



ANNUAL REPORT

1997



ENSO GROUP

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ORDINARY MEETING OF SHAREHOLDERS

Enso Oyj's Ordinary Meeting of Shareholders will be held on Thursday, 26 March 1998 beginning at 3.00 pm Finnish time at Marina Congress Center, address: Katajanokanlaituri 6, Helsinki, Finland.

Shareholders wishing to attend the meeting must inform the company's Head Office, address: Kanavaranta 1, Helsinki, Finland, of their intention to do so not later than 4.30 pm Finnish time on 23 March 1998. Notifications may also be sent in writing to Enso Oyj, Legal Department, P.O.B. 309, FIN-00101 Helsinki, Finland, or by phoning +358 2046 21210, 2046 21224 or 2046 21245 before the deadline given above.

Shareholders wishing to attend the meeting must be registered as shareholders in the list of Enso Oyj shareholders kept by Finnish Central Securities Depository Ltd on or before 20 March 1998. Shareholders whose shares have not yet been transferred to the book entry system also have the right to attend the meeting provided they were registered in the company's share register before 30 September 1993 or in Veitsiluoto Oy's share register before 1 May 1996. At the meeting, such shareholders must present their share certificates or furnish other proof that their shares have not been transferred to a book entry account.

PAYMENT OF DIVIDEND

The Board of Directors proposes to the Ordinary Meeting of Shareholders that a dividend of FIM 2.20 per share be paid for the financial period ended 31 December 1997. If the proposal is approved, dividend will be paid on 7 April 1998 to shareholders entered in the share register at the record date of 31 March 1998. Shareholders who have not transferred their shares to a book entry account will receive their dividend when their shares have been transferred.

FINANCIAL PUBLICATIONS

24 February	Financial Report for 1997
19 March	Annual Report for 1997
20 May	Interim Review for January–March 1998
13 August	Interim Review for January–June 1998
11 November ..	Interim Review for January–September 1998

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

PUBLICATIONS AND FURTHER INFORMATION

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

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

CHANGE OF ADDRESS

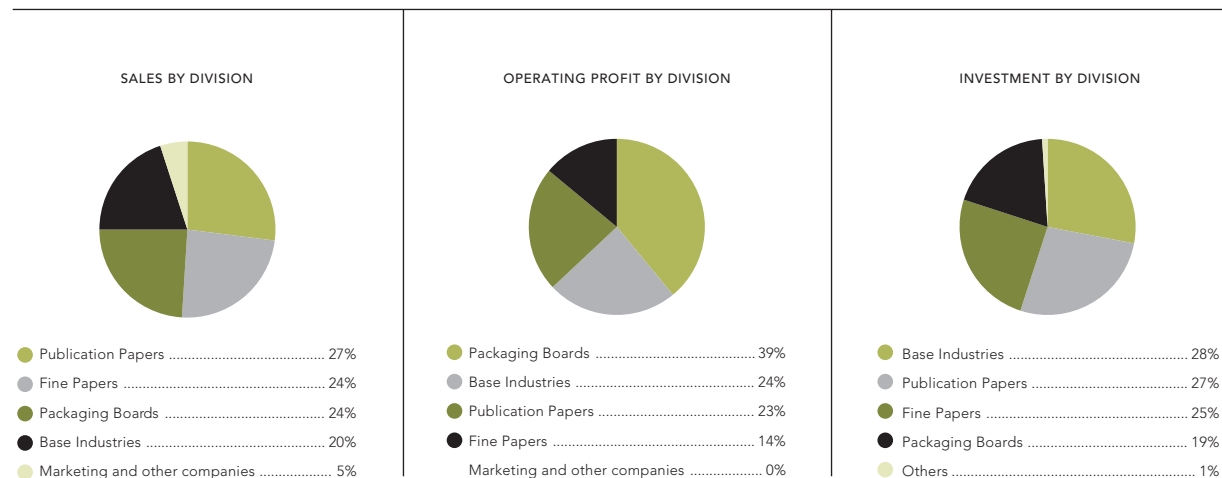
Shareholders should notify the book entry register keeping their book entry account of any change of address or share ownership.

THE YEAR IN BRIEF

		1997	1996 ¹⁾	1995 ¹⁾	ECU MILL. 1997
Sales	FIM mill.	29 264	25 660	28 026	4 886
Change on previous year	%	14	-8.4	17.9	14
Exports and overseas operations	%	85.4	83.2	83.3	85.4
Operating profit	FIM mill.	3 102	2 706	4 933	518
% of sales	%	10.6	10.5	17.6	10.6
Profit after financial items	FIM mill.	2 288	1 665	3 523	382
% of sales	%	7.8	6.5	12.6	7.8
Return on investment (ROI)	%	9.3	8.2	14.8	9.3
Return on equity (ROE)	%	10.9	8.9	24.3	10.9
Interest-bearing net liabilities	FIM mill.	17 600	17 363	17 664	2 939
Equity ratio	%	44.2	42.1	39.3	44.2
Gearing ratio	%	95.6	106.1	115.1	95.6
Earnings per share	FIM	5.87	4.50	10.52	0.98
Dividend per share	FIM	2.20	1.80	2.02	0.37
Equity per share	FIM	57.46	52.20	48.95	9.59
Market capitalization	FIM mill.	13 163	11 492	7 029 ²⁾	2 208
Investment	FIM mill.	4 187	2 962	2 070	699
Average number of employees		19 870	19 094	19 298	19 870

¹⁾ Pro forma information

²⁾ Enso-Gutzeit Oy



- The market was satisfactory.
- Volumes increased, but prices were almost unchanged.
- The financial result improved.
- The Finnish State's voting rights in Enso fell to 46.8%.
- Foreign ownership increased from 15.3% to 22.1%.

- Economic difficulties in Asia weakened demand there late in the year.
- Acquisition of a controlling interest in the newsprint and SC paper manufacturer E. Holtzmann & Cie. AG supports Enso's strategy of growth and international expansion.
- Oulu's new fine paper machine (PM 7) was completed at FIM 200 million below the original budget.

Enso's first production plant was opened at Kotka in 1872. The company's shares were first listed on the Helsinki Exchanges in 1916. The present company, Enso Oyj, was formed through the merger of Enso-Gutzeit Oy and Veitsiluoto Oy on 1 May 1996.

- *Main products: papers and boards for graphic communications and packaging, as well as processed wood products*
- *Goals: to become one of the world's three biggest suppliers of these paper and board grades*
- *Strategy: stronger balance sheet, growth, international expansion*

Over the past ten years, Enso has trebled its sales and increased its paper and board production capacity from 1.7 million t/a to 6.7 million t/a. The most recent important change in the Group's composition came in April 1997 with the purchase of a controlling interest in the German publication papers manufacturer E. Holtzmann & Cie. AG. The annual synergy benefits from specialization of production, marketing, R&D, logistics, and raw material and energy supplies afforded by the merger between Enso-Gutzeit Oy and Veitsiluoto Oy have already been achieved. Those from the acquisition of Holtzmann are also starting to be realized. Enso's strategy is to seek further growth through international expansion of production and by playing its part in the restructuring currently going on in the European forest industry. Enso has a total of around 20 000 employees.

DIVISIONS

Enso conducts its business operations through four divisions: Base Industries, Packaging Boards, Fine Papers and Publication Papers.

The Base Industries division is responsible for resources. It comprises wood procurement, pulp, sawmilling and energy.

Wood procurement: Enso's production is based on the processing of wood raw material. The Group's Finnish

mills use mainly primary fibre. Enso owns roughly 600 000 hectares of forest. About 80% of the total quantity of wood processed by Enso comes from Finnish sources.

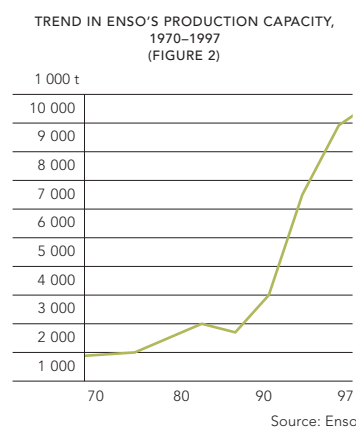
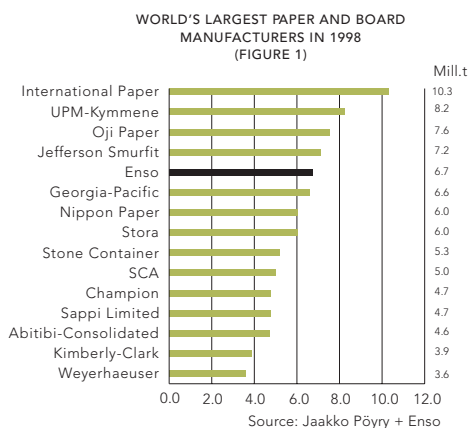
Chemical pulp: Enso produces all the chemical pulp it needs. Pulp capacity is about 2.6 million t/a, of which about 500 000 t/a is sold on the market.

Sawmilling: Sawmilling is handled by the subsidiary Enso Timber Oy Ltd. In Finland, sawn timber is sold through Puumerkki Oy. Enso Timber's nine sawmills produce some 2.0 million m³/a of whitewood and redwood. The main markets are Finland, the EU and Japan. The brand names Enso, Aunus, Fennia and HC are well known on the market.

Energy: In 1997, about 95% of the electrical power needed by Enso's Finnish mills was obtained from Enso's own power plants or through shares in power companies. The foreign subsidiaries are almost self-sufficient in energy. Enso's energy procurement capacity in 1997 totalled 1 670 MW. Fuel procurement was 28.7 TWh, with biofuels accounting for about 73%. It is part of Enso's strategy to further raise the level of energy self-sufficiency.

Enso's Packaging Boards comprise consumer packaging boards, corrugated board and the raw materials for its production, paperboard tubes and coreboards. Enso is one of the world's largest manufacturers of consumer packaging boards. The company has been producing liquid packaging boards for 40 years. The main market for Enso's packaging boards is the EU.

The Fine Papers division's products are graphic papers, office papers and speciality and digital printing papers.



The main markets for these are Europe, the United States and Asia. The new fine paper production line started up in Oulu has raised capacity for graphic papers by 360 000 t/a. Lumi, Berga, Terreus and 4CC are well-known brand names.

The Publication Papers division manufactures newsprint, magazine papers and specialities. The most important markets are Finland and mainland Europe. The acquisition of Holtzmann has added uncoated (SC) magazine papers to the Enso range. Enso brand names well known among buyers include LumiNova, Solaris, Maxa MF, EnsoClassic, EnsoGold, EnsoSuper, EnsoNews and Saxes.

WORLDWIDE MARKETING

Enso's own global marketing network has been in place since the 1950s. The key features of marketing are customer focus, flexibility and professional expertise. The network currently covers 35 countries, and Enso has long-term agency agreements in 30 countries.

ENVIRONMENTAL POLICY

The main points of the environmental policy statement approved by Enso's Board of Directors early in 1997 are sparing use of natural resources, continuous improvement, and joint responsibility, according to which all Enso employees carry their own share of responsibility for reducing environmental impacts. Openness and cooperation with interest groups are important features of Enso's environmental policy.

FIBRE STRATEGY

Enso's fibre strategy is to base its domestic production mainly on primary fibre and to utilize recycled fibre on

the main markets. Fibre utilization is optimized by taking into account availability, quality and price so that the end product meets the customers' expectations as well as the environmental requirements placed on high-quality products. Recycled fibre makes up about 18% of the total fibre processed by the group's paper mills.

DIVIDEND POLICY

The aim of Enso's dividend policy is to provide shareholders with a satisfactory dividend at all stages of the business cycle. The aim is to pay shareholders 30–50% of earnings per share. The size of the dividend paid will depend on the financial result, the business climate, the targets set for strengthening the balance sheet, and the company's need for development.

FINANCIAL TARGETS

One cornerstone of Enso's strategy is to achieve a stronger balance sheet by increasing the equity ratio and reducing the gearing ratio. The target set for ROI is 12%. The targets set for the group's key indices, and how they relate to the present situation, are shown in Table 2.

SHARES

Enso's shares are quoted on the Helsinki Exchanges. At the end of 1997, the company had 16 545 shareholders, the biggest being the Finnish State. Permission to convert Series A shares into Series R shares was given by an extraordinary meeting of shareholders on 13 November 1997. Following the share conversion, the Finnish State now has 46.8% of the voting rights. Enso's biggest shareholders are shown on page 12.

TABLE 1

<i>Sales by country, FIM million</i>	1997	1996
Finland	4 271	4 301
Germany	3 911	2 976
Great Britain	4 136	3 757
France	2 290	2 075
The Netherlands	1 749	1 397
Spain	1 535	1 365
Other European countries	5 774	5 068
Europe, total	23 665	20 939
Southeast Asia	2 626	2 368
Rest of world	2 973	2 353
Total	29 264	25 660

TABLE 2

<i>Financial targets</i>	Target	1997	Average 1992–1996
ROI, %	12.0	9.3	9.7
ROE, %	15.0	10.9	7.9
Equity ratio, %	45.0	44.2	31.6
Gearing ratio, %	80.0	95.6	169.7



Enso has defined its goals as profitable growth and international expansion. Accordingly, business operations are being directed at those areas offering good prospects for growth.

The Group's key products are papers and boards for graphic communications and the packaging industry, as well as processed wood products. In its paper and board segments, Enso's aim is to establish itself as one of the world's three biggest suppliers. Operations and production are being strengthened through company acquisitions, alliances and investments, and by strengthening the balance sheet.

We shall achieve this aim by employing the most advanced technology, by investing in our employees' skills, by observing the principles of sustainable development in all we do, and by relying firmly on the knowhow we have acquired through experience.

GROWTH AND INTERNATIONAL EXPANSION

An important step towards growth and international expansion was taken with the purchase of a majority interest in the German company Holtzmann in spring 1997. The acquisition raised our publication papers capacity by a third and added important SC papers to our product portfolio. At the same time we have significantly improved the service to our media customers, who are both diversifying and consolidating.

News of the acquisition was also well received on the

stock market. Holtzmann is a healthy company and almost debt-free. The acquisition will have a positive impact on the Group's financial results and share-related indices.

Paper machine no. 7 was started up at Oulu in the spring. With its two high-speed fine paper machines, the Oulu unit is one of the most efficient in the whole world. The machine's start-up was a success and the marketing of its products has gone extremely well. The new machine also means greater integration of production. The chemical pulp that used to be sold is now processed into high-quality art printing paper.

MORE VALUE THROUGH GREATER EFFICIENCY

Generating additional value for shareholders and customers is central to Enso's business philosophy. The key objectives, alongside improving the equity ratio, are to maintain a return on investment of over 12 per cent throughout the business cycle and to reduce the gearing ratio to 80 per cent.

The rate of investment will be kept at an average of 10 per cent of annual sales. At present, no decisions have been made relating to major projects to raise production capacity. Before such decisions are taken, painstaking calculations are made to ensure that they will bring the company additional value.

Programmes are being continued to improve the effi-

ciency of production other than through investment. These programmes are supported in all respects by the ENSO STAR total quality improvement model.

By speeding up the turnover of operating capital and freeing funds tied up in stocks, we aim to release capital of almost FIM 1 billion by the year 2000.

The Group's production structure has developed and grown as a result of mergers, and provides an excellent basis for further improvements in efficiency.

The synergy benefits derived from the merger of Enso and Veitsiluoto – roughly FIM 500 million annually – have been greater than expected. We are confident that the FIM 170 million annual synergy benefits we expect from the purchase of Holtzmann will also be realized.

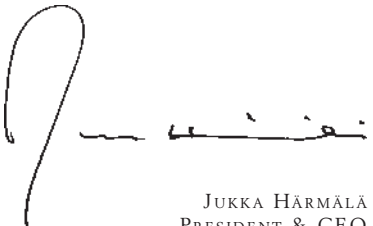
STATE RELINQUISHES CONTROLLING INTEREST

The fact that the Finnish State relinquished its controlling interest in Enso towards the end of the year was of major significance to shareholders. Enso can now compete on the same footing as other forest industry companies as a possible investment.

It is Enso's policy to try to distribute 30–50 per cent of earnings per share to shareholders as annual dividend. The dividend of FIM 2.20 proposed by the Board of Directors exceeds last year's dividend and reflects the directors' optimism regarding the future of the forest industry.

Enso produced a satisfactory financial result in its 125th year of operations. This was due to strong demand for products, the favourable trend in exchange rates, synergy benefits from mergers and the fact that many units set new production records. The theme for the 125th anniversary year – pride in professional skill, respect for tradition – was admirably translated into practice by Enso's employees.

In recent months the prospects for the forest industry have been clouded by the economic problems in Southeast Asia. However, any impact these problems may have will be offset by strong economic growth and demand in the main markets for forest products. Provided the trend in costs in Finland remains moderate, Enso has the basis for a better financial result in 1998.



JUKKA HÄRMÄLÄ
PRESIDENT & CEO

SHARE CAPITAL

Under Enso's Articles of Association, the company's issued share capital may be not less than FIM 2 500 000 000 and not more than FIM 10 000 000 000. The share capital may be increased or reduced between these limits without amendment to the Articles of Association. The company's fully paid-in share capital at 31 December 1997, as entered in the Trade Register, was FIM 3 110 908 300. The formation of Enso's share capital is shown in the Table "Increases in share capital" on page 13.

SHARES

Enso's shares are divided between Series A and Series R shares. All shares have a nominal value of FIM 10, and all carry equal rights to receive dividend. However, at shareholders' meetings, Series A shares carry one vote per share and Series R shares one vote per ten shares. However, every shareholder has at least one vote.

At an extraordinary meeting of shareholders held on 13 November 1997, it was decided that Series A shares may be converted into Series R shares annually at a shareholder's request on dates to be decided by the Board of Directors. The Board of Directors may also decide that all Series A shares will be converted into Series R shares in the event that, as a result of conversions, the number of Series A shares falls below 15% of the total number of shares. The first period for conversion was 17–21 November 1997, during which time 63 040 305 Series A shares were converted into Series R shares. The new numbers of shares of the two series were entered in the Trade Register on 1 December 1997 as follows:

Series A	116 729 125
Series R	194 361 705
Total	311 090 830

Following the first conversion period, the number of Series A shares represents 37.5% of the total number of shares.

The extraordinary meeting of shareholders of 13 November 1997 also decided to remove the subscription rights attached to shares of both series, to change the maximum number of shares and to delete stipulations regarding the minimum number of shares.

