subsidiaries, which are Paloheimo Parquets Oy, Paloheimo Wood Oy, Lundia Oy and Fenestra Oy as well as our half-owned company Elnova. This is the integrated structure which we set as our goal half a decade ago.

I believe that with this company structure Paloheimo has everything that it takes to achieve healthy growth and good performance. Especially now, when the economic fundamentals are favourable and our Group's equity ratio is over 40%.

The corporate structure we have implemented and the good economic environment do not of course guarantee our success. That must be accomplished by way of our operations and customers who are satisfied with our products. Only by understanding our customers' genuine needs and acting in accordance with them can we achieve success.

A correct understanding of the customer relationship has been our objective in forming the operational processes of all our units and in overhauling our entire management system. By continually developing the system, we strive to create improved capabilities to adjust to rapid changes in the market situation.



February 1997

Eero Raitio
Managing Director, Paloheimo Oy

Paloheimo Parquets Oy

Paloheimo Parquets Oy manufactures and markets board and solid parquets under the trademarks Lamella and Lemoine.

Sales and marketing of the products are handled by four regional sales teams that operate as the company's independent profit centres. The production units are the Lamella factory in Finland and the Lemoine factory in France.

Paloheimo Parquets Oy has subsidiaries in Germany, France and Spain. Paloheimo has manufactured prefabricated parquets since 1957. Parqueterie Lemoine, which started its operations in 1902, was merged with Paloheimo in 1989.

■ Sales of board parquets remained exceptionally small throughout Europe. Although sales grew decisively towards the end of the year, the profitability of the industry was weak in Finland.

Sales of board parquet in the first part of the year fell the most in Germany and in Austria. Germany is the most important single market area for Lamella board parquet. At the start of the second half of the year, Lamella's order book strengthened. The most positive sales trend was in France, Russia and especially in Finland, where Solart Oy, which is responsible for domestic sales, exceeded its sales target.

Lamella's deliveries for the whole year rose to 900,000 square metres, up 15% on the previous year. Despite the high production figures, the unit did not achieve its target for the year and posted a loss. Apart from the fall in the price level, the loss was also aggravated by extra costs connected with raw materials and the placing in use of newly purchased machinery and equipment.

Lemoine solid parquets had a more stable trend in sales volumes than did board parquets, but tough price competition in the main market area in Spain weakened the unit's profitability. The market share in France grew slightly. To improve its profitability, Lemoine cut back the production of its mosaic parquet flooring and concentrated on lam parquets.

Turnover, FIM million

155

Personnel, average

267

Closer to the customer

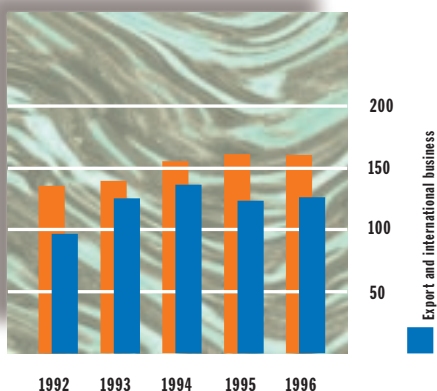
A thorough reorganization has been carried out at the Parquets unit by the start of 1997.

The entire parquets business was turned into an independent unit - Paloheimo Parquets Oy. The company's operations were divided into four regional sales teams and two production units. The objective of the realignment is to create an organization that is closer to the customer and reacts fast and in the right way.

The sales teams - Northern Europe, Central Europe, Southern Europe and Overseas - operate as autonomous profit centres. To improve the management of goods flows, logistics centres will be set up to serve the areas. The production units are the Lamella factory in Riihimäki, Finland, and the Lemoine factory in Darney, France.

A crucial factor for creating the new operational model has been the introduction of a new operations control system that makes possible real time data transfer between different company locations.

Trend in turnover FIM million





Paloheimo Wood Oy

Paloheimo Wood Oy is one of Finland's largest privately owned sawmill industry companies. The sawmill in Riihimäki has a capacity of 200,000 cubic metres of sawn and planed timber a year. The company has subsidiaries in France and the Netherlands. Paloheimo has been engaged in sawmill operations and the export of sawn timber since 1891.