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

SHARE LISTINGS

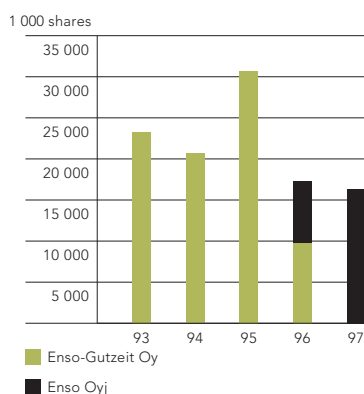
Enso-Gutzeit Oy's shares were listed on the Helsinki Exchanges from 1916 up to 30 April 1996. Enso Oyj's Series A and R shares have been listed since 2 May 1996. Series R shares are traded on SEAQ International in conjunction with the London Stock Exchange. In 1997, listings were obtained for Series R shares on the brokers' lists (Freiverkehr) of the Frankfurt and Munich stock exchanges.

BOARD'S AUTHORITY TO RAISE

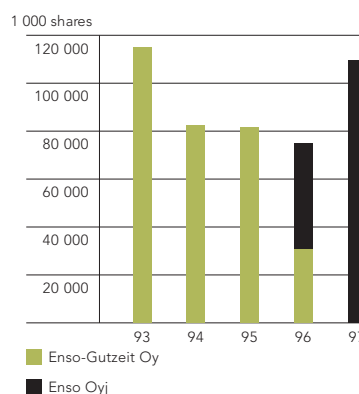
THE SHARE CAPITAL

The Ordinary Meeting of Shareholders held on 7 April 1997 decided to offer bonds with equity warrants up to a maximum value of FIM 1 000 000 for subscription by the company's management. The bonds mature in five years and carry interest at 4%. Each FIM 1 000 bond carries one warrant entitling the holder to subscribe 3 000 of Enso's Series R shares at a subscription price of FIM 45.57. If fully subscribed, the issue will permit the share capital to be increased by a maximum of FIM 30 million. Shares may be subscribed during the period 1 December 1998 to 31 March 2004. The shares represent a maximum of 0.2% of the

SHARE TRADING, SERIES A
(FIGURE 3)



SHARE TRADING, SERIES R
(FIGURE 4)



voting rights generated by the share capital after the exercise of warrants and about 1% of the share capital.

The extraordinary meeting of shareholders of 13 November 1997 decided to authorize the Board of Directors to increase the company's share capital by a maximum of FIM 10 000 000 by offering for subscription 1 000 000 new Series R shares, nominal value FIM 10 each. The authorization is valid until the company's next meeting of shareholders, or by 31 March 1998. The right to subscribe the shares rests primarily with the company's employees and secondarily with Enso's pension foundation. The subscription price will be the average trade-weighted quotation on the Helsinki Exchanges during the calendar month preceding the decision to issue the shares, less 10%. Shares subscribed by the pension fund will not qualify for the 10% reduction. The authorization has not been used.

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

STATE OWNERSHIP

The Finnish State owns 44.1% of the company's shares and 46.8% of the voting rights generated by the shares. On 1 December 1997, the State's voting rights fell below 50% after the State had converted 60 million Series A shares into Series R shares during the first conversion period. The State has also indicated its intention to keep its share of the voting rights below 50% by converting the necessary numbers of Series A shares during future conversion periods.

In June 1995, the Finnish Parliament authorized the Council of State to reduce the State's interest in Enso. However, the State must be in possession of more than one-third of all the company's shares and the voting rights

generated by the shares. Reducing the State's interest below one-third requires a decision by Parliament.

SHAREHOLDERS

At the end of 1997, the company had 16 545 registered shareholders. The proportion of shares held by non-Finnish nationals increased during the year from 15.3% to 22.1%.

At the end of 1997, the members of the Supervisory Board, the members and deputy members of the Board of Directors, and the President and Senior Executive Vice President owned altogether 11 224 company shares, 7 205 of which were Series A shares. These shares carry 0.0% of the total voting rights.

The members of the Board of Directors have subscribed the bonds with equity warrants offered to the company's management to a total of FIM 800 000.

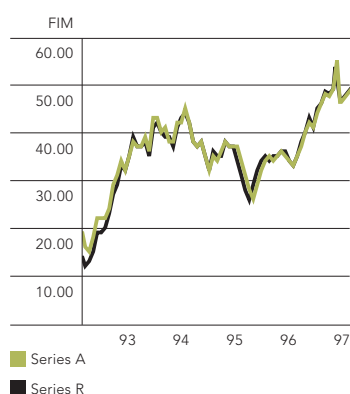
Enso's pension foundation and pension fund owned no Enso Series A or R shares at the end of the year. Enso's profit-sharing scheme owned 315 140 Series A shares and 114 000 Series R shares.

TRADING IN COMPANY SHARES

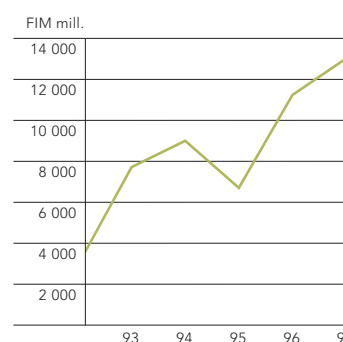
Quotations for Enso's shares rose during 1997 by 13.6% for Series A shares and by 13.1% for Series R shares. These compare with a rise in the Helsinki Exchanges HEX index of 32.3% and in the HEX forest index of 14.4% during the same period.

A total of 16 321 006 Series A shares and 109 698 192 Series R shares were traded during the year. The market capitalization at the end of the year was FIM 13 163 million.

TREND IN SHARE PRICES, SERIES A AND R
(FIGURE 5)



MARKET CAPITALIZATION
(FIGURE 6)



MAIN SHAREHOLDERS

<i>Share register at 31 Dec. 1997</i>	Series A 1 000	Series R 1 000	% of shares	% of votes
Finnish State	55 596	81 484	44.1	46.8
Social Insurance Institution	23 825	3 739	8.9	17.8
Solidium Oy		6 204	2.0	0.5
Pension-Varma Mutual Insurance Company	5 759	391	2.0	4.3
Unicarta Oy	2 661	3 277	1.9	2.2
Industrial Insurance Company Ltd	3 764		1.2	2.8
Local Government Pensions Institution	2 087	1 090	1.0	1.6
Insurance Company Sampo Pensions Ltd	2 345		0.8	1.7
Sampo Insurance Company Ltd	1 417	418	0.6	1.1
Nova Life Insurance Company Ltd	1 124	354	0.5	0.9
Yritys-Sampo Insurance Company	300	1 000	0.4	0.3
Mutual Insurance Company Kaleva	1 239		0.4	0.9
Sampo Life Insurance Company Ltd	1 191		0.4	0.9
Sanoma Finance AG		1 175	0.4	0.1
Pohjola Life Assurance Company Ltd	375	785	0.4	0.3
Sitra National Fund for Research and Development	775	200	0.3	0.6
Otso Loss of Profits Insurance Company Ltd	838		0.3	0.6
Employment Pension Fund		704	0.2	0.1
Shares held in nominees' names (total)	3 060	65 537	22.1	7.1
Other (16 527 shareholders)	10 373	28 004	12.1	9.4
Total	116 729	194 362	100.0	100.0

<i>Breakdown of share ownership at 31 Dec. 1997 Enso A</i>	no. of shareholders	% of shareholders	no. of shares	% of shares
1 – 100 ¹⁾	2 093	29.2	124 175	0.1
101 – 1 000	3 860	53.9	1 616 066	1.4
1 001 – 10 000	1 077	15.1	2 943 720	2.5
10 001 – 100 000	99	1.4	2 826 947	2.4
100 001 – 1 000 000	16	0.2	5 292 349	4.5
1 000 001 – 10 000 000	12	0.2	103 925 868	89.1
Total	7 157	100.0	116 729 125	100.0

¹⁾ Includes 24 460 shares not yet converted into book entry units and 1 020 shares currently on waiting list.

<i>Breakdown of share ownership at 31 Dec. 1997 Enso R</i>	no. of shareholders	% of shareholders	no. of shares	% of shares
1 – 100 ¹⁾	2 641	23.5	185 166	0.1
101 – 1 000	5 961	53.1	2 779 985	1.4
1 001 – 10 000	2 284	20.3	6 844 977	3.5
10 001 – 100 000	280	2.5	8 216 620	4.2
100 001 – 1 000 000	57	0.5	14 979 295	7.7
1 000 001 – 10 000 000	7	0.1	161 355 662	83.1
Total	11 230	100.0	194 361 705	100.0

¹⁾ Includes 49 745 shares not yet converted into book entry units and 4 809 shares currently on waiting list.

<i>Share ownership by sector at 31 Dec. 1997</i>	% of shareholders	% of shares	% of votes
Corporate sector	5.3	7.0	4.7
Financial institutions	0.6	7.6	12.9
Public corporations	0.4	56.2	69.1
Non-profit organizations	2.7	2.5	2.1
Private households	90.3	4.6	4.1
Foreign owners	0.7	22.1	7.1
Total	100.0	100.0	100.0

INCREASES IN SHARE CAPITAL

*Increases in Enso-Gutzeit Oy's
share capital*

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

*Increases in Veitsiluoto Oy's
share capital*

Year	Subscription terms	Increase in share capital, FIM	New share capital, FIM	Dividend from	Subscription period
1992	Placement with the State 7 500 000 Series A shares à FIM 20 and National Pensions Institution 751 579 Series E shares à FIM 20 For others, rights issue 1:1	75 000 860	428 063 980	1.1.1992	24.4-25.5.92
1993	Rights issue 7:1 à FIM 20	53 503 060	481 567 040	1.1.1993	21.1-22.2.93
1994	Placement with Enso-Gutzeit Oy 6 360 319 Series A shares à FIM 78.61	63 603 190	545 170 230	1.1.1995	16.12.94
1995	Exchange of convertible bonds during extra conversion period 2.10-1.12.1995 2 962 480 Series A shares	29 624 800	574 795 030	1.1.1995	2.10-1.12.95
1996	Consolidation merger 1 May 1996 Enso-Gutzeit Oy shareholders 1:1 242 853 378 shares Veitsiluoto Oy shareholders 3:5 95 799 055 shares Elimination of 27 561 603 Veitsiluoto Oy shares owned by Enso-Gutzeit Oy	2 428 533 780 957 990 550 275 616 030	3 110 908 300	1.1.1996	1.5.96

KEY SHARE RATIOS 1993–1997

		ENSO OYJ			ENSO-GUTZEIT OY		
		1997	1996	1995 ¹⁾	1995	1994	1993
Earnings/share	FIM	5.87	4.50	10.52	9.97	7.16	2.23
Earnings/share ²⁾	FIM	5.02	3.56	9.35			
Equity/share	FIM	57.46	52.20	48.95	52.02	45.32	36.16
Equity/share ²⁾	FIM	50.08	46.33	44.07			
Dividend/share	FIM	2.20 ³⁾	1.80	2.02	2.25	1.00	0.53
Payout ratio	%	37.5	40.0	19.2	22.6	14.0	23.5
Payout ratio ²⁾	%	43.8	50.6	21.6			
Effective yield	%						
Series A		5.2	4.9		7.8	2.5	1.4
Series R		5.2	4.9		7.8	2.5	1.4
Price/earnings							
Series A		7.2	8.2		2.9	5.7	16.8
Series R		7.2	8.2		2.9	5.7	16.5
Price trend per share ⁴⁾	FIM						
Series A							
– closing price for the period		42.50	36.90		28.90	41.00	37.50
– average price		46.10	36.22		35.82	43.13	35.61
– highest price		58.60	38.50		41.70	49.70	44.10
– lowest price		37.00	33.60		26.50	36.50	22.00
Series R							
– closing price for the period		42.20	37.00		29.00	40.70	36.70
– average price		47.38	36.76		36.70	42.24	36.38
– highest price		59.50	39.20		42.00	49.90	44.20
– lowest price		36.70	33.80		26.50	35.80	19.80
Market capitalization at end of period	FIM mill.						
Series A		4 961	6 633		3 884	4 323	3 953
Series R		8 202	4 859		3 145	4 414	3 980
Total market capitalization							
at end of period	FIM mill.	13 163	11 492		7 029	8 737	7 933
Trading trend							
Series A							
– number of shares traded (1 000)		16 321	17 305 ⁵⁾		30 720	20 673	23 273
– %		9.4	11.5		22.9	19.6	23.1
Series R							
– number of shares traded (1 000)		109 698	74 971 ⁵⁾		81 677	82 491	114 798
– %		80.3	62.1		75.3	76.1	110.8
Adjusted number of shares (1 000)							
Series A							
– at end of period		116 729	179 769	179 769	134 408	105 440	105 423
– average for the period		174 415	179 769	179 769	134 408	105 440	100 935
Series R							
– at end of period		194 362	131 321	131 321	108 445	108 445	108 445
– average for the period		136 676	131 321	131 321	108 445	108 445	103 643
Adjusted number of shares, at end of period (1 000)		311 091	311 091	311 091	242 853	213 885	213 868
Adjusted number of shares, average for the period		311 091	311 091	311 091	242 853	213 885	204 578

¹⁾ Comparative figures, pro forma

²⁾ Provision for deferred tax included

³⁾ Board of Directors' proposal to the Ordinary Meeting of Shareholders

⁴⁾ Enso Oyj's figures for 1996 are for the period 1 May to 31 December

⁵⁾ Trading in both Enso-Gutzeit Oy and Enso Oyj shares

KEY FIGURES 1993–1997

		1997	1996 ¹⁾	1995 ¹⁾	1994 ¹⁾	1993 ¹⁾
Sales	FIM mill.	29 264	25 660	28 026	23 773	20 433
Change on previous year	%	14.0	-8.4	17.9	16.3	42.3
Exports and foreign operations	%	85.4	83.2	83.3	82.0	82.9
Wages, salaries and statutory employer's contributions	FIM mill.	4 679	4 344	4 240	3 999	3 453
As % of sales	%	16.0	16.9	15.1	16.8	16.9
Depreciation according to plan	FIM mill.	2 117	1 810	1 808	1 663	1 579
Operating profit	FIM mill.	3 102	2 706	4 933	3 207	2 292
As % of sales	%	10.6	10.5	17.6	13.5	11.2
Financial income and expenses	FIM mill.	951	1 030	1 292	1 470	1 895
As % of sales	%	3.2	4.0	4.6	6.2	9.3
Exchange rate differences	FIM mill.	136	-11	-118	790	-418
Profit after financing items	FIM mill.	2 288	1 665	3 523	2 527	-20
As % of sales	%	7.8	6.5	12.6	10.6	-0.1
Profit before adjustments and taxes	FIM mill.	2 692	1 838	3 429	2 874	371
As % of sales	%	9.2	7.2	12.2	12.1	1.8
Taxes	FIM mill.	401	247	242	72	-16
Profit	FIM mill.	579	1 033	1 737	1 153	-159
Distribution of dividend ²⁾	FIM mill.	684	560	628	239	112
Gross investment in fixed assets	FIM mill.	4 187	2 962	2 070	2 751	3 638
As % of sales	%	14.3	11.5	7.4	11.6	17.8
R&D expenditure	FIM mill.	195	156	163	145	124
As % of sales	%	0.7	0.6	0.6	0.6	0.6
Fixed assets	FIM mill.	30 635	28 456	28 242	27 977	26 774
Valuation items	FIM mill.	312	329	334	381	371
Inventories	FIM mill.	3 762	4 089	4 426	3 138	2 443
Current assets	FIM mill.	6 992	5 951	6 193	8 869	7 694
Shareholders' equity	FIM mill.	9 890	9 897	9 479	7 175	6 619
Minority interests	FIM mill.	540	120	121	111	328
Voluntary reserves	FIM mill.	7 984	6 341	5 748	4 328	2 433
Obligatory provisions	FIM mill.	90	40	51	49	0
Interest-bearing liabilities	FIM mill.	18 743	19 026	20 063	23 604	24 370
Interest-free liabilities	FIM mill.	4 453	3 401	3 733	5 098	3 533
Total assets	FIM mill.	41 701	38 825	39 195	40 365	37 283
Capital invested, average	FIM mill.	36 336	35 443	35 365	34 508	31 983
Return on investment (ROI)	%	9.3	8.2	14.8	12.5	8.4
Return on equity (ROE)	%	10.9	8.9	24.3	23.4	0.0
Return on equity (ROE) ³⁾	%	10.6	7.9	24.0	21.1	4.7
Equity ratio	%	44.2	42.1	39.3	29.0	25.2
Equity ratio ³⁾	%	38.7	37.4	35.4	26.0	23.6
Interest-bearing net liabilities	FIM mill.	17 600	17 363	17 664	18 670	20 579
Gearing ratio	%	95.6	106.1	115.1	160.7	219.4
Gearing ratio ³⁾	%	109.2	119.5	127.7	178.7	234.6
Net indebtedness	FIM mill.	16 204	16 476	17 603	19 833	20 209
Net indebtedness/sales	%	55.4	64.2	62.8	83.4	98.9
Average number of employees		19 870	19 094	19 298	19 334	18 753
Sales/employee	FIM 1 000	1 473	1 344	1 452	1 230	1 090

¹⁾ Pro forma

²⁾ Dividend paid by Veitsiluoto to Enso-Gutzeit has been deducted from the dividends for 1994 and 1995 (1995 35% and 1994 26.4% of dividends).

Dividend for 1997 is the Board of Directors' proposal to the Ordinary Meeting of Shareholders.

³⁾ Provision for deferred tax included

KEY DATA BY 4-MONTH PERIOD

FIM million	1996					1997				
	I	II	III	IV	Total	I	II	III	IV	Total
Sales										
Base Industries	1 439	1 448	1 362	1 478	5 727	1 509	1 683	1 566	1 868	6 626
Packaging Boards	1 730	1 792	1 811	1 809	7 142	1 942	2 060	1 999	2 066	8 067
Fine Papers	1 821	1 642	1 641	1 761	6 865	1 796	1 937	2 007	2 350	8 090
Publication Papers	2 044	1 843	1 729	1 866	7 482	1 777	2 200	2 474	2 650	9 101
Marketing and other companies	465	466	453	470	1 854	351	297	363	352	1 363
- less internal sales	-838	-748	-886	-938	-3 410	-897	-879	-1 053	-1 154	-3 983
Group total	6 661	6 443	6 110	6 446	25 660	6 478	7 298	7 356	8 132	29 264
Operating profit ¹⁾										
Base Industries	59	49	44	104	256	152	165	179	269	765
Packaging Boards	295	214	247	228	984	284	273	360	295	1 212
Fine Papers	74	-43	-76	-16	-61	93	94	106	145	438
Publication Papers	465	372	240	191	1 268	145	144	198	217	704
- other activities and eliminations ²⁾	100	60	34	65	259	5	-51	-29	58	-17
Group total	993	652	489	572	2 706	679	625	814	984	3 102
Operating profit, %	14.9	10.1	8.0	8.9	10.5	10.5	8.6	11.1	12.1	10.6
Financial income and expenses	-316	-255	-240	-219	-1 030	-194	-228	-263	-266	-951
Exchange rate differences	-9	51	-61	8	-11	-5	51	74	16	136
Profit after financial items	668	448	188	361	1 665	480	448	625	734	2 288
Production, 1000 t/m³/m²										
Base Industries										
Enocell Oy	90	127	115	138	470	148	136	134	145	563
Kemijärven Sellu Oy	30	32	33	41	136	44	42	45	44	175
Sawmilling	472	509	385	448	1 814	439	513	374	489	1 815
Packaging Boards										
Consumer packaging boards	261	251	288	266	1 066	282	271	299	290	1 142
Fluting	51	52	61	64	228	61	60	62	66	249
Paperboard tubes and coreboards	58	57	61	60	238	64	62	69	64	259
Corrugated board	75	80	76	76	306	80	88	88	85	341
Fine Papers	278	321	337	354	1 290	339	379	397	441	1 556
Publication Papers	482	426	455	468	1 831	506	566	708	698	2 478

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

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

At an extraordinary meeting of shareholders on 13 November 1997, the company's name was changed from Enso Oy to Enso Oyj. This is in compliance with the new Companies Act, under which the Finnish abbreviation for public limited company is Oyj.

THE MARKET

The economies of the EU countries embarked on a recovery during the year, and growth in consumption in Germany and elsewhere in mainland Europe increased demand for forest industry products, especially in the second half of the year. In the UK, demand was strong all year.

The marked economic decline in several countries of Southeast Asia during the last quarter reduced demand for all products in the region. This area accounts for about 8% of Enso's sales.

The stronger US dollar strengthened the competitiveness of the European forest products industry.

Market pulp prices rose steadily throughout the year. The economic situation in Southeast Asia was reflected in market pulp prices late in the year. In December, long-fibre pulp was selling at USD 580–590/t and short-fibre pulp for ECU 490/t.

The world market for consumer packaging boards was stable throughout the year.

Demand for fine papers was better than forecast, notably in Europe. Towards the end of the year the exceptionally strong demand for magazine papers spread to

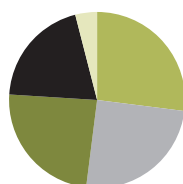
coated fine papers. There was some switching of capacity from coated to uncoated fine paper during the year. The good economic situation in the main markets improved demand in 1997, particularly for coated magazine papers and newsprint.

The substantial increase in sawn timber production threw the market out of balance towards the end of the year, despite growth in consumption in Europe.

SALES

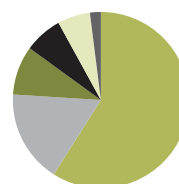
Consolidated sales for 1997 were FIM 29 264 million, up 14% on the previous year. The growth is partly attributable to changes in the Group's composition, the most notable being the purchase of a controlling interest in E. Holtzmann & Cie. AG in April, and the sale in February of the business operations of Enso Paperikemia Oy, which was part of the Forest Chemicals business unit. Holtzmann's contribution to consolidated sales was FIM 1 433 million and Enso Paperikemia Oy's FIM 51 million. Sales for 1996 included FIM 676 million in sales from the forest chemicals business. Consolidated sales benefited from a 17% increase in delivery volumes. The Group's deliveries of market pulp were 484 000 tonnes, of paper and board 5 670 000 tonnes and of sawn timber 1 786 000 m³. Average sales prices for products rose in the base industries and fine paper divisions but fell for publication papers and packaging boards.

SALES BY DIVISION



● Publication Papers	27%
● Fine Papers	24%
● Packaging Boards	24%
● Base Industries	20%
● Marketing and other companies	5%

SALES BY MARKET AREA



● EU (excl. Finland)	61%
● Finland	15%
● Far East and Southeast Asia	9%
● Others	7%
● Other European countries	5%
● North America	3%

The 5% strengthening of foreign currencies against the Finnish markka raised sales by FIM 800 million net of hedging costs.

Sales for the final quarter were FIM 8 132 million, 26% up on the previous year's figure and FIM 776 million up on the third quarter.

Sales by the Base Industries division were FIM 6 626 million, 15% higher than the year before. Sales of market pulp, which is part of the division, rose 17% to FIM 1 353 million. The increase is due to higher sales prices and growth in delivery volumes.

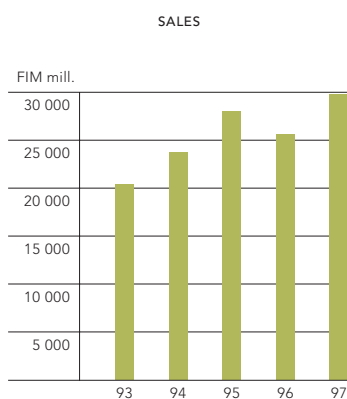
Sales prices for products rose. The Group's sawmilling operations recorded higher delivery volumes, and returned sales of FIM 3 108 million, 13% higher than the year before. Supply exceeded demand on sawn timber markets at the end of the year, prompting Scandinavian stocks to rise and pushing prices sharply down.

Sales for the Base Industries division includes FIM 758 million in income from the sale of wood, 5% more than the year before. Sales of energy were about the same at FIM 461 million.

Sales by the Packaging Boards division were FIM 8 067 million, 13% up on 1996. Sales rose thanks to greater delivery volumes. Sales prices for products fell. Higher prices for corrugated board raw materials put pressure on manufacturers to raise their prices for boxes.

Fine Paper sales were FIM 8 090 million, an increase of 18% on the previous year. Sales benefited from the start-up of the new production line at Oulu in April. The new line produced 160 000 tonnes during 1997. Thanks to the good market for fine paper, delivery volumes were 24% up on 1996 and product prices in Finnish markka strengthened.

Publication Paper sales were FIM 9 101 million, 22% up on the year before. The acquisition of a majority interest in E. Holtzmann & Cie. AG on 28 April 1997 raised sales by FIM 1 433 million. Excluding Holtzmann, the division's sales would have grown by 3%. The market for publication papers was good almost all year, and delivery volumes were up on 1996. The decline in prices that started in late 1996 came to an end, and prices showed a gradual rise towards the end of the year. Average prices were down on 1996.



<i>Sales by division, FIM mill.</i>	1997	1996
Base Industries	6 626	5 727
Packaging Boards	8 067	7 142
Fine Papers	8 090	6 865
Publication Papers	9 101	7 482
Marketing and other companies	1 363	1 854
-less internal sales	-3 983	-3 410
Total	29 264	25 660

OPERATING PROFIT

The Group's operating profit was FIM 3 102 million, 10.6% of sales. This compares with FIM 2 076 million and 10.5% the year before. Largely due to higher delivery volumes, the divisions returned better operating profits, with the exception of publication papers, where profitability was poorer because of the lower average product prices. Operating profit also benefited from the acquisition of E. Holtzmann. The sale of the forest chemicals business reduced operating profit by FIM 102 million compared with 1996.

Operating profit for the last quarter of 1997 was FIM 984 million, 12% of sales.

Personnel expenses include payments of FIM 60 million to employees under the new profit-sharing scheme.

Other operating income includes FIM 92 million in profit from the sale of fixed assets, FIM 20 million less than the year before. The Group's share of the results of associated companies was FIM 82 million, FIM 29 million more than in 1996. In terms of their impact on Enso's financial result, the most significant associated companies are Sunila Oy and Stevco Oy. Other operations includes a FIM 47 million elimination made as a result of the rise in internal margins on inventories.

Depreciation according to plan increased by FIM 306 million to FIM 2 117 million. The increase is due largely to depreciations made in respect of Holtzmann and Oulu's PM 7.

<i>Operating profit by division, FIM mill.</i>	1997	1996
Base Industries	765	256
Packaging Boards	1 212	984
Fine Papers	438	-61
Publication Papers	704	1 268
-less internal sales	-17	259
Total	3 102	2 706

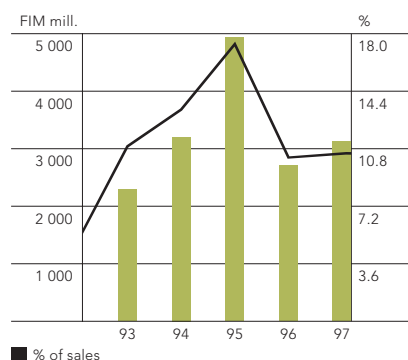
FINANCIAL RESULTS

The result after financial items was a profit of FIM 2 288 million, an improvement of FIM 623 million on the previous year. Net interest for the period was FIM 983 million, 3.4% of sales. Construction-time interest of FIM 39 million relating to the Oulu PM 7 project was capitalized under fixed assets. Net interest for 1996 was FIM 1 056 million (4.1% of sales). Net interest was smaller because of the fall in interest rates on 1996. Interest expenses rose because of the increase in interest-bearing loans taken for investments. Profit includes exchange gains of FIM 136 million (exchange losses of FIM 11 million in 1996). Dividends received rose to FIM 32 million (FIM 26 million in 1996).

Profit before adjustments was FIM 2 692 million, including extraordinary income of FIM 449 million and extraordinary expenses of FIM 44 million. Profit from the sale of the forest chemicals business has been entered as extraordinary income, and the write-down in the value of Silja Oy Ab shares as extraordinary expenses. Adjustments include a reduction of FIM 397 million in the transitional reserve and depreciation in excess of plan of FIM 2 046 million. Taxes for the period were FIM 401 million and minority interests FIM 62 million. The latter figure was increased by the consolidation of Holtzmann.

The return on investment was 9.3%, 1.1 percentage points up on the previous year. The return on equity was 10.9%, an improvement of 2 percentage points on 1996. Earnings per share were FIM 5.87, and including deferred tax FIM 5.02.

OPERATING PROFIT



INVESTMENT

Investment was FIM 4 187 million, of which company acquisitions accounted for FIM 1 912 million. The biggest items were the acquisition of shares in E. Holtzmann & Cie. AG, the new LUMI 7 production line at Oulu, the purchase of Kemijoki Oy shares, a soft calender for Berghuizer's paper machine no. 8, and construction of a corrugated board mill in Russia.

A 50.4% interest was purchased in E. Holtzmann & Cie. AG for FIM 1 818 million. This has added uncoated (SC) magazine papers to the Group's product range, thus strengthening the Group's position as a supplier of publication papers. Holtzmann's integration into the Enso Group has gone according to plan.

The new LUMI 7 production line at Oulu started up in April, raising fine paper capacity at Oulu by 360 000 t/a. The final cost of the project was FIM 2 411 million, more than FIM 200 million less than the original budget.

Enso purchased Kemijoki Oy shares for FIM 56 million, bringing its stake in the company to 0.6%.

FINANCING

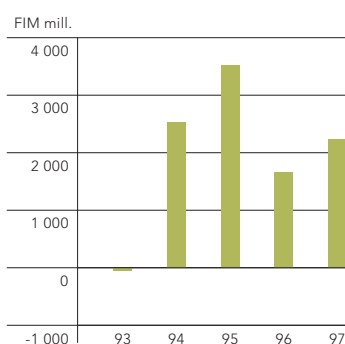
Interest-bearing net liabilities increased by FIM 237 million to FIM 17 600 million in 1997. The year-end gearing ratio was FIM 95.6% (106.1% in 1996). Including deferred tax, the gearing ratio was 109.2%. The average rate of interest on Enso Oyj's long-term loans at 31 December 1997 was 5.7%.

The equity ratio at 31 December was 44.2%, compared with 42.1% at the end of 1996. Including deferred tax, the equity ratio was 38.7%. Equity per share was FIM 57.46 (FIM 52.20 in 1996). Calculated to include deferred tax, equity per share was FIM 50.08.

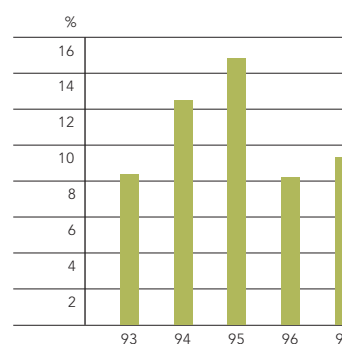
Two auctions were held for Enso's serial bonds introduced early in the year. The auctions took place on 6 February and 4 June, and resulted in the issue of bonds worth FIM 868 million. In September, the maximum amount of the issue was raised to FIM 2 000 million. In October, Enso signed a syndicated bank loan facility of DEM 1 500 million on the international money market. The loan is to finance the purchase of Holtzmann shares and to refinance existing long-term loans.

The Group's cash reserves and unutilized credit facilities totalled FIM 11 billion at the end of the year.

RESULT AFTER FINANCIAL ITEMS



RETURN ON INVESTMENT



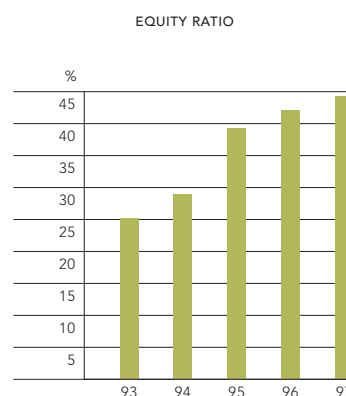
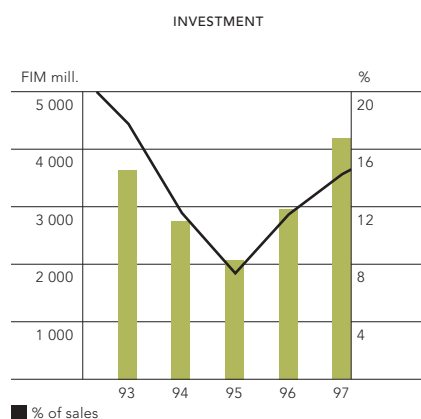
SHARE CAPITAL

The Ordinary Meeting of Shareholders on 7 April 1997 decided to offer bonds with equity warrants up to a maximum value of FIM 1 million for subscription by the company's directors. The bonds mature in 5 years and carry 4% interest. Each FIM 1 000 bond carries one warrant entitling the holder to subscribe 3 000 Enso Series R shares at FIM 45.57 per share. Exercise of all warrants would raise the company's share capital by FIM 30 million. The subscription period for shares is 1 December 1998 to 31 March 2004. The issue was fully subscribed.

An extraordinary meeting of shareholders on 13 November 1997 authorized the Board of Directors to increase the company's share capital by up to FIM 10 million through the issue of 1 million new Series R shares, nominal value FIM 10 each. The authorization is valid until the next meeting of shareholders or until the end of March 1998. The authorization has not been used. The authorization allows the Board to disapply shareholders' preemptive rights by offering the shares preferentially for

subscription by the Group's employees and secondarily by Enso's Pension Fund. The subscription price for the Series R shares is the average trading price on the Helsinki Exchanges for the calendar month preceding the decision to issue shares, less 10%. However, the 10% discount does not apply to subscriptions made by the Pension Fund. The Board of Directors has no other authorization to issue shares, convertible bonds or bonds with equity warrants.

At the same meeting of shareholders it was decided that Series A shares may be converted into Series R shares annually at the request of shareholders and at a time to be decided by the Board of Directors. All Series A shares will be converted into Series R shares in the event that, as a result of conversions, the number of Series A shares falls below 15% of the total number of shares. The first period for conversion was 17–21 November 1997, during which time 63 040 305 Series A shares were converted into Series R shares.



CHANGES IN GROUP COMPOSITION

Enso has relinquished its forest chemicals business. Enso Paperikemia Oy's business operations were sold in February 1997, and Tecnal Corporation was sold at the end of the year.

In April, Enso purchased a 50.4% interest in the German newsprint and magazine paper manufacturer E. Holtzmann & Cie. AG.

It was decided to build a corrugated board mill at Balabanovo near Moscow at an estimated cost of FIM 200 million. It is intended to start production at the new mill towards the end of 1998.

In October, Enso sold the sawmilling business of Ulea Oy, a wholly owned subsidiary of Enso Timber Oy Ltd, at Taivalkoski.

During the year, the following subsidiaries not engaged in business operations were merged with the parent company: Oy Gross-Holding Ab, Arkitus Oy, Veitsiluodon Hienopaperit Oy, Lumi-Hamina Oy, Esmex Oy, Ensobox Oy,

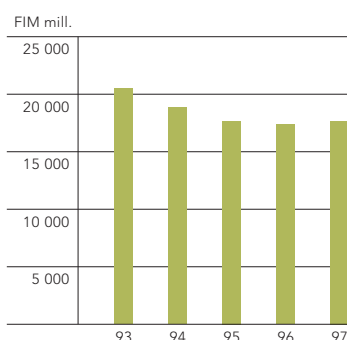
Oy Pernå Shipbroker Ab and Oy Pernå Stevedoring Ab. Early in 1998, Scanbois Oy was merged with the parent company, Imprex Products Baltic Oy with Laminating Papers Oy, and Tambox Oy with Pakenso Oy.

CHANGEOVER TO THE EURO ON 1.1.1999

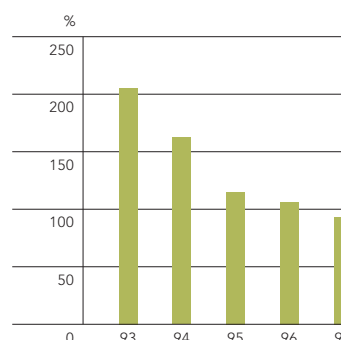
If Finland joins the third stage of EMU, Enso will adopt the euro as its bookkeeping currency on 1 January 1999. The euro will be used in Enso's Interim Reviews and Annual Report from 1999 onwards.

At present, about 60% of Enso's invoicing is in the countries participating in EMU. In the next stage of monetary union, if Britain and Sweden join, the figure will increase to about 80%. Within the coming euro area, Enso will be much better placed to manage interest rate risks, as interest rate flows will be in euros and US dollars. The euro area is likely to form a liquid and efficient market, which will reduce Enso's transaction costs.

INTEREST-BEARING NET LIABILITIES



GEARING RATIO



PERSONNEL

In 1997, the Enso Group had an average of 19 870 employees, of whom an average of 4 217 worked for the parent company. Enso's Finnish units employed a total of 15 847. The number of employees rose by 776 during 1997 to stand at 19 659 at the end of the year. Employee turnover was 2.8%.

Salaries and fees paid to the parent company's management totalled FIM 8.5 million, including FIM 0.3 million in directors' fees, and to other parent company employees FIM 725.2 million. Salaries and fees paid to the Managing Directors and members of the Boards of Directors of Group companies totalled FIM 59.4 million, including FIM 2 million in directors' fees, and to other employees FIM 3 405.8 million.