Turnover, FIM million

208

Personnel, average

126

■ A positive turnaround occurred in the sawn timber market, though production in Europe still exceeded demand. Prices and delivery volumes headed upward. The average price of Finnish softwood sawn timber in the export market hit rock bottom in the spring 1996. The fall in prices came to a halt at the lowest level they have been throughout the 1990s. Average prices began to rise and the

trend gained momentum towards the end of the year. Delivery volumes rose significantly beginning in the early autumn, when customers' outside stocks had largely dwindled. Production overcapacity nevertheless kept the competitive situation tight, but the industry succeeded in opening up new markets outside Europe.

Paloheimo Wood fell short of its export delivery targets in the first part of the year. The volume sold in Finland was nearly at the planned level, but sales prices remained very weak. The Planing Mill suffered from both delivery and price problems: in the spring the average price was about 25% lower than a year earlier.

With the business upswing in the autumn, the unit made up for lost ground, and deliveries for the entire year reached the target level. Net sawn timber output rose to nearly 200,000 cubic metres, and deliveries totalled 202,000 cubic metres. Production grew by 7%. The amount of export deliveries, including planed timber, was 147,000 cubic metres. The unit's profitability developed favourably, though earnings were slightly in the red. Future profitability was increased by the good trend in capacity utilization.

From time to time there was uncertainty concerning the availability of roundwood for the unit, and this meant that production had to be limited somewhat. Spruce roundwood is delivered to the sawmill by UPM Kymmene's Forest Department.

Towards better customer service

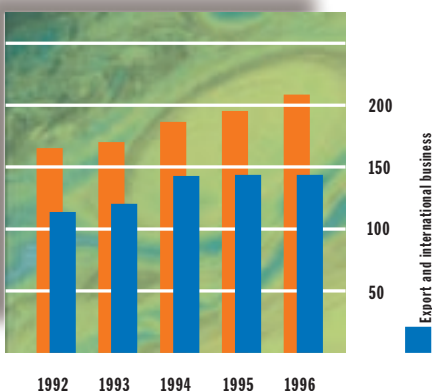
Paloheimo developed the service and competitive ability of its sawmill industry by carrying out a major reorganization. The sawmill industry was turned into an independent company, Paloheimo Wood Oy, and sales functions were set up along new lines. Timber sales are divided into three areas based on different types of sawn timber customers.

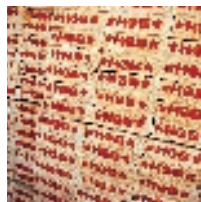
"We believe that through these arrangements we will be able to improve our customer service further. We are now in a better position to focus on the special needs of different customers and to act in accordance with them," says *Eero Raitio*, Paloheimo Oy's managing director, describing the objectives of the new arrangements.

The reorganization of sales is a continuation of the development and investment programme that has already been started at the sawmill. Production capacity has been increased and the cost-efficiency and quality of products have been improved. The sawmill has also made significant inputs towards developing its operations control system. This will greatly improve customer service.

Trend in turnover

FIM million





Lundia Oy

Lundia Oy's main product is the Lundia wooden shelving system. The company sells its products in Finland at its own and franchising stores as well as through its network of distributors. Export functions are divided between sales through distributors and deliveries in which Lundia acts as a supplier. The bulk of Lundia's wooden shelving is manufactured at the furnishing factory in Riihimäki. Paloheimo has manufactured Lundia furnishings since 1954. Paloheimo Oy's subsidiary Lundia Oy was established in 1992 to continue the operations of the Lundia companies.

Lundia Oy's products fared better than did Finnish products in the furniture sector on average. In Finland the growth in sales of furniture and furnishings was a scant couple of percentage points, which Lundia's growth exceeded by a clear margin. Total furniture exports fell by 9%, whereas Lundia's exports grew by 5%. The relatively biggest increase in sales of Lundia shelving systems in Finland was registered by distributors and franchising stores. They account for less than half of the aggregate sales of Lundia products. Slight growth in sales was also reported by the company's own stores and its sales

<i>Turnover, FIM million</i>	6 4
<i>Personnel, average</i>	1 1 4

to businesses. The company's turnover in Finland was FIM 43 million. Lundia had declining sales to its traditional export countries, Denmark and especially Germany. The company was able to offset this thanks to increased deliveries to Japan and the United States. The increase in sales to Japan was substantial. Lundia was also able to open up new markets. Thanks to sales that have grown in the manner planned, Lundia's profitability remained good and it posted a profit.