In 1997, Enso produced a personnel strategy containing goals, action programmes and the factors needed for successful implementation. Business management training programmes were also started in 1997.

An Enso-Team job satisfaction study was carried out for the entire Group. A total of 11 762 persons replied to the questionnaire. The findings were used to draw up a list of proposed actions for the different units.

A profit-sharing scheme for all the Group's employees was introduced in 1997.

Enso's occupational health care unit in Finland was awarded an ISO 9001 quality certificate.

RESEARCH AND DEVELOPMENT

Group R&D expenditure was FIM 195 million (25% up on 1996). The Research Centre's expenditure, including investments, accounted for FIM 60 million of this.

In addition to the Research Centre extension, another important boost to R&D work was the printing press acquired for product development at Oulu.

ENVIRONMENTAL PROTECTION

Enso's environmental protection expenditure in 1997 was FIM 437 million, 1.5% of sales. The figure includes capital expenditure as well as operating and maintenance costs, but excludes interest and depreciation.

Enso invested FIM 164 million in environmental protection in 1997, 3.9% of the Group's total investment. The need for environmental protection investment in the years ahead is forecast to be smaller than in 1997.

An obligatory provision of FIM 40 million has been made to cover future environmental responsibilities (FIM 4 million in 1996). The provision is in respect of soil remediation work and demolition of buildings at the Imatrankoski forest chemicals plant and environmental responsibilities at the Oulu forest chemicals plants.

Enso has extended the moratorium on wood purchases from the Karelian Republic and the Murmansk area to the end of 1998 or until general agreement has been reached on the areas' utilization.

Enso's production units are aiming to be ready for EMAS certification by the end of 1998. EMAS certificates were awarded at the end of 1997 to Enocell Oy, Berghuizer Papierfabriek N.V. and the Veitsiluoto and Imatra mills. Sachsen Papier Eilenburg GmbH was awarded an EMAS certificate in January 1998.

<i>Personnel</i>	1997	1996
Finland	15 847	16 134
Germany	1 272	477
Sweden	555	519
The Netherlands	591	554
United Kingdom	511	397
Spain	397	406
Other countries	697	607
Total	19 870	19 094

TOTAL QUALITY MANAGEMENT

Total quality management is being implemented with the help of the ENSO STAR quality management model, which was first introduced in 1995. Through systematic assessments and continuous improvements, quality management aims to make the Enso Group more competitive and profitable, to improve customer satisfaction and bring closer ties with customers, to encourage employee participation and to unify management practice.

In 1997, 33 units took part in the ENSO STAR scheme, 24 of them production units and nine service units. The section for business and production units was won by Pakenso Oy's corrugated board business, and that for service units by the Mill Services department at the Imatra mills. The commendation for the greatest improvement went to the Corporate Human Resources unit.

EVENTS OCCURRING

AFTER THE CLOSING OF ACCOUNTS

In January 1998, Enso purchased 39.5% of the shares of E. Holtzmann & Cie. AG, thereby raising its holding in the company to 89.9%. The cost of the shares was about FIM 1 450 million.

A modernization programme costing about FIM 395 million was announced for the Veitsiluoto and Imatra mills.

The long-term profitability and competitiveness of the Imatra mills will be developed through the VISIO 2005 programme. As part of the programme, it has been

decided to allocate FIM 24 million for the preliminary planning of an increase in pulp and board capacity at the Imatra mills.

A third auction for Enso's FIM 2 000 million serial bonds was arranged on 10 February, when subscriptions totalling FIM 401 million were received. Following the auction, the amount of the issue outstanding is FIM 1 269 million.

OUTLOOK FOR 1998

Economic indicators for Europe, Enso's main market, show that the steady growth will continue despite the economic problems in Asia. The paper machines have good stocks of orders. The decline in demand from Asia has been offset by an increase in orders from elsewhere, notably from Europe. The North American economy will also continue to grow, and together with the stronger dollar this will support the competitiveness of the European paper industry. Prices for raw materials, mainly chemical pulp and waste paper, have fallen in the last few months following developments in Asia.

The trend in costs is expected to be moderate. Prices for Enso's main products were raised by a few per cent at the start of the year. Production volumes for 1998 will be higher than in 1997 as Oulu's PM 7 and E. Holtzmann & Cie. AG will be included for the whole year. Provided there is no major turn for the worse in world markets, Enso expects to improve its financial result in 1998.

CONSOLIDATED INCOME STATEMENT

FIM million	Note	1.1–31.12.1997	Pro forma 1.1–31.12.1996
Sales	1	29 263.9	25 660.2
Finished and semi-finished goods, increase (+)		- 52.2	+ 70.5
Production for own use		55.8	78.6
Share of profits of associated companies		+ 81.9	+ 53.1
Other operating income	2	295.0	282.5
Costs and expenses			
Materials, supplies and goods			
Purchased during the period		13 270.0	11 461.4
Decrease (+) in inventories		+ 470.6	+ 111.4
Outside services		4 914.5	4 423.6
Personnel expenses	3	4 679.2	4 343.8
Rents		345.3	290.3
Other costs and expenses		745.9	998.3
		- 24 425.5	- 21 628.8
Depreciation according to plan	4.1	- 2 116.7	- 1 810.4
Operating profit		3 102.2	2 705.7
Financial income and expenses			
Dividend income		31.9	26.2
Interest income on long-term investments		19.9	41.9
Interest income on short-term investments		45.8	68.7
Other financial income		57.5	58.7
Exchange rate differences		+ 136.3	- 10.9
Interest expenses		- 1 087.5	- 1 187.3
Other financial expenses		- 18.5	- 38.3
Depreciation on investments		- 0.0	- 0.2
		- 814.6	- 1 041.2
Profit after financial items		2 287.6	1 664.5
Extraordinary income and expenses			
Extraordinary income	6	448.8	173.2
Extraordinary expenses		- 44.4	- 0.0
		404.4	173.2
Profit before reserves and taxes		2 692.0	1 837.7
Increase (-) in accumulated depreciation	4.2	- 2 046.0	- 731.8
Decrease (+) in voluntary reserves		+ 395.4	+ 192.2
Direct taxes			
For the period		- 408.2	- 271.6
For previous periods		7.6	24.2
Profit for the period before minority interest		640.8	1 050.7
Minority interest		- 61.9	- 17.4
Profit for the period		578.9	1 033.3

CONSOLIDATED BALANCE SHEET

ASSETS

FIM million	Note	31.12.1997	31.12.1996
<i>Fixed assets and other long-term investments</i>			
	7-9		
Intangible assets			
Intangible rights		117.1	82.8
Goodwill		17.0	20.7
Goodwill on consolidation		629.2	131.8
Other fixed assets		80.5	70.7
		843.8	306.0
Tangible assets			
Land and water		4 106.7	4 015.9
Buildings and structures		5 348.2	4 665.1
Machinery and equipment		16 893.0	14 769.0
Other tangible assets		772.5	724.2
Advance payments and construction in progress		367.1	1 585.5
		27 487.5	25 759.7
Financial assets			
Shares and holdings, associated companies		1 735.9	1 716.3
Shares and holdings, other companies		383.9	404.9
Loans receivable		196.0	268.9
Own shares		0.1	0.1
		2 315.9	2 390.1
<i>Fixed assets and other long-term investments, total</i>		30 647.2	28 455.8
<i>Valuation items</i>			
Capitalized interest	10	312.0	328.9
<i>Current assets</i>			
	11		
Inventories			
Materials and supplies		1 540.7	1 910.9
Work in progress		111.3	110.5
Finished products		1 967.5	1 953.5
Advance payments		142.2	113.9
		3 761.7	4 088.8
Receivables			
Accounts receivable		4 557.1	3 671.6
Loans receivable		22.0	306.7
Prepaid expenses		943.9	280.4
Other receivables		517.6	574.4
		6 040.6	4 833.1
Investments			
Shares and other securities		32.5	32.5
Other investments		318.3	354.2
		350.8	386.7
Cash and bank		588.4	731.8
<i>Assets, total</i>		41 700.7	38 825.1

CONSOLIDATED BALANCE SHEET

LIABILITIES

FIM million	Note	31.12.1997	31.12.1996
Shareholders' equity			
13			
Non-distributable shareholders' equity			
Share capital		3 110.9	3 110.9
Reserve fund		2 250.8	2 231.3
Own share fund		0.1	
Revaluation fund		1 450.0	1 460.4
		6 811.8	6 802.6
Distributable shareholders' equity			
Other shareholders' equity		752.1	752.2
Retained earnings		1 747.0	1 309.4
Profit for the period		578.9	1 033.3
		3 078.0	3 094.9
Shareholders' equity, total		9 889.8	9 897.5
Minority interest		540.3	119.7
Reserves			
14			
Accumulated depreciation difference			
		7 653.2	5 605.2
Voluntary reserves			
Investment reserve		322.9	332.2
Transitional reserve		–	396.5
Other voluntary reserves		8.3	7.1
		331.2	735.8
Obligatory provisions		90.1	40.0
Long-term and current liabilities			
Long-term			
16			
Bond loans		4 732.2	3 125.1
Convertible bond loan		1.0	
Loans from financial institutions		4 586.7	5 822.0
Pension loans		2 872.7	2 939.5
Other long-term liabilities		740.5	467.1
		12 933.1	12 353.7
Current			
Loans from financial institutions		4 241.0	5 777.5
Pension loans		164.5	171.1
Advances received		4.3	8.1
Accounts payable		1 795.8	1 570.1
Accrued liabilities		1 941.8	1 445.5
Other current liabilities		2 115.6	1 100.9
		10 263.0	10 073.2
Liabilities, total		41 700.7	38 825.1

CONSOLIDATED SOURCE AND APPLICATION OF FUNDS

FIM million	1.1-31.12.1997	Pro forma 1.1-31.12.1996
Operations		
Funds from operations		
Operating profit ¹⁾	3 010.6	2 613.5
Depreciation	2 116.7	1 810.4
Financial income and expenses	- 797.7	- 1 036.3
Taxes	- 400.6	- 247.4
Share of results of associated companies	- 40.4	- 44.7
	3 888.6	3 095.5
Change in working capital		
Decrease (+) in inventories	+ 327.0	+ 337.6
Increase (-) in current receivables	- 1 492.1	- 282.8
Increase (+) in non-interest bearing current receivables	+ 708.2	- 320.2
	- 456.9	- 265.4
Cash flow from operations	3 431.7	2 830.1
Investments		
Capital expenditure	- 4 186.9	- 2 962.3
Proceeds from sale of fixed assets (incl. exchange rate differences)	694.1	1 046.5
	- 3 492.8	- 1 915.8
Cash flow before financing	- 61.1	+ 914.3
Financing		
Decrease (+) in long-term receivables	+ 357.4	- 78.8
Decrease (-) in long-term loans	- 598.1	- 1 496.2
Increase (+) in short-term loans	+ 709.1	+ 436.5
Dividends	- 560.0	- 629.5
Share issue	- 2.5	-
	- 94.1	- 1 768.0
Decrease (-) in liquid funds in income statement	- 155.2	- 853.7
Adjustments	- 24.2	+ 36.5
Decrease (-) in liquid funds in balance sheet	- 179.4	- 817.2
Liquid funds in balance sheet at 1 Jan.	- 1 118.6	- 1 935.8
Liquid funds in balance sheet at 31 Dec.	939.2	1 118.6
	- 179.4	- 817.2

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

The financial statements have been prepared in accordance with Finland's Accounting Act and other rules and regulations. Figures given are in Finnish markka. The Group's financial period is the calendar year.

SCOPE OF CONSOLIDATED FINANCIAL STATEMENTS

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

Companies acquired during the year are included in the consolidated financial statements from the date of their acquisition. Companies sold are included up to the date of sale. A list of subsidiary and associated companies appears under Note 18 of these Notes.

PRINCIPLES OF CONSOLIDATION

The purchase method has been adopted, with the exception of Pankavara Insurance Company, which, being outside the Group's core businesses, has been consolidated using the equity method. The difference between the acquisition cost of shares in subsidiaries and shareholders' equity at the date of acquisition is generally entered as goodwill. With the exception of Pakenso Sweden AB, reserves are not included in shareholders' equity in arriving at goodwill for the Group. Goodwill is amortized over a period of 5–10 years, with the exception of E. Holtzmann & Cie. AG and Pakenso Sweden AB, for which goodwill is being amortized over 15 and 20 years, respectively. A portion of the goodwill on acquisition of E. Holtzmann & Cie. AG has been allocated to Holtzmann's fixed assets. The remaining useful life of the fixed assets in question is used for purposes of depreciation. For the most part, negative goodwill is credited against losses of acquired companies.

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

Associated companies have been consolidated using the equity method. The Group's share of the results of associated companies, adjusted by the amortization of goodwill on acquisition, is included in operating profit. Dividends received from associated companies have been deducted from

Group dividends received. In the consolidated balance sheet the value of shares in associated companies is the Group's share of the shareholders' equity, taking into account goodwill and the amortization of goodwill. Accumulated depreciation difference and voluntary reserves less deferred tax are taken into account for associated companies.

Enso-Gutzeit Oy and Veitsiluoto Oy merged on 1 May 1996 to form Enso Oy. The pro forma consolidated financial statements for the Enso Group for 1996 have been prepared by combining the official consolidated financial statements of Enso Oy, Enso-Gutzeit Oy and Veitsiluoto Oy. There are no material differences in the way in which these consolidated financial statements were drawn up.

FOREIGN CURRENCIES

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

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

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

TAXES

The consolidated income statement includes taxes for Group companies in respect of financial results or distribution of dividends or as required by local tax legislation. No deferred tax is calculated in respect of allocations to reserves. Starting in 1998, deferred tax will be taken into account in preparing the interim and final accounts in compliance with Finland's new accounting legislation.

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

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

ENSO OYJ, INCOME STATEMENT AND SOURCE AND APPLICATION OF FUNDS

INCOME STATEMENT				SOURCE AND APPLICATION OF FUNDS			
FIM million	Note	1.1-31.12.97	1.5-31.12.96	FIM million	Note	1.1-31.12.97	1.5-31.12.96
Sales	1	11 148.6	7 054.7	Operations			
Finished and semi-finished goods, decrease (-)	-	74.3	- 186.4	Funds from operations			
Production for own use		15.5	20.3	Operating profit ¹⁾		907.0	530.4
Other operating income	2	278.7	292.0	Depreciation		381.4	267.8
Costs and expenses				Financial income and expenses	+	25.1	- 11.3
Materials, supplies and goods				Extraordinary items	-	674.5	+ 127.0
Purchased during the period	6	393.7	4 034.3	Taxes	-	241.4	215.3
Decrease (+) in inventories	+	450.8	+ 171.0	397.6	698.6		
Outside services		1 723.2	1 098.8	Change in working capital			
Personnel expenses	3	1 000.3	726.8	Decrease (+) in inventories	+	490.0	+ 463.4
Rents		155.2	104.6	Increase (-) in current receivables	-	806.1	+ 685.9
Other costs and expenses		288.8	170.5	Increase (+) in non-interest bearing current liabilities	+	670.4	- 568.5
		- 10 012.0	- 6 306.0	354.3	580.8		
Depreciation according to plan	4.1	-	381.4	-	-	751.9	1 279.4
Operating profit		975.1	606.8	Cash flow from operations			
Financial income and expenses	5			Investments			
Dividend income		73.7	14.2	Capital expenditure	-	771.6	- 314.4
Interest income on long-term investments		694.8	506.7	Proceeds from sale of fixed assets (incl. exchange rate differences)		120.8	1 275.4
Interest income on short-term investments		53.7	50.7	650.8	961.0		
Other financial income		16.3	26.7	Cash flow before financing		101.1	2 240.4
Exchange rate differences	+	127.1	+ 49.4	Financing			
Interest expenses	-	941.1	- 657.0	Decrease (+) in long-term receivables	+	1 201.6	- 1 628.5
Other financial expenses	-	8.8	- 9.0	Decrease (-) in long-term loans	-	2 611.5	- 1 255.3
Depreciation on investments	-	-	47.7	Increase (+) in short-term loans	+	1 797.7	- 705.0
Profit after financial items		990.8	540.8	Dividend distributed	-	560.0	
Extraordinary income and expenses	6			To be placed at the disposal of the Board of Directors	-	2.5	
Extraordinary income		957.3	907.0	174.7	3 588.8		
Extraordinary expenses		1 631.8	780.0	Decrease (-) in liquid funds in balance sheet	-	73.6	- 1 348.4
Profit before reserves and taxes		316.3	667.8	Liquid funds in balance sheet at 1 Jan.	-	969.9	- 2 318.3
Increase (-) in accumulated depreciation	4.2	+	169.7	Liquid funds in balance sheet at 31 dec.		896.3	969.9
Decrease (+) in voluntary reserves	+	348.0	+ 134.0	73.6	- 1 348.4		
Direct taxes							
For the period	-	248.6	- 227.3				
For previous periods	+	7.2	+ 9.6				
Profit for the period		592.7	625.1				

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

ENSO OYJ, BALANCE SHEET

ASSETS				LIABILITIES			
FIM million	Note	31.12.97	31.12.96	FIM million	Note	31.12.97	31.12.96
Fixed assets and other				Shareholders' equity 13			
<i>long-term investments</i> 7-9				Non-distributable			
Intangible assets				shareholders' equity			
Intangible rights		51.0	28.6	Share capital		3 110.9	3 110.9
Goodwill		5.2	6.6	Reserve fund		2 186.3	2 186.3
Other fixed assets		3.8	4.7	Revaluation fund		1 426.1	1 437.2
		60.0	39.9			6 723.3	6 734.4
Tangible assets				Distributable shareholders' equity			
Land and water		3 604.8	3 576.8	Other shareholders' equity		752.0	752.0
Buildings and structures		1 007.2	1 042.5	Retained earnings		1 837.7	1 775.0
Machinery and equipment		2 827.4	3 024.4	Profit for the period		592.7	625.1
Other tangible assets		293.9	282.8			3 182.4	3 152.1
Advance payments and construction in progress		119.6	69.3				
		7 852.9	7 995.8	Shareholders' equity, total		9 905.7	9 886.5
Long-term investments and loans receivable				Reserves 14			
Shares and holdings, Group companies	18	6 315.9	5 842.8	Accumulated depreciation difference			
Shares and holdings, associated companies		1 401.0	1 409.0			1 070.2	1 240.0
Shares and holdings, other companies		351.9	368.0	Voluntary reserves			
Loans receivable		7 686.6	7 950.3	Transitional reserve			
		15 755.4	15 570.1				348.0
Fixed assets and other long-term investments, total				Obligatory provisions			
		23 668.3	23 605.8			19.8	0.3
Valuation items				Long-term and current liabilities			
Capitalized interest	10	42.2	51.6	Long-term 16			
Current assets 11				Bond loans			
Inventories				Convertible bond loan			
Materials and supplies		453.9	904.7	Loans from financial institutions			
Finished products		294.0	368.3	Pension loans			
Advance payments		139.6	112.0	Other long-term liabilities			
		887.5	1 384.9			11 094.8	10 627.2
Receivables				Current			
Accounts receivable		1 240.9	1 230.4	Loans from financial institutions			
Loans receivable		1 263.2	2 201.1	Pension loans			
Prepaid expenses and accrued income		1 803.6	323.9	Advances received			
Other receivables		43.7	720.3	Accounts payable			
		4 351.4	4 475.7	Accrued liabilities			
Investments				Other current liabilities			
Shares and other securities		32.5	32.5			7 755.2	8 385.9
Other investments		789.1	610.3				
		821.6	642.8				
Cash and bank							
		74.7	327.1				
Assets, total				Liabilities, total			
		29 845.7	30 487.9			29 845.7	30 487.9

SALES AND OTHER OPERATING INCOME

Sales includes the sale of products and services, raw material and energy supplies, and energy less indirect sales taxes, sales discounts and exchange differences on sales in foreign currencies.