Amplifying and expanding services

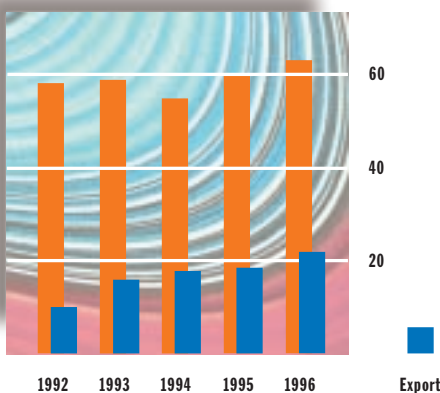
Lundia Oy's systematic work, particularly in view of expanding exports and the customer base, progressed well.

"In a number of market areas we have succeeded in forming well functioning and new customer relationships. Continuous product training is one area in which we can reinforce both new and old relationships, at home and in the export market," says Lundia Oy's managing director *Vesa Vihavainen*.

Lundia is seeking to expand its cooperation notably via the product development projects it has initiated. Its first public showing will come in the autumn 1997, when it rolls out a new collection of office furnishings.

Lundia's customer service will also be enhanced by the new EDP hardware and software it has purchased to improve its operations control.

Trend in turnover FIM million





Fenestra Oy

Fenestra Oy is amongst the leading suppliers of wood-aluminium and wooden windows in the Nordic countries. All its production functions in Finland are covered by the ISO 9001 quality system. Fenestra has two window factories in Finland and one in Estonia. The company also has a factory that makes solid glass in Finland. Fenestra's brands of window are Sasmo, Veto-stop and Parma as well as Fenestra in the export markets. In addition, it markets the Steni facade system in Finland and in the country's nearby areas. Fenestra Oy has two subsidiaries, Sasmo AB in Sweden and AS Parmek in Estonia. Its sales offices in Russia are located in Moscow and St. Petersburg. Paloheimo Oy and the A. Puolimatka Oy construction company (presently PMA-Yhtymä Oy) established Fenestra Oy in 1992 by transferring its window business to a new company that was owned on a fifty-fifty basis. At the beginning of 1997, Paloheimo Oy exercised its option to buy the remaining shares in the company. Since 1980, Paloheimo has been a manufacturer of windows, a tradition that goes to back to the early 1920s.

The profitability of the window industry that operates mainly in the domestic market remained weak, though new building grew by about 15% and renovations by some 10%. The industry's profitability was impaired primarily by the intense price competition that was due to overcapacity. The recession in construction that persisted in Finland so far throughout the 1990s bottomed out in the late spring 1996. Fenestra Oy was late in boosting its capacity to meet an abrupt rise in demand, and production efficiency suffered. The rise in production volumes in the latter part of the year to nearly the anticipated annual level did not bring a sufficient improvement in profitability because prices remained weak. The company posted a loss. The possibilities for making a profit were substantially weakened by the costs resulting from the company's own structural change. Fenestra's exports of windows generated good earnings, though the volumes fell markedly. The unstable situation in Russia delayed a number of projects. In Germany, the market situation was hampered so much by the slump in construction that Fenestra decided to wind up its business

<i>Turnover, FIM million</i>	301
<i>Personnel, average</i>	730

operations there. On the other hand, exports to Japan grew significantly. On a quantitative basis, the trend in the sale of Steni facades was according to plan, but earnings targets were not reached.

A more cost-effective Fenestra

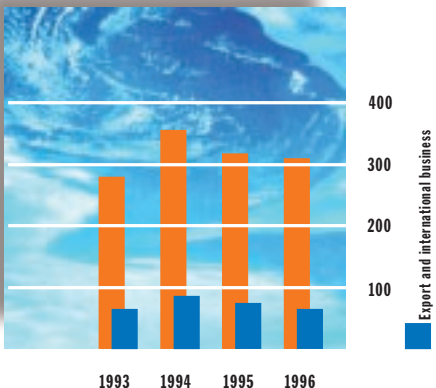
Fenestra continued to improve its cost-effectiveness. The company saw to completion the trimming down of its overcapacity, spelled out the division of labour between its factories, developed its own organization and brought out on the market products with improved competitiveness.