Other operating income includes income from rents, contributions received, compensation paid by insurance companies, and profit from fixed asset sales (excluding extraordinary sales profits).

OBLIGATORY PROVISIONS

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

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated at cost less straight-line depreciation according to plan. Land is stated at revalued amounts. Depreciation according to plan is based on the following expected useful lives:

- buildings, structures and hydro-electric power stations 20–40 years
- machinery and equipment 10–20 years
- motor vehicles and office equipment 5 years
- other tangible assets 10–20 years
- intangible assets 5–10 years

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

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

INVENTORIES

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

VALUATION ITEMS

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

PENSION SCHEMES

Pension cover for employees of the Group's domestic companies is arranged partly through Enso's own pension funds and partly through Finnish insurance companies.

Pension arrangements for the Group's overseas subsidiaries are made in accordance with the regulations and practice of the country in question. The Group's pension liability is fully covered, apart from an unfunded portion that is obligatory under a Council of State decision. The obligatory unfunded pension liability in Enso's insurance institutes is shown under Securities and Guarantees.

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

RESEARCH AND DEVELOPMENT

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

EXTRAORDINARY ITEMS

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

CHANGE IN DEPRECIATION DIFFERENCE AND VOLUNTARY RESERVES

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

DIVIDENDS

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

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

FIM million	1997	Pro forma 1996	Parent comp. 1997	Parent comp. 1.5-31.12.96
1.1. SALES BY COUNTRY				
Finland	4 270.6	4 301.0	7 349.0	4 845.0
Germany	3 910.5	2 976.4	620.9	368.1
UK	4 135.5	3 756.6	255.3	146.5
The Netherlands	1 749.5	1 397.3	395.2	176.7
Spain	1 535.5	1 364.6	442.0	309.1
France	2 289.6	2 075.1	111.7	54.8
Italy	978.6	668.3	152.9	102.0
Other EU countries	3 273.1	2 959.3	340.2	241.4
Other European countries	1 523.0	1 440.9	291.0	186.4
North America	797.2	473.8	75.4	22.6
Far East and Southeast Asia	2 626.0	2 368.2	805.8	435.3
Other countries	2 174.8	1 878.7	309.2	166.8
	29 263.9	25 660.2	11 148.6	7 054.7
1.2. SALES BY DIVISION				
Base Industries	6 626.1	5 727.1	6 514.9	3 807.9
Packaging Boards	8 067.1	7 142.3	4 592.4	2 778.5
Fine Papers	8 090.2	6 864.7		-13.3
Publication Papers	9 101.1	7 482.0		481.6
Marketing and transport companies	1 362.7	1 783.7	41.3	
Eliminations	- 3 983.3	-3 339.6		
	29 263.9	25 660.2	11 148.6	7 054.7
2. OTHER OPERATING INCOME				
Profit from sale of fixed assets	91.6	111.3	68.1	76.4
Rents	45.0	43.1	60.4	31.4
Compensation from insurance companies	23.0	8.8	1.3	
Contributions	18.3	18.2	7.9	6.6
Other	117.1	101.1	141.0	177.6
	295.0	282.5	278.7	292.0
3. PERSONNEL EXPENSES				
Wages and salaries	3 621.1	3 366.9	731.8	534.6
Pension costs	596.9	542.7	150.5	104.2
Other statutory employer's contributions	461.2	434.2	118.0	88.0
	4 679.2	4 343.8	1 000.3	726.8
Fringe benefits	13.2	22.9	3.3	2.1
	4 692.4	4 366.7	1 003.6	728.9
4.1. DEPRECIATION ACCORDING TO PLAN				
Intangible rights	21.4	15.8	6.1	3.4
Goodwill	4.0	3.3	1.4	0.5
Other fixed assets	37.6	31.6	1.4	1.0
Buildings and structures	239.3	200.2	41.0	35.9
Machinery and equipment	1 689.1	1 459.0	308.1	207.3
Other tangible assets	74.0	71.7	23.4	19.7
Goodwill on consolidation	51.4	29.2		
Crediting of negative goodwill	-0.1	-0.4		
	2 116.7	1 810.4	381.4	267.8
4.2. CHANGE IN DEPRECIATION DIFFERENCE				
Intangible rights	-20.9	-2.6	-20.8	-2.6
Goodwill	+0.4	-0.2	-0.0	-0.5
Other fixed assets	+3.3	-0.8	+2.0	-1.8
Buildings and structures	-93.3	+15.4	+36.8	+9.5
Machinery and equipment	-1 912.5	-732.3	+157.8	+45.2
Other tangible assets	-23.0	-11.3	-6.1	-8.8
	-2 046.0	-731.8	+169.7	+41.0

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

FIM million	1997	Pro forma 1996	Parent comp. 1997	Parent comp. 1.5-31.12.96
5. INTRA-GROUP FINANCIAL INCOME AND EXPENSES				
Financial income from Group companies				
Dividend received			19.6	9.6
Interest income on long-term investments			676.3	481.9
Interest income on short-term investments			18.5	13.9
			714.4	505.1
Financial expenses to Group companies				
Interest expenses			-54.4	-17.8
6. EXTRAORDINARY INCOME AND EXPENSES				
Extraordinary income				
Gains from sale of Enso Paperikemia Oy and Tecnal Corporation	448.8		4.7	
Profit from sale of Forchem Oy		173.2		189.1
Group contributions received			952.6	717.9
	448.8	173.2	957.3	907.0
Extraordinary expenses				
Write-down in value of Silja Ab shares	-44.4		-44.4	
Losses on merger			-2.0	
Group contributions made			-1 585.4	-780.0
	-44.4		-1 631.8	-780.0

7. TANGIBLE AND INTANGIBLE ASSETS	Goodwill	Negative goodwill	Other intangible rights and goodwill	Other fixed assets	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets
GROUP 1 JAN.-31 DEC. 1997								
Acquisition cost 1 Jan.	414.6	137.1	164.4	168.9	4 011.4	5 547.9	20 769.6	1 069.9
Increase	548.7	0.1	59.7	49.7	103.2	973.2	4 034.9	133.1
Decrease			-1.0	-2.8	-7.9	-72.4	-364.0	-26.8
Acquisition cost 31 Dec.	963.3	137.2	223.1	215.8	4 106.7	6 448.7	24 440.5	1 176.2
Accumulated depreciation 31 Dec.	-334.1	-137.2	-89.0	-135.3		-1 100.5	-7 547.5	-403.7
Book value 31 Dec. 1997	629.2	0.0	134.1	80.5	4 106.7	5 348.2	16 893.0	772.5
Book value 31 Dec. 1996	131.8	0.0	103.5	70.7	4 015.9	4 665.1	14 769.0	724.2
Accumulated depreciation								
difference 31 Dec. 1996			5.3	5.3	-	1 391.1	4 103.3	100.2
Increase			22.4			135.7	2 072.9	26.2
Decrease			-1.7	-3.3		-42.3	-158.6	-3.3
Accumulated depreciation difference 31 Dec. 1997			26.0	2.0	-	1 484.5	6 017.6	123.1
PARENT COMPANY 1 JAN.-31 DEC. 1997								
Acquisition cost 1 Jan.			63.0	17.6	3 572.7	1 410.9	5 313.5	474.7
Increase			28.5	0.5	34.8	8.1	132.2	35.1
Decrease				-0.2	-2.7	-5.5	-71.6	-2.5
Acquisition cost 31 Dec.			91.5	17.9	3 604.8	1 413.5	5 374.1	507.3
Accumulated depreciation 31 Dec.			-35.3	-14.1		-406.3	-2 546.7	-213.4
Book value 31 Dec. 1997			56.2	3.8	3 604.8	1 007.2	2 827.4	293.9
Book value 31 Dec. 1996			35.2	4.7	3 576.8	1 042.5	3 024.4	282.8
Accumulated depreciation difference 31 Dec. 1996								
difference 31 Dec. 1996			5.8	2.1	-	167.4	1 021.5	43.2
Increase			21.7	0.4		2.9	10.3	9.3
Decrease			-1.0	-2.5		-39.8	-168.0	-3.1
Accumulated depreciation difference 31 Dec. 1997			26.5	0.0	-	130.5	863.8	49.4

The book value of machinery and equipment for the Group and the parent company at 31 December 1997 includes FIM 340.9 million in leasing assets.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

FIM million	1997	Pro forma 1996	Parent comp. 1997	Parent comp. 1.5-31.12.96
8. TAXABLE VALUE OF FIXED ASSETS				
Land	2 101	1 896	1 695	1 704
Buildings and structures	3 902	2 465	332	469
Shares and holdings	1 256	1 244	8 627	7 244
Where taxable value is not available, book value is used.				
Taxable value of Group shares excludes taxable value of subsidiary shares.				
9. STOCKS, SHARES AND LOANS RECEIVABLE RELATING TO LONG-TERM INVESTMENTS				
Group companies				
Shares			6 315.9	5 842.8
Loans receivable			7 528.6	7 730.3
Total			13 844.5	13 573.1
Associated companies				
Shares			1 401.0	1 413.3
Loans receivable			151.2	202.4
Total			1 552.2	1 615.7
10. VALUATION ITEMS				
Capitalized interest 1 Jan.	328.9	333.6	51.6	61.0
Increase 1 Jan. – 31 Dec.	39.0	48.9		
Decrease 1 Jan. – 31 Dec.	-55.9	-53.6	-9.4	-9.4
Capitalized interest 31 Dec.	312.0	328.9	42.2	51.6
11. CURRENTS ASSETS				
Receivables due for payment in one year or more				
Accounts receivable	3.4	0.7	0.1	
Receivables and liabilities, Group companies and associated companies				
Accounts receivable, Group companies			625.3	634.2
Accounts receivable, associated companies			71.3	67.0
Loans receivable, Group companies			1 248.9	1 896.5
Loans receivable, associated companies			6.8	296.4
Prepaid expenses, Group companies			983.7	143.7
Prepaid expenses, associated companies			–	0.1
Other receivables, Group companies			2.0	610.4
Other receivables, associated companies			3.8	1.2
Other securities, Group companies			524.2	288.5
Other securities, associated companies			–	46.0
Receivables, total			3 466.0	3 984.0
Long-term liabilities, Group companies				
Accounts payable, Group companies			128.2	123.2
Accounts payable, associated companies			90.7	99.1
Accrued liabilities, Group companies			772.1	10.5
Other current liabilities, Group companies			1 997.2	753.5
Other current liabilities, associated companies			2.5	–
Liabilities, total			2 990.7	986.3
Current assets for the parent company includes 2 110 601 Merita Series A shares and 920 000 Merita Series B shares. At 31 Dec. 1997 these had a book value of FIM 32.5 million and a market value of FIM 88.7 million.				
12. MANAGEMENT PENSION COMMITMENTS AND LOANS MADE TO MANAGEMENT AND SHAREHOLDERS				
Members of the Board of Directors may retire at the age of 60.				
No loans were receivable from the parent company's management at 31 Dec. 1997.				

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

FIM million	1997	Pro forma 1996	Parent comp. 1997	Parent comp. 1.5-31.12.96
13. SHAREHOLDERS' EQUITY				
Share capital 1 Jan.	3 110.9	3 110.9	3 110.9	3 110.9
Exchange of bonds				
Share capital 31 Dec.	3 110.9	3 110.9	3 110.9	3 110.9
Reserve fund 1 Jan.	2 231.3	2 196.7	2 186.3	2 186.3
Increase in reserve fund		20.3		
Translation difference	19.5	14.3		
Reserve fund 31 Dec.	2 250.8	2 231.3	2 186.3	2 186.3
Own share fund, 1 Jan.	-			
Transfer from non-distributable shareholders' equity	0.1			
Own share fund, 31 Dec.	0.1			
Revaluation reserve 1 Jan.	1 460.4	1 470.4	1 437.2	1 449.8
Decrease, sale of fixed assets	-11.5	-12.7	-11.1	-12.6
Translation difference	1.1	2.7		
Revaluation reserve 31 Dec.	1 450.0	1 460.4	1 426.1	1 437.2
Distributable shareholders' equity 1 Jan.	3 094.9	2 701.4	3 152.1	2 527.0
Dividend paid	-560.5	-629.5	-559.9	
To be placed at the disposal of the Board of Directors	-2.5		-2.5	
Donation by Veitsiluoto Oy to Enso's Centenary Foundation		-3.0		
Transfer to own share fund	-0.1			
Translation difference	-32.7	-7.3		
Profit for the period	578.9	1 033.3	592.7	625.1
Distributable shareholders' equity 31 Dec.	3 078.0	3 094.9	3 182.4	3 152.1

FIM 2 996.7 million of shareholders' equity is available for distribution as dividend.

Breakdown of share capital by type of share at 31 December 1997

	shares	votes
Series A shares	116 729 125	116 729 125
Series R shares	194 361 705	19 436 170
Total	311 090 830	136 165 295

Series A shares (1 vote/share)	FIM million	1 167.3
Series R shares (1 vote/10 shares, min. 1 vote)	FIM million	1 943.6
Total	FIM million	3 110.9

	Exchange ratio	No. of shares
At the merger, Enso Oy's share capital was made up as follows:		
Enso-Gutzeit Oy shareholders	1 / 1	242 853 378
Veitsiluoto Oy shareholders	3 / 5	95 799 055
Veitsiluoto Oy shares owned by Enso-Gutzeit Oy	3 / 5	-27 561 603
Total		311 090 830

Subsidiaries hold 5 601 Series R shares, nominal value FIM 50 409.00

At 31 December 1997, members of the Supervisory Board, the members and deputy members of the Board of Directors, and the President and Senior Executive Vice President held 7 205 Series A shares and 4 019 Series R shares, total 11 224 shares, which carry 0.0% of the voting rights.

14. RESERVES

Accumulated depreciation difference by type of fixed asset				
Intangible rights	25.7	4.6	25.5	4.6
Goodwill	0.3	0.7	1.0	1.1
Other fixed assets	2.0	5.3	0.0	2.1
Buildings and structures	1 484.5	1 391.1	130.5	167.4
Machinery and equipment	6 017.6	4 103.3	863.8	1 021.6
Other tangible assets	123.1	100.2	49.4	43.2
Total	7 653.2	5 605.2	1 070.2	1 240.0

The investment reserve includes investment contributions received by Sachsen Papier Eilenburg GmbH. These will be credited against depreciation according to plan over the useful lines of the assets concerned.

NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

FIM million	1997	Pro forma 1996	Parent comp. 1997	Parent comp. 1.5-31.12.96
Voluntary reserves				
Investment reserve	332.9	332.2		
Transitional reserve		396.5		348.0
Other voluntary reserves	8.3	7.1		
Total	331.2	735.8	-	348.0
Obligatory provisions				
Provision for adjustment of activities	5.1	10.3		
Environmental protection obligations	39.9	4.0	13.6	
Other obligatory provisions	45.1	25.7	6.2	0.3
Total	90.1	40.0	19.8	0.3
Change in voluntary reserves				
Transitional reserve	396.5	187.7	-348.0	-134.0
Other reserves	-1.1	4.5		
Total	395.4	192.2	-348.0	-134.0
15. COMPUTED DEFERRED TAX				
Deferred tax on voluntary reserves and depreciation difference	+2 296.0		+1 825.0	
Computed tax refundable on tax-deductible losses, Group eliminations and other items	-429.0		-336.0	
Total	1 867.0		1 489.0	
16. LONG-TERM LIABILITIES				
	Balance 31.12.1997	1998-2002	2003-	
Repayment plan for the long-term liabilities:				
Bond loans	4 732.2	3 083.7	1 648.5	
Convertible bond loan	1.0	1.0		
Loans from financial institutions	8 827.7	7 511.1	1 316.6	
Pension loans	3 037.2	810.3	2 226.9	
Other long-term liabilities	1 082.1	549.5	532.6	
Total	17 680.3	11 955.6	5 724.6	
Bond loans	Million CHF	1997	1.5-31.12.96	
7 % 1991-96			368.8	
Repaid on 15 May 1996			-368.8	
Total		-	-	
17. SECURITIES AND GUARANTEES				
On own behalf				
Pledges given	71.3	74.2	55.0	74.2
Mortgages	5 338.7	5 656.3	4 921.5	3 609.5
On behalf of Group companies				
Guarantees			3 501.2	1 914.5
On behalf of associated companies ¹⁾				
Mortgages	56.0	6.0	50.0	
Guarantees	755.6	336.4	754.9	335.7
On behalf of others				
Guarantees	66.0	48.5	64.8	48.3
Other commitments, own				
Leasing commitments, in 1998	95.8	67.8	2.3	2.3
Leasing commitments, after 1998	382.8	274.2	3.7	3.5
Pension liabilities	8.5	10.9	8.0	10.1
Other commitments	59.9	53.6		
Total				
Pledges given	71.3	74.2	55.0	74.2
Mortgages	5 394.7	5 662.3	4 971.5	3 609.5
Guarantees	821.6	384.9	4 320.9	2 298.5
Leasing commitments	478.6	342.0	6.0	5.8
Pension liabilities	8.5	10.9	8.0	10.1
Other commitments	59.9	53.6		
Total	6 834.6	6 527.9	9 361.4	5 998.1

¹⁾ includes securities and guarantees given on behalf of Pohjolan Voima Oy's subsidiaries Oulun Voima Oy and Veitsiluodon Voima Oy

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

NOTES TO THE FINANCIAL STATEMENTS

INCOME STATEMENT AND BALANCE SHEET

FINANCIAL RISK MANAGEMENT

Financial risk refers to the uncertainty attached to future cash flows. It concerns any business transaction that may reduce the shareholder value of the Group. The Group's risk management involves identifying and assessing foreign exchange and interest rate risks and hedging against them. The purpose is to minimize the cost of financing and to provide competitive services for the Group's divisions and business units.