The company's window production in Finland is now concentrated within two factories instead of the previous four. Wood-aluminium windows are manufactured at the factories in Forssa and Kuopio. Wooden windows will be manufactured mainly at the AS Parmek factory in Estonia. Fenestra bought the remainder of Parmek's shares and at the same time it was decided to increase its capacity substantially.

In the company's product development, the accent was again on energy-conserving solutions for windows. A new window structure developed by the company enabled it to win the Renovation Window product development contest. The contest is of considerable economic significance. Fenestra also brought out on the market a new Sasmo Landscape wood-aluminium window that has been well received.

To improve its internal efficiency and customer service further, Fenestra launched the development of a process-based team organization.

Trend in turnover FIM million





Elnova comprises Uudenmaan Energia Oy and Uudenmaan Sähköverkko Oy with their subsidiaries. The companies came into being when Paloheimo Oy and Imatran Voima Oy (IVO) combined their power distribution functions in 1995. Paloheimo and IVO own the companies on a fifty-fifty basis. Uudenmaan Energia Oy is responsible for the sale of electricity and Uudenmaan Sähköverkko Oy for power transmission services. Elnova is one of Finland's five largest power utilities. Annual sales of electricity totalled some 1,500 GWh. The network company's distribution area extends to 27 municipalities. The largest of them are Hyvinkää, Karjaa, Lohja, Riihimäki and Vihti. Elnova has a total of about 104,000 private and corporate or institutional customers. Paloheimo has been in the power plant business since 1910.

■ Elnova's earnings trend in its first full year of operations was better than anticipated.

Sales of electricity and network services rose to the budgeted level of about FIM 500 million in spite of some customer defections. The prolonged cold winter increased the use of electricity. Elnova's profitability was good and its positive earnings came in over budget. The main factors responsible for the good earnings trend were successful electricity procurement and lower operating costs. Also, the low level of interest rates improved Elnova's earning power.

A forerunner in the new competitive environment

The new Electricity Market Act, which came into effect in 1995, has gradually deregulated the sale of electricity and

Turnover, FIM million

517

Personnel at the end of 1996

75

swept away the regional monopolies. The entire industry has gone through the strongest upheaval in its history. In the new competitive situation, Elnova has set out to be in the vanguard of developments.

"The process of adjusting to the new and continually changing operating environment is of course only in the initial stages. Elnova's objective is nevertheless very clear: further improvements in customer service, cost-effectiveness and price competitiveness," sums up managing director *Erkki Puheloinen*, who is responsible for Elnova's power transmission services.

"We have succeeded quite well in getting rid of overlapping functions. However, it takes a lot of time to integrate and realign three former power utility cultures that differ from each other."

Elnova streamlined its cost structure by moves such as reducing the number of its office locations. Before Elnova there were seven locations, which were operated by Paloheimo Power Plant, Lohjan Sähkö Oy power company and Vihdin Sähkö Oy power company. Now there are five locations, of which only the head office in Nummela near Vihti has remained much the way it was. In the other localities, customer service centres with a light organization have been set up in cooperation, among others, with the local telephone companies and the Post Office.

The trimming down of overlapping functions in all staff groups led to a reduction of about one third in the payroll.

In order to improve its internal efficiency, expertise and customer service, Elnova undertook to develop its operations on the basis of customer-oriented processes. This way of working differs dramatically from the traditional functional model used by the power utilities.



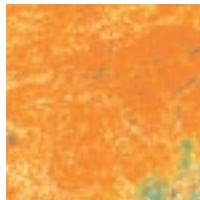
Verkonrakentaja Wire Oy

Turnover, FIM million _____

40

Personnel, average _____

101



■ Established in 1992, Verkonrakentaja Wire Oy is a company that is specialized in contracting for electricity and lighting grids. The operations of the company, which previously was mainly in charge of the network services of Paloheimo Power Plant, expanded decisively in February 1996. Wire Oy purchased the network construction and servicing functions of Elnova's subsidiaries Lohjan Verkko Oy and Vihdin Sähköverkko Oy. Elnova's official name is Uudenmaan Sähköverkko Oy. The arrangement nearly quadrupled the operations of Wire Oy and its number of personnel.