In accordance with the foreign exchange policy as approved by the Board of Directors, each unit is responsible for the risks attached to its own transactions. The subsidiaries handle all financing related to risk management through the Group's own financing department. Risks are divided into market risk, credit risk and liquidity risk.

MARKET RISK relates to changes in market factors, for example exchange rates and interest rates. Market risk is monitored in three ways. In *assessment based on probability*, a value for market risk is calculated using a method based on historical volatility and correlations (VAR method). This provides the management with an estimate of the Group's overall market risk. In *sensitivity assessment*, the sensitivity of positions is measured in relation to certain market risk factors. *Stress testing* is used to determine the effects on the Group's positions of abnormal or unexpected events. It is also used to assess events falling outside the probability distributions given by the VAR models. One example of stress testing is the effect on the Group's risk position of a doubling in market volatility.

CREDIT RISK is minimized by making agreements only with Finnish and foreign banks that have high credit ratings and by investing liquid cash funds only in financially secure insurance and finance institutions and companies appearing on the invested limits. Such institutions are unlikely to default on their obligations.

LIQUIDITY RISK is the risk that liquidity may not be sufficient to cover expenditure, to secure long-term financing, or to reduce or close market positions. The Group's liquidity position is secured through long-term loan facilities, out of which the Group had unused credit facilities totalling FIM 11 990 million at the end of 1997. At the same date the company did not have any substantial liquid cash funds.

MANAGEMENT OF FOREIGN CURRENCY EXPOSURE

The Enso Group's foreign currency exposure consists of cash flow risks and balance sheet risks. Subsidiaries are concerned mainly with cash flow risks because their financing is handled in the currency of the country in question, and the foreign exchange risk arising on financing is borne by the parent company. It is Enso's policy to take expenditure in foreign currencies into account when defining the cash flow risk.

The subsidiaries decide on their hedging operations themselves in accordance with the risk limits set in their own foreign currency policies. Foreign currency hedging is handled largely through internal forward agreements. The maturity of forward agreements varies considerably, depending on the company and the currency; however, in 1997 the average maturity of agreements was about three months. An average of 30–70% of the budgeted net foreign currency flow 1997 was hedged in 1997. The parent company's foreign currency position is reported in terms of the company's own commitments, i.e. foreign currency receivables and debts, internal forward agreements and hedging instruments (forward agreements, swaps and options). The shareholders' equities of foreign subsidiaries are also included. The most important foreign subsidiaries are located in Germany, France, Spain and the Netherlands. All items included in the balance sheet position are valued in the accounts at market price, and the associated risks are assessed and reported regularly using risk figures obtained by the VAR method.

MANAGEMENT OF INTEREST RATE RISKS

The management of interest rate risks is centralized. The instruments used in managing interest rate risks are swaps, forward rate agreements, interest rate options and bond future agreements. The indicators used in analysing interest rate risks are the ratio between fixed and variable interest rates, and modified duration, which is monitored for each currency separately. At the end of 1997, about 25% of the Group's loans were subject to fixed interest rates and the remaining 75% to variable interest rates. The Group's main loan currencies are FIM, DEM and USD.

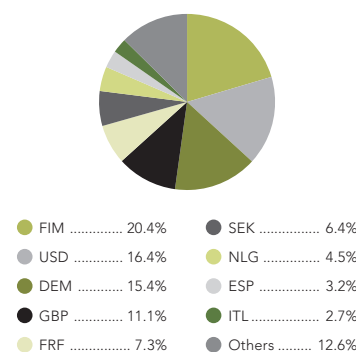
RISK MANAGEMENT CONTRACTS

OPEN AT 31 DEC. 1997

(FIM MILLION)

	Current value ¹⁾		Nominal value	
	31.12.1997	31.12.1996	31.12.1997	31.12.1996
Interest rate derivatives				
Forward agreements	0.3	2.3	3 600.0	2 540.0
Interest rate swap agreements	-111.5	-136.8	1 770.0	2 407.4
Interest rate derivatives, total	-111.2	-134.5	5 370.0	4 947.4
Foreign exchange derivatives				
Forward agreements	94.5	123.7	10 280.2	1 758.6
Options				
Purchased	0.7	0.2	301.8	1 770.5
Written	-3.8	-15.9	1 087.2	1 890.0
Forward exchange swap agreements	581.0	15.0	5 964.4	8 035.4
Foreign exchange derivatives, total	672.4	123.0	17 633.6	13 454.5

SALES BY CURRENCY 1997



¹⁾ For contracts related to public trading, the current value is determined by the market value at the balance sheet date. Other contracts are valued at the current value of incoming cash flows. Options are valued using pricing models.

NOTES TO THE FINANCIAL STATEMENTS

INCOME STATEMENT AND BALANCE SHEET

	% of shares and voting rights held by Group	% of shares held by parent company	Shares held by parent company		
			No.	Nominal value	Book value, FIM 1 000
18. SHARES AND HOLDINGS					
SUBSIDIARIES, FOREIGN					
Caribbean International Holdings Ltd, Cayman Islands	100.0	100.0	10 000	1	42
Enso-Eurocan Asia Pacific Ltd, Hong Kong	100.0	100.0	539 999	10	1 264
Enso Danmark A/S, Copenhagen	100.0	100.0	600	1 000	2 995
Enso (Deutschland) Verwaltungs GmbH, Hamburg	100.0	100.0	1	20 000 000	766 288
Enso Finance B.V., Amsterdam	100.0	100.0	500	1 000	1 038
Enso Fibres AG, Zurich	99.9	99.9	3 995	1 000	7 781
Enso (France) S.A., Paris	100.0	100.0	10 150	200	30 158
Enso (Holland) B.V., Amsterdam	100.0	100.0	174	1 000	6 907
Enso Iberica S.A., Madrid	99.9	99.9	1 398	100 000	4 151
Enso International Inc., Stamford	100.0	100.0	100	400	155
Enso Italia S.r.l., Milan	100.0	100.0	199 900	1 000	716
Enso Norge AS, Oslo	100.0	100.0	400	1 000	282
S.A. Enso N.V., Brussels	100.0	99.9	999	1 250	164
Enso Polska Sp.z o.o., Warsaw	100.0	100.0	1 000	100	161
Enso Portugal Lda., Lisboa	100.0	1.0	1	185 000	5
Enso (Schweiz) AG, Zurich	100.0	100.0	500	1 000	1 839
Enso Sverige AB, Uppsala	100.0	100.0	1 000	100	43
Enso Trading Handelsgesellschaft mbH, Vienna	100.0	100.0	1	500 000	111
Enso (UK) Ltd., Orpington	100.0	100.0	2 900 000	1	24 084
AS Lumiforest, Tallinn	100.0	100.0	2 126	1 000	9 416
SIA Lumiforest, Riga	100.0	100.0	200	100	182
Nordic Forest Development Holdings Pte Ltd, Singapore	100.0	100.0	100 000	1	299
ZAO Enso Moscow, Moscow	100.0	100.0	300 000	1 000	266
Woodpax Nederland B.V., Emmeloord	100.0	100.0	1 150	1 000	0
Other foreign subsidiary shares					7
					858 355
SUBSIDIARIES, FINNISH					
Corenso United Oy Ltd, Helsinki	71.0	71.0	110 760	1 000	154 699
Enocell Oy, Eno	98.4	98.4	25 200	10 000	1 196 000
Enso Alueverkko Oy, Helsinki	100.0	100.0	50	1 000	50
Enso Cartonboards Oy Ltd, Anjalankoski	100.0	100.0	2 000 000	100	470 000
Enso Fine Papers Oy, Kemi	100.0	100.0	500 000	1 000	968 304
Enso Forest Development Oy Ltd, Imatra	100.0	100.0	10 000	100	2 000
Enso Paperikemia Oy, Oulu	100.0	100.0	20 000	1 000	80 000
Enso Publication Papers Oy Ltd, Helsinki	100.0	100.0	8 000 000	100	1 110 000
Enso Timber Oy Ltd, Helsinki	100.0	100.0	150 000	1 000	450 000
Enso-Yhteispalvelut Oy, Anjalankoski	100.0	100.0	100 000	100	40 000
Fortek Oy, Kemi	75.0	75.0	22 500	1 000	22 500
Kemijärven Sellu Oy, Kemijärvi	100.0	100.0	50 000	1 000	170 000
Keräyskuitu Oy, Helsinki	57.2	57.2	17 231	1 000	12 782
Laminating Papers Oy Ltd, Helsinki	100.0	100.0	60 000	1 000	120 000
Lumi Shipping Oy, Kemi	100.0	100.0	480	10 000	4 800
Merivienti Oy, Imatra	100.0	100.0	100	10	1
Oulun Pakkauslava Oy, Oulu	100.0	100.0	1 000	1 000	1 000
Pakenso Oy, Heinola	100.0	100.0	5 500 000	20	115 590
Pakkaus-Piste Oy, Helsinki	100.0	100.0	13 600	150	1 000
Tornator Oy, Helsinki	80.7	75.6	1 014 100	100	237 625
Tervakoski Oy, Janakkala	100.0	100.0	1 000 000	100	200 000
Tornion Pakkauslava Oy, Tornio	100.0	100.0	400	5 000	2 000
Varenso Oy, Varkaus	100.0	100.0	10 000	1 000	30 000
Vakuutusosakeyhtiö Pankavara, Helsinki	100.0	100.0	219 999	100	34 245
Veitsiluodon Kiinteistöhuolto Oy, Kemi	99.9	99.9	7 496	100	750
Shares in housing and real estate companies					34 217
					5 457 563

NOTES TO THE FINANCIAL STATEMENTS

INCOME STATEMENT AND BALANCE SHEET

Main subsidiary shareholdings in sub-groups	Group holding %		Group holding %
Oy Borgå Stuveri Ab, Porvoo	100.0	Lumipaper Limited, Mendlesham	100.0
Berghuizer Papierfabriek N.V., Wapenveld	100.0	Lumipaper NV, Antwerp	100.0
Cie Brand & Ass. SA, Evry	100.0	Pakenso Baltika Sia, Riga	100.0
Cartiberia SA, Barcelona	51.0	ZAO Pakenso Moscow, Moscow	100.0
Corenso France S.A., Saint-Seurin-sur-l'Isle	100.0	Pakenso Eesti AS, Tallinn	100.0
E. Holtzmann & Cie. AG, Karlsruhe	50.8	Pakenso Sweden Holding AB /	
Elfes GmbH & Co (KG), Krefeld	47.3	Pakenso Tambox AB, Jönköping	100.0
Enso Española SA, Martorell	100.0	Pankakoski Boards Oy Ltd, Lieksa	100.0
Enso Papier Format GmbH, Lübeck	100.0	Puumerkki Oy, Helsinki	100.0
Expopak Oy, Ruovesi	100.0	RA Brand & Co. Ltd, Rugby	100.0
Imprex Products Baltic Oy, Helsinki	100.0	Sachsen Papier Eilenburg GmbH, Eilenburg	100.0
Kittilä Wood Oy, Kittilä	75.0	Oy Uni-Pak Ab, Kristiinankaupunki	100.0
Koillis-Pohjanpuu Oy, Taivalkoski	100.0		

	% of shares and voting rights held by Group	Group's share of shareholders' equity FIM mill.	Parent company shareholding, %	No. of shares held by parent company	Nominal value of shares held by parent company	Book value of shares held by parent company FIM 1 000	Profit/loss in latest accounts, FIM mill.
ASSOCIATED COMPANIES, FOREIGN							
Ladenso Oy, Pitkäranta	49.0	-	49.0	490		0	-
Greenforest Ltd, Riga	49.0	-	49.0	49	1	0	-
P.R.INT. Paper Recovery International GmbH, Hamburg	22.2	-	22.2	2	24 000	162	-
						162	
ASSOCIATED COMPANIES, FINNISH							
EHK Marketing Services Ltd, Helsinki	30.0	0.5	30.0	36	500	18	0.5
Golfimatra Oy, Imatra	28.6	3.1	28.6	291	10 000	3 413	-0.2
Herman Andersson Oy, Oulu	50.0	3.5	50.0	3 000	10	657	0.0
Oy Holy Ab, Helsinki	47.0	1.1	47.0	7 047	10	421	0.3
Kemi Shipping Oy, Kemi	50.0	7.7	50.0	140 000	10	1 394	3.4
Oy Keskuslaboratorio, Helsinki	30.3	7.4	30.0	1 642 329	1	2 593	4.9
Metsäteho Oy, Helsinki	24.0	0.5	24.0	40	5 000	400	0.1
Paperinkeräys Oy, Helsinki	30.4	13.7	30.4	27 372	10	198	3.7
Pohjolan Voima Oy, Oulu	20.1	837.7	20.1	6 768 539	10	1 339 471	49.1
Steveco Oy, Hamina	36.7	104.0	36.7	11 017	1 000	14 848	97.5
Sunila Oy, Kotka	50.0	156.5	50.0	76 500	500	22 525	57.1
Suomen NP-Kierrätys Oy, Helsinki	25.0	0.0	25.0	10	1 000	25	0.0
Suomen Puututkimus Oy, Helsinki	24.0	-	24.0	12	25 000	307	-
Vaakamitta Oy, Kemi	50.0	0.0	50.0	50	1 000	50	0.0
Shares in housing and real estate companies						14 518	
						1 400 837	
SUB-GROUP ASSOCIATED COMPANIES							
Abzac Iberica S.A., San Andrés de la Barca	49.0	0.9					0.5
AS Imavere Saeveski, Imavere	23.7	5.7					12.7
Paperi-Dahlberg Oy Ab, Vantaa	35.0	14.1					14.6
Rauma-Enso Timber Sales Oy Ltd, Helsinki	50.0	4.7					5.7
WKC De Grift BV, Wapenveld	50.0	29.2					2.6
Österberg's Förpackningsmaskiner AB, Göteborg	50.0	1.0					1.6

NOTES TO THE FINANCIAL STATEMENTS

INCOME STATEMENT AND BALANCE SHEET

	Other shares held by parent company			
	% of shares	No.	Nominal value	Book value FIM 1000
OTHER COMPANIES				
Ekokem Oy Ab, Riihimäki	0.6	106	2 000	212
Finnlines Oy, Helsinki	5.8	1 104 670	10	11 424
Finnair Oy, Helsinki	0.0	14 400	5	644
Indekon Oy, Lappeenranta	3.1	10 000	100	1 250
Kemijoki Oy, Rovaniemi	0.6	14 517	100	152 837
Merita Foresta, Helsinki	4.3	5 000 000	1	5 000
Pamilo Oy, Eno	2.0	10 840	100	11 197
Silja Oy Ab, Helsinki	6.7	1 467 847	20	13 560
OKR-Issuers Co-operative, Helsinki	3.6	20	70 000	1 050
Teollisuuden Sähkömyynti Oy, Helsinki	19.0	532	1 000	532
Tornion Golf Oy, Tornio	1.6	5	1 000	101
Oy Transfennica Ab, Helsinki	16.6	16 568	100	4 180
Sampo Insurance Company, Turku	2.9	412 331	5	118 238
Other companies				4 687
Shares in housing and real estate companies				24 181
Telephone and electricity board shares				807
Deposits to public utilities				2 024
				351 924

Listed shares and investment fund participations owned by Enso Oy at 31 Dec. 1997 had a market value of FIM 658.6 million. and a book value of FIM 181.4 million. The corresponding figures for the Group were FIM 742.3 million. and FIM 217.7 million.

A complete list of parent company shares and holdings is enclosed with the company's annual accounts.

PROPOSED DISTRIBUTION OF PROFIT

The consolidated balance sheet shows distributable shareholders' equity of FIM 3 078 061 540.95 at 31 December 1997. The parent company's balance sheet shows distributable shareholders' equity of FIM 3 182 359 860.99 at 31 December 1997.

The Board of Directors proposes to the Ordinary Meeting of Shareholders that the profit for the financial period of FIM 592 732 165.91 be transferred to retained earnings and that dividend be distributed as follows:

Profits from previous periods	FIM	1 837 627 695.08
Profit for the period	FIM	592 732 165.91
Dividend of FIM 2.20 per share	FIM	684 399 826.00
Retained earnings		
after distribution of dividend	FIM	1 745 960 034.99

Helsinki, 23 February 1998

Jukka Härmälä
Chairman
President & CEO

Juhani Pohjolainen
Vice Chairman
Senior Executive Vice President
Deputy to the President & CEO

Kimmo Kalela

Pekka Laaksonen

Esko Mäkeläinen

Paavo Pitkänen

Jouko Taukojärvi

Paavo Uronen

AUDITORS' REPORT

TO THE SHAREHOLDERS OF ENSO OYJ

We have audited the accounts, the accounting records and the administration of Enso Oyj for the 1997 financial year. The accounts prepared by the Board of Directors and Managing Director include, for both the Group and the parent company, a report on operations, an income statement, a balance sheet and notes to the financial statements. Based on our audit we submit the following statement on the accounts and administration.

We have conducted our audit in accordance with generally accepted auditing standards. We have audited the accounting records, and the accounts, disclosures and presentation of information, including the accounting policies, to an extent sufficient to give us reasonable assurance that they are free from material misstatement. The audit of the administration has included obtaining assurance that the actions of the members of the Supervisory Board and Board of Directors and Managing Director have been in conformity with the provisions of the Companies Act.

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

In our opinion, the accounts, which for the parent company show a profit of FIM 592 732 165.91, have been prepared in accordance with the Accounting Act and other relevant legislation and regulations, and give a true and fair view of the results from operations and financial position of the parent company and the Group.

The accounts, including the consolidated financial statements, may be adopted and the members of the Supervisory Board and Board of Directors and the Managing Director may be discharged from liability for the 1997 financial year.

The proposal of the Board of Directors for disposal of the profit is in accordance with the Companies Act.

We have read the interim reviews published during the financial year. In our view, they have been prepared in accordance with the relevant regulations.

Helsinki, 2 March 1998

SVH Coopers & Lybrand Oy
Authorized Public Accountants

Pekka Nikula, CPA

STATEMENT OF THE SUPERVISORY BOARD

The Supervisory Board of Enso Oyj has examined the company's accounts, including the consolidated accounts, as well as the Auditors' Report for the financial period 1 January to 31 December 1997. As its statement to the Ordinary Meeting of Shareholders, to be held on 26 March 1998, the Supervisory Board submits that it has no comments to make regarding

the accounts, and concurs with the proposal made by the Board of Directors for the distribution of profit for the year.

The terms of the following members of the Supervisory Board will expire at the 1998 Ordinary Meeting of Shareholders: Krister Ahlström, Pekka Morri, Markku Mäkinen and Sisko Seppä.

Helsinki, 2 March 1998

Jukka Mikkola
Chairman

Matti Väistö
Vice Chairman

Krister Ahlström

Carl-Olaf Homén

Ulla Lähteenmäki

Pekka Morri

Markku Mäkinen

Kauko Mäki vuoti

Tuija Nurmi

Pekka Ruotsalainen

Sisko Seppä

Ben Zyskowitz



BASE INDUSTRIES

- *Raw materials supply compliant with sustainable development*
- *Wood raw material procurement based on end-product requirements and efficient logistics chain serving procurement*
- *Greater reliance on biofuels and domestic fuels, higher energy self-sufficiency*



Juhani Pohjolainen
Vice President

The Base Industries division is responsible for Enso’s material resources. It comprises wood procurement, market pulp, energy and sawmilling.

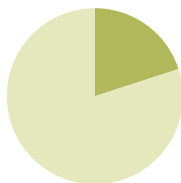
Enso’s wood procurement in Finland is handled by the Forest Operations unit, which has five procurement areas. Enso has a separate unit to handle procurement of imported wood. In its wood procurement, Enso seeks to improve the cost-competitiveness of its wood raw material, to procure the right raw material for the right products, and to make its procurement chain ever more efficient. Enso’s wood procurement complies with the principles of sustainable development and shows respect for natural biodiversity.

Most of Enso’s chemical pulp is produced by integrated production units. Enso also has two mills producing market pulp – Enocell Oy and Kemijärven Sellu Oy. Their combined production capacity is 790 000 t/a.

KEY FIGURES

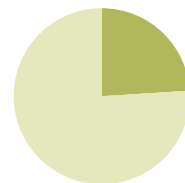
<i>FIM million</i>	1997	1996	1995
Sales	6 626	5 727	6 468
Operating profit	765	256	1 082
Capital invested (incl. forests)	10 309	10 301	10 293
Investment	167	407	295
Personnel, 31 Dec.	3 172	3 369	3 664

BASE INDUSTRIES DIVISION'S
CONTRIBUTION TO GROUP SALES



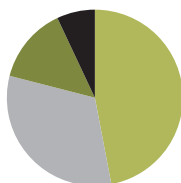
● Contribution 20%

BASE INDUSTRIES DIVISION'S CONTRIBUTION
TO GROUP OPERATING PROFIT



● Contribution 24%

BASE INDUSTRIES DIVISION'S
SALES BY SECTOR



● Sawmills 47%
● Market pulp 32%
● Wood procurement 14%
● Energy 7%

Electricity generated by Enso and associated company power plants covers about 95% of the electricity needed by Enso's mills in Finland. The units abroad are almost self-sufficient in energy. It is part of the Group's strategy to seek to raise its energy self-sufficiency. Enso also strives to make greater use of biofuels and domestic fuels as well as back-pressure power.

Enso's sawmilling operations are handled by the wholly-owned subsidiary Enso Timber Oy Ltd. Enso is one of Europe's three biggest producers of sawn timber. ■

WOOD PROCUREMENT

Consumption of wood raw material by Enso's Finnish units was 20.3 million cubic metres.

Enso owns 600 000 hectares of forest containing 44.5 million cubic metres of standing timber. During 1997, 0.5 million cubic metres was obtained from Enso's own forests, which is 1.0 million cubic metres less than the plan for sustainable felling. The wood harvested had a stumpage value of FIM 80 million.

Total consumption of wood raw material was 10% up on the previous year. The programme to reduce pulpwood stocks during the year caused occasional shortages of sawlogs during the spring.

Domestic trading in wood raw material was brisk following the understanding reached on wood prices with individual buyers. Ten million cubic metres of wood was procured from private forests during 1997. In spring, sawlog prices rose 5% and spruce pulpwood prices 1%. Prices of wood for chemical pulping were unchanged on the year before.

The reduction in pulpwood stocks meant that pulpwood imports were down on 1996. Stocks and standing reserves at the end of the year were as planned.

A broad consensus was reached during the year on the criteria for forest certification in Finland. The proposed certification system was tested in practice in three areas in different parts of the country. Early results show that while the criteria are appropriate, their applicability in practice needs some improvement. Enso is actively involved in testing and development work on certification.

Enso extended the moratorium on forests in the Karelian Republic and the Murmansk area until the end of 1998 as the survey of the forests' ecological value is



This computerized mapping system gives precise information on both trees and key biotopes.

still in progress. In 1997, no wood was purchased from the area in the Karelian Republic, which covers about 2 million hectares.

Enso developed its wood procurement to provide greater customer focus during 1997. In particular, teamwork at all levels of procurement was stepped up. Further organizational changes were introduced to help achieve the goals.

In business development, the main goals were an extensive modernization of the information systems and completion of the quality system. The work needed will be completed during 1998.

ENSO'S PROCUREMENT AND CONSUMPTION OF WOOD RAW MATERIAL IN FINLAND, 1996-1997

TABLE 3

<i>Procurement of wood raw material, mill. m³</i>	1997	1996
Private forests	10.0	9.3
Enso sawmills	1.8	1.6
Enso forests	0.5	1.1
Other domestic sources	4.7	4.7
Imported	3.9	4.4
Total	20.9	21.1
<i>Consumption of wood raw material, mill. m³</i>	1997	1996
Enso mills	4.3	4.3
Subsidiaries	16.0	14.0
Associated companies	0.8	0.7
Deliveries to other mills	2.2	2.2
Total	23.3	21.2

PULP

Enso's production of chemical pulp totalled 2.5 million tonnes, 15% more than the year before. Of this, the Group's own paper and board mills consumed 2.0 million tonnes. Deliveries of market pulp by Enocell Oy, Kemijärven Sellu Oy and Enso's Oulu pulp mill totalled 0.5 million tonnes. Deliveries of softwood chemical pulp to Holtzmann's paper mills began at the end of the year.

Enocell Oy's pulp production was 563 000 tonnes, exceeding the previous yearly record by 90 000 tonnes. Kemijärven Sellu Oy produced 175 000 tonnes, 29% more than in 1996. The market for softwood pulp was such that production had to be curtailed several times during the year. The mills operated at 94% of capacity.

Combined sales for Enocell Oy and Kemijärven Sellu Oy were almost FIM 2.0 billion, 24% up on the previous year. The strong growth in sales, higher market pulp prices and stronger exchange rates significantly improved the profitability of pulp production.

During the first quarter of the year softwood pulp prices fell to USD 520/t and short-fibre pulp to under ECU 400/t.

Deliveries to the Far East, notably China, were higher than normal during the first half of the year. Producer stocks began to fall in the spring, and in April prices began to rise. The prolonged stoppages introduced by some market pulp producers during the summer because

of strikes, and for technical and financial reasons, reduced pulp production by about 5%, which made a significant contribution towards bringing the market back into balance. Pulp prices rose steadily up to mid-October, by which time softwood pulp was selling at USD 610/t and short-fibre pulp at ECU 510/t.

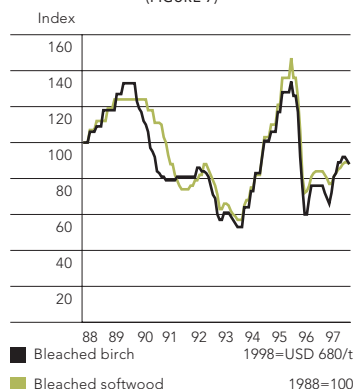
The pronounced economic decline in the countries of the Far East in autumn reduced demand for market pulp. In November, producer stocks began to rise sharply, despite good demand in Europe and North America. Prices began to fall in December, with softwood pulp down to USD 580/t by the end of the year.

Enotuhka Oy, the first company in the forest industry to produce pellets from bark ash, began business in autumn. The pellets are used as a forest fertilizer.

Greater customer focus is being introduced in Enso's market pulp business, including production and product quality. Development work continued during the year on reinforcement pulps suitable for printing paper production. Other areas of research included the replacement of chlorine dioxide with oxygen-based bleaching chemicals, and improvements in chemical pulping processes. Ways are being studied of further reducing process water consumption and emissions of malodorous sulphur compounds.

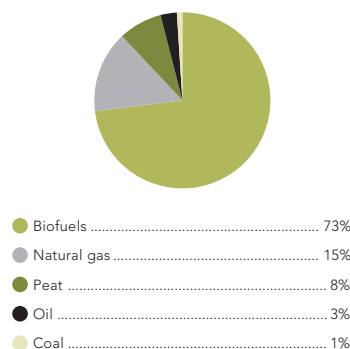
The somewhat unclear situation on the market spells uncertainty for the early part of 1998.

PRICE TREND FOR MARKET PULP IN WESTERN EUROPE (FIGURE 7)



Source: Finnish Forest Industries Federation

ENSO'S FUEL PROCUREMENT IN FINLAND IN 1997 TOTAL 28.7 TWh (FIGURE 8)



ENERGY

Enso's electricity procurement in Finland was 9 747 GWh, of which 7 617 GWh was used by the Group's mills, 5% more than in 1996. Consumption was increased by the start-up of the new paper machine at Oulu and by the improved market. Electricity generated by Enso's power plants and through shares in power companies totalled 7 144 GWh, which corresponds to 94% of industrial consumption at Enso's Finnish mills. A total of 2 130 GWh was sold, most of it through Teollisuuden Sähkömyynti Oy, of which Enso owns just under 20%.

The most important shareholding is in Pohjolan Voima Oy, where Enso's 20.1% interest entitles the company to 810 MW.

Enso's foreign units consumed 1 576 GWh and generated 1 195 GWh. Electricity consumption was almost three times higher than in 1996 due to the acquisition of Holtzmann.

Fuel consumption by Enso's Finnish mills was 28 700 GWh. Biofuels represented 73% of this and domestic fuels 81%.

Fuel consumption by Enso's foreign units totalled 2 800 GWh, 90% of this being natural gas.

A new back-pressure boiler plant generating 63 MW of electricity and 246 MW of heat was completed at the Oulu mills during the year. An extra 23 MW/30 GWh/a

of hydropower was acquired at Kemijoki and Pamilo. The result will be a reduction in environmental loadings.

The rise in energy prices during the year was modest compared with that in 1996. The cost of generating electricity, in particular from coal, fell following a restructuring of energy taxation.

In 1997, Enso paid FIM 159 million in energy taxes in Finland, 34% more than the year before.

Electricity transmission costs are expected to fall now that the new transmission company Fingrid Oy has started business. At present, Enso pays a total of around FIM 100 million a year in transmission costs. The Enso Group's local grids were transferred to the wholly-owned subsidiary Enso Alueverkko Oy, which holds the necessary permit.

In summer, a start was made on updating Enso's energy management and reporting system. This will make the use of the company's energy resources more efficient and facilitate access to the increasingly liberal energy market.

The new approaches to national energy policy in Finland will guide Enso's energy policy in the coming years. Enso is seeking to cut hazardous emissions from energy generation, step up energy-saving measures, prepare for a more open energy market, and maintain a high level of energy self-sufficiency.

	Electricity procure- ment GWh 1997	Proportion procured, %	Electricity procure- ment GWh 1996	Proportion procured, %	Capacity, MW 31.12.1997
A. FINLAND					
Industrial co-generation	3 494	36	3 395	37	823
Hydropower	961	10	931	10	200
Nuclear power	1 168	12	1 055	12	140
Condensing power	1 853	19	1 694	18	300
Purchased from outside	2 271	23	2 060	23	207
Total	9 747	100	9 135	100	1 670
B. MAINLAND EUROPE					
Industrial co-generation	1 195	65	468	79	
Purchased from outside	656	35	124	21	
Total	1 851	100	592	100	
	Electricity consump- tion GWh 1997	Proportion consumed, %	Electricity consump- tion GWh 1996	Proportion consumed, %	
A. FINLAND					
Industrial co-generation	7 617	78	7 245	79	
Sales	2 130	22	1 890	21	
Total	9 747	100	9 135	100	
B. MAINLAND EUROPE					
Industrial co-generation	1 576	85	474	80	
Sales	275	15	118	20	
Total	1 851	100	592	100	

SAWMILLING

Enso Timber Oy Ltd is a wholly-owned Enso subsidiary comprising nine business units producing and processing redwood and whitewood, together with Puumerkki Oy, a timber merchant serving the Finnish market.

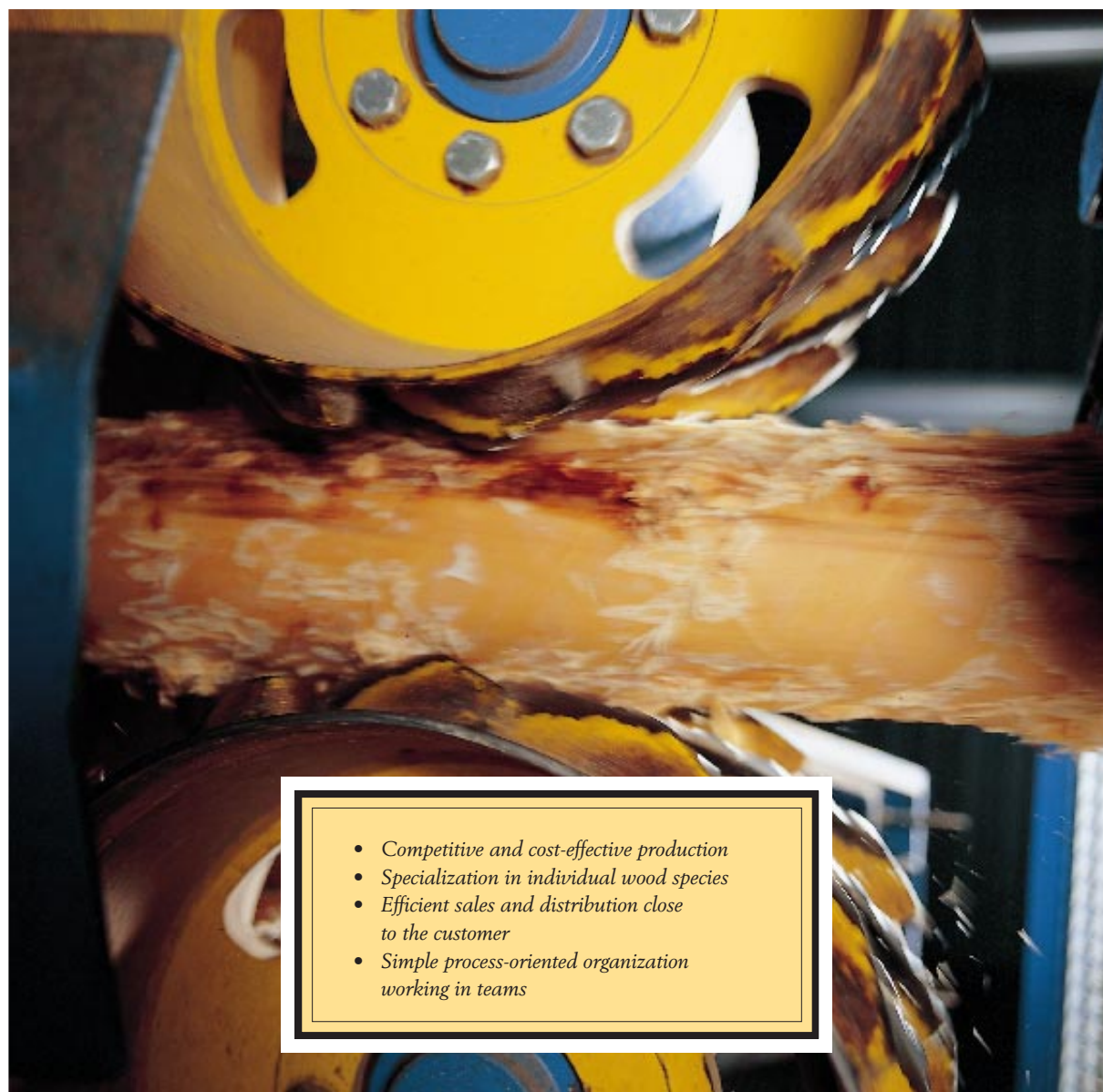
Enso is one of Europe's three biggest producers of sawn timber. Its main markets are Finland, the EU and Japan. The goal is to provide added value for customers and to support the supply of fibre raw material to the

Group's mills through cost-effective operations and innovative processes. The company's brand names Enso, Aunus, Fennia and HC are well known in the markets.

The distribution network was strengthened during the year with the opening of Enso Bois S.A., an importer and distributor in France. Distribution in Finland is being directed more towards the wholesale trade, and retailing is gradually being phased out.

KEY FIGURES

<i>FIM million</i>	1997	1996	1995	<i>Production, 1000 m³</i>	1997	1996	1995
Sales	3 108	2 735	2 521	Whitewood	910	927	720
Operating profit	290	8	231	Redwood	921	919	975
Investment	85	89	60				
Personnel, 31 Dec.	1 342	1 502	1 443				



- *Competitive and cost-effective production*
- *Specialization in individual wood species*
- *Efficient sales and distribution close to the customer*
- *Simple process-oriented organization working in teams*

FINANCIAL RESULTS AND MARKETS

Enso Timber Oy Ltd returned sales of FIM 3 108 million in 1997, an improvement of 13% on the previous year. The financial result was good.

The market for sawn timber was strong up until the end of the third quarter, when whitewood prices began to fall and profitability declined. Demand for redwood remained strong up to the end of the year. Puumerkki Oy increased its sales and returned a good financial result.

The overheating of the market that started in 1996 continued well into the spring of 1997, with sawn timber prices showing 20–25% increases over the 12 months. During the same period production in Finland and Sweden rose by over 10%. Exports from Russia and, in particular, the Baltic states increased during 1996–97, and production in continental Europe rose by almost 5% during 1997. At the same time, consumption of sawn timber on the main markets increased by only 3%, causing an imbalance between supply and demand in the autumn. The situation was also made more difficult by the fact that the prolonged period of growth in the US building industry came to an end, while the Japanese market weakened from spring 1997 onwards. Supplies of sawn timber exceeded demand in the autumn, and stocks rose in Finland and Sweden, eventually causing prices to fall.

INVESTMENT AND R&D

The newly modernized Kotka sawmill began production early in the year. The work was started in 1996 as part of a programme to strengthen productivity and improve the structure of production. The sawing line at Uimaharju was

also modernized and one of the two main cutting machines on the sawing line at Varkaus was replaced. The total cost of these investments was FIM 85 million.