The combining of three organizations called for considerable reintegration of functions, which lead to a weakening of Wire Oy's profitability. The company's earnings were nevertheless slightly in the black. Wire's customers outside Elnova accounted for about 20% of the turnover. The company's operations are being developed towards process-driven teamwork, which closely supports Elnova's customer service.

Verkonrakentaja Wire Oy is owned by IVO Power Engineering Oy (50%), Paloheimo Oy (32%) and RTA-Yhtiöt (18%).

Riihimäen Kaukolämpö Oy

Turnover, FIM million _____

27

Personnel, average _____

2

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

Sales volumes of heat and natural gas increased owing to the cold and prolonged winter. Sales of heat were about 170 GWh, with natural gas totalling about 80 GWh. Agreement arrangements connected with gas procurement substantially increased the volumes of natural gas delivered. The cost-effectiveness of operations was good.

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

Etelä-Hämeen Kunnossapito Oy

Turnover, FIM million _____

20

Personnel, average _____

54

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

The company's sales and earnings grew nearly as planned. The good earnings trend was due not only to the increased volume but also to greater operational efficiency. Companies outside the Paloheimo Group accounted for about a third of the invoicing.

The ownership of Etelä-Hämeen Kunnossapito Oy was changed in accordance with the original shareholder agreement in such a way that IVO Tuotantopalvelut Oy's subsidiary IVO Service Teollisuus Oy increased its holding from 30% to 60%. Paloheimo Oy owns 40% of the shares.

Financial Statements 1996

The ownership structure of the Paloheimo Group changed in the summer 1995, when H. G. Paloheimo Osakeyhtiö redeemed for the company 1 155 shares owned by minority shareholders. As a consequence of the redemption, the then Kolsan Tiilitehdas Oy became the parent company of H. G. Paloheimo Osakeyhtiö. H. G. Paloheimo Osakeyhtiö was merged with its parent company Kolsan Tiilitehdas Oy on 31 December 1996. At the same time the name Kolsan Tiilitehdas Oy was changed to H. G. Paloheimo Osakeyhtiö.

During the year under review, a number of changes dictated by strategic policy lines were carried out, part of them being implemented after the close of the financial year. By way of a management buy-out the Group divested the Valotila business, which is specialized in glazed structures. Upon the expiry of the stabilization agreements concerning the Saastamoinen Oy Group, which was part of the Paloheimo Group in the previous financial year, the Annual General Meeting resolved to initiate bankruptcy proceedings against the company since no basis for continuing its operations was found. The bankruptcy increased the equity ratio of the Paloheimo Group by about 10% percentage points because its liabilities for the Saastamoinen Oy Group had been limited by the stabilization agreements and all the liabilities of Saastamoinen Oy had previously been written off in the consolidated financial statements. In January 1997 Paloheimo Oy purchased the remainder, or 50%, of Fenestra Oy's shares from PMA-Yhtymä Oy. Fenestra Oy thus became a wholly-owned subsidiary of Paloheimo Oy. In the consolidated financial statements as at 31 December 1996, the company has been treated as an associated company according to the holding at the time. On 1 January 1997 the Parquets and Paloheimo Wood businesses were corporatized into separate companies. The Parquets business will be continued by Paloheimo Parquets Oy (formerly Solart Oy) and the Paloheimo Wood business by Paloheimo Wood Oy (formerly Monninseudun Sähköverkko Oy). During its first year of operations, the Uudenmaan Energia Oy and Uudenmaan Sähköverkko Oy Group, i.e. the Elnova Group, invested in developing its operations, and its profitability and net profit were good. The consolidated financial statements have been prepared for H. G. Paloheimo Osakeyhtiö. The company is Paloheimo Oy's parent company.

The following companies are included in the consolidation:

COMPANY	FIELD OF BUSINESS
H. G. Paloheimo Osakeyhtiö	<i>Agriculture, restaurant operations and securities trading</i>
Paloheimo Oy	<i>Building products and mechanical forest industry</i>
Monninseudun Sähköverkko Oy	<i>Treasury operations</i>
Parqueterie Lemoine S.A.	<i>Parquet factory in France</i>
Paloheimo Iberica S.A.	<i>Parquet sales company in Spain</i>
Paloheimo Deutschland GmbH	<i>Parquet sales company in Germany</i>
Solart Oy	<i>Sales company for floor coverings in Finland</i>
Paloheimo B.V.	<i>Sawn timber sales company in the Netherlands</i>
Paloheimo SARL	<i>Sawn timber sales company in France</i>
Lundia Oy	<i>Lundia shelving systems</i>
Real-estate companies	
ASSOCIATED COMPANIES	
Fenestra Oy	<i>Windows</i>
Uudenmaan Energia Oy	<i>The sale of electricity</i>
Uudenmaan Sähköverkko Oy	<i>Electricity transmission</i>
Verkonrakentaja Wire Oy	<i>Network services</i>
Riihimäen Kaukolämpö Oy	<i>District heating utility</i>
Etelä-Hämeen Kunnossapito Oy	<i>Maintenance services</i>

Turnover, financial result and financing

The Group's turnover was FIM 477.5 million (FIM 673.4 million in 1995). Exports and international operations accounted for FIM 291.2 million, or 61%, of the consolidated turnover. The smaller turnover was largely due to the sale of the electricity businesses to Uudenmaan Energia Oy and Uudenmaan Sähköverkko Oy on 31 October 1995. These companies are included in the consolidated financial statements as associated companies.

Turnover by product group was as follows:

FIM million	1996	1995	CHANGE-%
Parquets and other floor coverings	155.0	164.6	- 5.8 %
Sawn and planed timber	208.0	188.7	+ 10.2 %
Electricity and heating	5.2	170.3	- 97.0 %
Lundia shelving systems	63.6	62.3	+ 2.1 %
Glazing structures	13.7	19.1	- 28.3 %
Other	32.0	68.4	- 53.2 %
Total	477.5	673.4	- 29.1 %

Operating profit before depreciation was FIM 17.7 million, compared with FIM 70.4 million a year earlier.

The operating profit before depreciation includes gains of FIM 6.8 million on the sale of fixed assets. Depreciation according to plan totalled FIM 19.9 million. Total depreciation according to the Business Taxation Act was booked in the amount of FIM 22.1 million. Capital expenditure on fixed assets amounted to FIM 11.8 million. Net financial income was FIM 0.3 million, whereas a year earlier financial expenses of FIM 24.6 million were booked. Of extraordinary income, which amounted to FIM 16.3 million, FIM 13.5 million came from gains on the sale of businesses and subsidiaries. Extraordinary expenses, which totalled FIM 9.0 million, mainly include write-downs on the guarantees and loan receivables of subsidiaries and associated companies. The Group's operational result calculated with depreciation according to plan but net of exceptional items, appropriations and taxes was a loss of FIM 16.1 million (a loss of FIM 12 million in the previous year). The remaining goodwill of FIM 6.5 million was written off in its entirety. This figure includes FIM 5.7 million of depreciation in excess of the previous plan booked for Parqueterie Lemoine S.A. and Lundia Oy's subsidiaries Kiinteistö Oy Matintuomio and Tammelan Teollisuustalo. The Group's accounting result for the financial year showed a profit of FIM 3.9 million. Taxes paid for the financial year were FIM 4.6 million. Interest-bearing loans totalled FIM 212.5 million at the end of the year (FIM 407.2 million in the previous year). About FIM 135 million of the reduction in the amount of loans represents the share of the interest-bearing liabilities of the Saastamoinen Group. Liquid assets diminished by about FIM 60.5 million. The Group's equity ratio rose to 54% (in the previous year, net of the Saastamoinen Group, it was 48%).

The Group employed 655 people on average (841 people in 1995). Salaries and wages paid to the personnel amounted to FIM 76.9 million, of which salaries and emoluments paid to the managing directors and members of the boards of directors totalled FIM 5.1 million.

Consolidated Income Statement

01.01.1996 – 31.12.1996

01.01.1995 – 31.12.1995

<i>TURNOVER</i>	477 542 102	673 380 994
Product inventories, increase (+) or decrease (-)	- 10 338 717	4 523 498
Production for own use (+)	443 781	907 691
Other income from operations	14 543 759	7 420 620
Expenses:		
Materials, supplies and goods:		
Purchases during the financial year	252 796 826	364 818 042
Increase (-) or decrease (+) in inventories	7 824 915	- 4 575 503
External services	9 293 116	11 742 673
Personnel expenses	114 996 343	156 813 502
Rents	4 013 543	6 198 985
Other expenses	<u>75 613 681</u>	<u>80 864 825</u>
Total expenses	464 538 424	615 862 525
<i>OPERATING PROFIT BEFORE DEPRECIATION</i>	<u>17 652 501</u>	<u>70 370 278</u>
Depreciation on fixed assets and other long-term expenditure	19 942 595	88 497 088
Amortization of goodwill	6 472 770	4 794 607
<i>OPERATING LOSS</i>	<u>- 8 762 864</u>	<u>- 22 921 418</u>
Financial income and expenses		
Dividend income	131 419	125 165
Interest income on long-term investments	13 528 600	8 210 889
Interest income on short-term investments	1 939 412	2 636 512
Other financial income	2 218 536	819 141
Exchange rate differences (+/-)	2 989 955	813 903
Share of the results of associated companies	12 925 979	- 22 584 849
Interest expenses	- 14 761 847	- 34 306 090
Other financial expenses	- 3 453 688	- 2 879 645
Write-offs on investments	0	- 2 227 597
Financial income and expenses, total	15 518 366	- 49 392 571
<i>PROFIT BEFORE EXTRAORDINARY ITEMS, APPROPRIATIONS AND TAXES</i>	<u>6 755 502</u>	<u>- 72 313 989</u>
Extraordinary income and expenses:		
Extraordinary income	16 296 128	320 917 078
Extraordinary expenses	<u>- 9 014 012</u>	<u>- 31 137 726</u>
Extraordinary income and expenses, total	7 282 116	289 779 352
<i>PROFIT BEFORE APPROPRIATIONS AND TAXES</i>	<u>14 037 618</u>	<u>217 465 363</u>
Difference between booked depreciation and depreciation according to plan, increase (-) or decrease (+)	- 2 154 429	- 55 843 796
Voluntary reserves, increase (-) or decrease (+)	- 277 886	8 394 440
Direct taxes:		
For the financial year	- 4 573 026	- 22 470 186
For previous years	<u>- 2 633 184</u>	<u>- 107 792</u>
<i>NET PROFIT BEFORE MINORITY INTEREST</i>	<u>4 399 093</u>	<u>147 438 030</u>
Minority interests in net profit (loss)	479 103	13 926 723
<i>CONSOLIDATED NET PROFIT FOR THE YEAR</i>	<u>3 919 990</u>	<u>133 511 307</u>

Consolidated Balance Sheet

31.12.1995

	<i>Assets</i>
<i>FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS</i>	
<hr/>	
Intangible assets	
Intangible rights	109 795
Goodwill	6 564 297
Other long-term expenditure	<u>3 167 413</u>
	9 841 506
Tangible assets	
Land and water areas	98 759 688
Buildings and constructions	163 961 649
Machinery and equipment	104 008 458
Other tangible assets	<u>8 210 585</u>
	374 940 380
Fixed asset securities and other long-term investments	
Shares and holdings	24 728 688
Loan receivables and other investments	<u>35 872 996</u>
	60 601 684
 <i>VALUATION ITEMS</i>	 1 109 145
<i>INVENTORIES AND FINANCIAL ASSETS</i>	
<hr/>	
Inventories	100 829 861
Receivables	126 788 891
Financial asset securities	152 081 540
Cash in hand and at banks	<u>77 136 023</u>
	903 329 029
	 <i>Liabilities and Shareholders' Equity</i>
<hr/>	
<i>SHAREHOLDERS' EQUITY</i>	
Restricted equity	
Share capital	3 500 000
Building fund	356 638
Reserve fund	7 782 043
Revaluation fund	<u>61 058 899</u>
	72 697 580
Non-restricted equity	
Retained earnings	23 288 252
Net profit for the year	<u>133 511 306</u>
	156 799 558
 <i>MINORITY INTEREST</i>	 5 121 074
<i>UNTAXED RESERVES</i>	
<hr/>	
Accumulated difference between booked depreciation and depreciation according to plan	92 322 230
Voluntary reserves	11 632 014
Obligatory reserves	269 200
 <i>BORROWED CAPITAL</i>	
<hr/>	
Membership and connection fees	2 879 630
Long-term	319 485 754
Short-term	<u>242 121 989</u>
	903 329 029

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