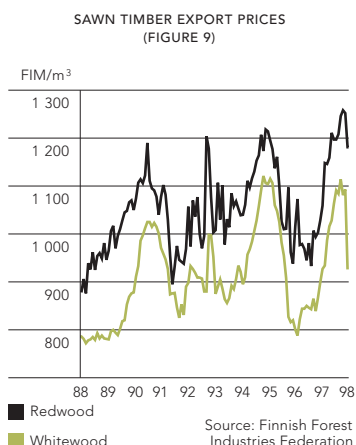
The corporate structure was improved by selling off Ulea Oy's Taivalkoski sawmill in October.

The development programme is continuing in 1998. Modernization of the trimming and grading plant at Veitsiluoto sawmill will improve both productivity and competitiveness. Improvements planned for Tolkinen sawmill in 1998–99 will make production more flexible and the mill more cost competitive. Modernization projects currently in progress will cost FIM 100 million.

The main development projects concern the introduction of tomography in log sorting, automation of sawn timber grading, improvements to kilning methods, and sawn timber modification.

OUTLOOK

The over-supply prevailing at the end of 1997 caused prices to fall, and as a result profitability declined, first for whitewood and then, early in the spring of 1998, for redwood. The situation will be resolved once production falls back into line with demand. However, it will probably be the second half of 1998 before any major improvement takes place in the market. Profit for the year as a whole is expected to be modest.



The newly modernized Kotka sawmill started up early in 1997.



PACKAGING BOARDS

- *40 years' experience as a producer of liquid packaging boards*
- *Benefiting from growth in corrugated board markets of Eastern Europe*
- *Greater integration in coreboard production*



Pekka Laaksonen
Vice President

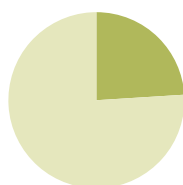
Enso has a tradition as one of the world's leading manufacturers of packaging boards. In the consumer packagings sector, Enso's particular speciality is plastic-coated boards. May 1997 marked 40 years since Enso's first liquid packaging delivery. The first customer was the German company PKL. Under its present name of SIG Combibloc, the company is still a major user of Enso aseptic liquid packaging boards. Enso supplies boards for all the leading liquid packaging systems.

In addition to its consumer packaging boards, Enso enjoys an important position in northern Europe as a manufacturer of corrugated board and globally as a manufacturer of high-quality coreboard. Enso is seeking to benefit from growth in corrugated board markets, particularly in Russia and the Baltic countries. Enso's key goal in the coreboard sector is to achieve greater integration by increasing its own production of paperboard tubes, especially in Europe. ■

KEY FIGURES

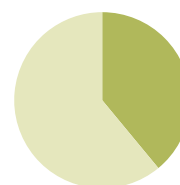
<i>FIM million</i>	1997	1996	1995	<i>Production, 1 000 t</i>	1997	1996	1995
Sales	8 067	7 142	7 286	Consumer packaging boards	1 142	1 066	1 052
Operating profit	1 212	984	1 294	Corrugated boards, million m ²	341	306	293
Capital invested	6 971	7 155	6 839	Fluting	249	228	234
Investment	322	489	590	Tubes and coreboards	259	238	218
Personnel, 31 Dec.	5 555	5 203	5 061				

PACKAGING BOARDS DIVISION'S
CONTRIBUTION TO GROUP SALES



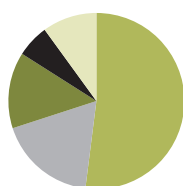
● Contribution 24%

PACKAGING BOARDS DIVISION'S
CONTRIBUTION TO GROUP OPERATING PROFIT



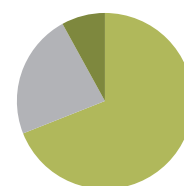
● Contribution 39%

PACKAGING BOARDS DIVISION'S
SALES BY MARKET



● EU (excl. Finland) 52%
● Finland 18%
● Far East and Southeast Asia 14%
● Other European countries 6%
● Others 10%

PACKAGING BOARDS DIVISION'S
SALES BY PRODUCT GROUP



● Consumer packaging boards 69%
● Corrugated board and
corrugated board raw materials 23%
● Coreboards and paperboard tubes 8%

FINANCIAL RESULTS AND MARKETS

The division's sales were FIM 8 067 million, up 13% on the previous year. Operating profit was FIM 1 212 million. This represents an increase of FIM 228 million on 1996, and is only FIM 82 million below the 1995 figure, which was a record. The division's financial result was good. The financial result was improved largely by the substantial growth in delivery volumes and strengthening of the US dollar and pound sterling. The division's capital invested fell to FIM 6 971 million.

There was strong demand for the division's products all year, and all mills operated at full capacity. Total output of board rose 7% to 1 650 million tonnes. Corrugated board production rose 12% to 341 million m². The good market allowed modest price rises to be introduced for most

products during the second half of the year. The good demand is expected to continue in 1998. The economic crisis that began in Southeast and East Asia in the autumn could, if it continues, adversely affect the markets for coreboards and, to some extent also for consumer packaging boards. The fluctuations in exchange rates that could result from a continuation of the crisis could weaken the financial result for 1998. The Asia-Pacific region accounts for about 12% of the division's sales. The most important single market is Japan.

CONSUMER PACKAGING BOARDS

Consumer packaging boards are manufactured by Enso Paperboards, which belongs to the parent company, and by the subsidiary Enso Cartonboards Oy Ltd. Four of the eight board machines are located at Imatra, two at Pankakoski and one each at Inkeroinen and Martorell. There are four PE coating lines at Imatra and Karhula. Paperboard packagings are produced at the Lahti mill of the subsidiary Pakenso Oy and by Ensopack Ltd, a subsidiary in Barbados.

Enso's consumer packaging boards are used in the manufacture of liquid packagings, paperboard cups, and packagings for food and pharmaceuticals. All products were in good demand throughout the year, and business progressed well. Almost all board machines set new annual production records. The mills retained their good competitiveness.

Plastic coating line PE 2 at Imatra was purchased back

from Tetra Pak, the division's biggest customer, in the spring. Coating line PE 5, which was built in 1996, had its first full year of production. Approximately 40% of all board produced at Imatra is now PE coated in-house.

A new flexo printing line for 1 1/2 litre milk and fruit juice cartons was started up at Pakenso Oy's Lahti mill in the

summer. The mill has a long-term cooperation agreement with the company Elopak Oy. The old printing press that is no longer required was transferred to Ensopack Ltd's Barbados plant.

The new combined cycle power plant at the Martorell mill had its first full year of operation. The plant has come up to expectations.

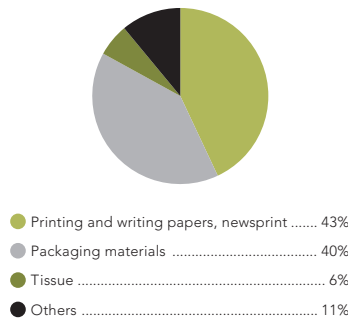
The focus in 1998 will continue to be on making production more efficient and developing new food packaging boards.

The short-term prospects for consumer packagings are steady.

CORRUGATED BOARD

The market for corrugated board raw materials was fairly stable throughout the year. Prices rose during the second half of the year, improving profitability for Heinola fluting mill. The price rises also had the effect of pushing up prices for corrugated board boxes. Demand for corrugated board was extremely strong throughout the year in Pakenso's markets in northern Europe. The mills were overloaded at times during the summer and autumn.

PACKAGING MATERIALS IN RELATION TO WORLD PAPER AND BOARD PRODUCTION IN 1997 (FIGURE 10)



Thanks to PE 5, 40% of Imatra's board can now be PE coated in-house.

In June, a box plant was purchased from June Emballage AB in Sweden. The plant is situated close to Pakenso Tambox AB's plant at Jönköping. In September, it was decided to build a corrugated board mill at Balabanovo to the south of Moscow. The cost of the investment will be around FIM 200 million. Construction work began in October and the mill will be completed towards the end of 1998.

A feasibility study relating to construction of a testliner mill at Eilenburg in Germany was completed on schedule, and the local authorities have granted all necessary building permits.

PAPERBOARD TUBES

Corenso United Oy Ltd's coreboard mills in Finland and France operated at full capacity all year. Demand was good and prices rose in the autumn. Towards the end of the year the economic crisis in Asia gave rise to uncertainty, notably in the textile industry in Taiwan and South Korea.

During the summer, Corenso United Oy Ltd purchased

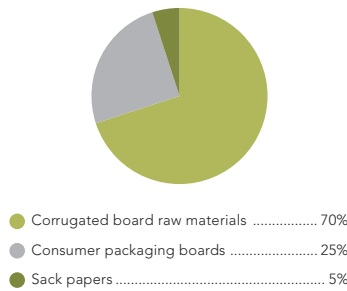
the entire share capital of Board Packaging (UK) Ltd in Milton Keynes, UK. The company's name has been changed to Corenso UK Ltd. It was decided to invest in a new line for heavy-duty paperboard tubes at the mill. In December, a 66% interest was purchased in Elfes GmbH & Co., a company located in Krefeld, Germany. These acquisitions have strengthened Corenso's position in its main markets and at the same time secured competitive supplies of paperboard tubes to the paper mills operated by Corenso's owners.

The main focus of Corenso's research and development work was on handling of the reject arising from the recycling of liquid packagings at the Varkaus mill. Significant progress was made during the year, and it is intended to start up a pilot plant employing a

gasification technique for plastic early in 1998.

Progress was also made in developing Condebelt drying technology. The Pankakoski and Loviisa facilities worked together to develop a new generation of paperboard tubes.

BREAKDOWN OF GLOBAL PRODUCTION OF PACKAGING MATERIALS, 1997 (FIGURE 11)



Pakenso's new flexo printing line produces 1 1/2 litre liquid packagings.

ENSO PAPERBOARDS

Sales	FIM 4 099 million
Production	Paperboard, 735 000 t Sulphate pulp, 713 000 t
Mills	Imatra and Karhula

ENSO CARTONBOARDS OY LTD

Sales	FIM 1 685 million
Production	Paperboard, 407 000 t
Mills	Inkeroinen, Pankakoski and Martorell

HEINOLAN FLUTING MILL

Sales	FIM 494 million
Production	SC fluting, 249 000 t
Mills	Heinola

PAKENSO OY

Sales	FIM 1 456 million
Production	Corrugated board, 341 million m ² Liquid packagings and egg cells
Mills	Lahti, Heinola, Varkaus, Kristinankaupunki, Ruovesi, Jönköping, Skene, Vikingstad, Riga and Tallinn

CORENSO UNITED OY LTD

Sales	FIM 647 million
Production	Paperboard, 226 000 t Paperboard tubes, 33 000 t
Mills	Pori, Varkaus, Loviisa, Imatra, Saint-Seurin-sur-l'Isle, Milton Keynes and Krefeld



FINE PAPERS

- *Innovative solutions for the changing needs of the graphic communications industry*
- *Ultra-modern technology and logistics*
- *Products and production in compliance with sustainable development*



Jouko Taukojärvi
Vice President

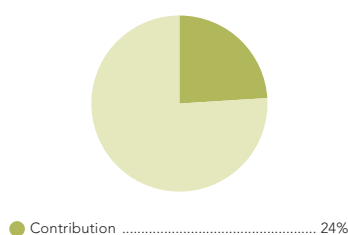
Enso's Fine Papers division comprises Enso Fine Papers Oy, Berghuizer Papierfabriek N.V, Tervakoski Oy, Lumipaper Ltd and Fortek Oy. The division has six mills producing both coated and uncoated fine papers. Products are divided into graphic papers (LUMI), office papers (Berga) and specialities (TER). The latest products in the office papers segment are digital printing papers (4CC), which although small in volume are growing rapidly.

With a production capacity of two million tonnes, the division is among the largest fine paper manufacturers in Europe. The main markets are in Europe, the United States and Asia. ■

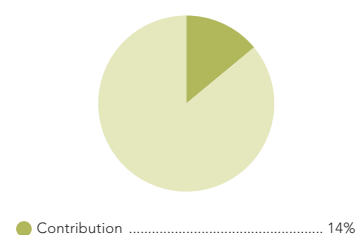
KEY FIGURES

<i>FIM million</i>	1997	1996	1995	<i>Production, 1 000 t</i>	1997	1996	1995
Sales	8 090	6 865	8 273	Graphic papers	595	508	409
Operating profit	438	-61	1 263	Office papers	856	684	610
Capital invested	9 480	7 773	7 642	Specialities and			
Investment	1 320	1 378	523	digital printing papers	105	98	92
Personnel, 31 Dec.	4 581	4 517	4 586				

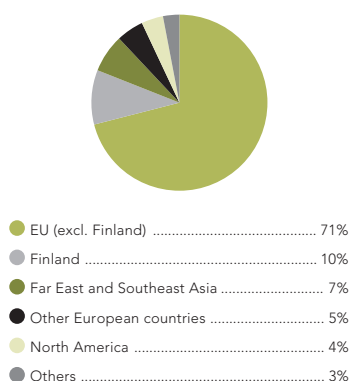
FINE PAPERS DIVISION'S CONTRIBUTION TO GROUP SALES



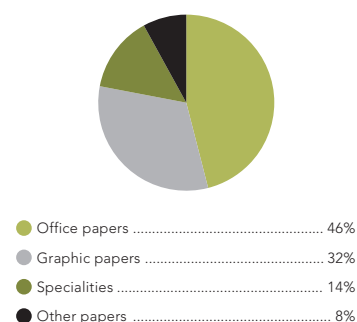
FINE PAPERS DIVISION'S CONTRIBUTION TO GROUP OPERATING PROFIT



FINE PAPERS DIVISION'S SALES BY MARKET



FINE PAPERS DIVISION'S SALES BY PRODUCT GROUP



FINANCIAL RESULTS AND MARKETS

The division's sales were 17.8% up on the previous year at FIM 8 090 million. The increase is due primarily to higher delivery volumes. European demand for fine papers rose by 2.5% for uncoated and by 5% for coated grades. The new PM 7 at Oulu raised sales by some 6%. Operating profit improved. The division's financial result was only fair because of the capital outlay on the Oulu paper machine. Roughly one million tonnes of new capacity came onto the market in 1997, the most notable being the 360 000 tonnes attributable to the start-up of the LUMI 7 production line at Oulu. Some of the paper machine investments already decided on have yet to be implemented. When on stream, these will raise capacity, particularly for coated fine papers.

Enso's fine paper mills operated at over 95% of capacity. Graphic papers and office papers were in good demand all year, but demand for specialities varied. Stable market conditions were not, however, reflected in prices in the way that was hoped. Price rises were not implemented until the second half of the year. The fall in market pulp prices late in the year and the economic decline in Asia did not affect fine paper prices in Europe in 1997. However, once the economic decline reached crisis point, demand in the markets of Southeast Asia, China and Korea weakened.

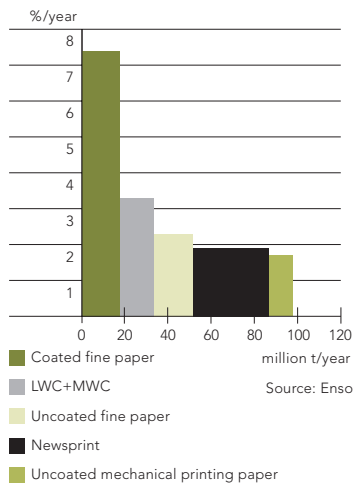
GRAPHIC PAPERS

The market for graphic papers was better than the previous year and demand was good. Oulu's new capacity was successfully marketed, despite the over-capacity resulting from new machine start-ups during the year. Prices for sheeted products were fairly stable, but reel prices fell during the spring and early summer, and did not begin to rise until the autumn. Demand for graphic papers is expected to continue satisfactory in 1998. The main uncertainty at present concerns the depth and duration of the economic decline in Asia and its possible impact on Western economies, and hence on demand for paper.

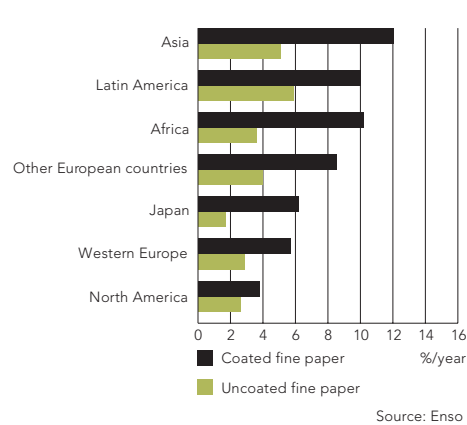
OFFICE PAPERS

Demand for office papers was good all year, and in Europe grew by 2.5%. Price rises introduced because of higher costs were only partially implemented in the autumn, although enough to improve profitability. Short-term market forecasts are difficult because of the economic situation in Asia. No significant new office paper capacity is currently being built in Europe.

GLOBAL CONSUMPTION AND GROWTH FORECASTS FOR GRAPHIC PAPERS 1997-2000



FORECAST GROWTH IN DEMAND FOR COATED AND UNCOATED FINE PAPERS 1997-2000



SPECIALITIES AND DIGITAL PRINTING PAPERS

The strong demand for thin printing papers and papers for the cigarette industry continued, and the market was good throughout the year. Prices were stable. In contrast, demand for other specialities varied greatly. Over-capacity led to fierce competition on some markets.

Demand for digital printing papers grew more slowly than anticipated. Sales and marketing are now handled by Berghuizer Papierfabriek N.V. in the Netherlands as part of development of the marketing and distribution centre.

INVESTMENT

Capital expenditure for the division totalled FIM 1 320 million. The main investment was the new LUMI 7 production line at Oulu, where production started in April. The final cost was FIM 200 million less than budgeted. The final stage of the project – expansion of sheeting capacity – was completed in December. The most important other investment was a soft calender for Berghuizer's PM 8. A log thawing conveyor was acquired for Veitsiluoto pulp mill early in 1998.

The biggest investment project in 1998 will be a rebuild of fine paper machine no. 2 at the Veitsiluoto mill at an estimated cost of FIM 280 million. This will raise capacity for copying papers by 70 000 t/a, thus securing the division's position as the European market leader.



Oulu's new LUMI 7 production line produced 160 000 tonnes in its first year of operation.

ENSO FINE PAPERS OY¹⁾

Sales	FIM 6 914 million
Production	Office papers, 856 000 t Graphic papers, 595 000 t Specialities, 28 000 t
Mills	Imatra, Oulu, Varkaus, Veitsiluoto, Wapenveld

TERVAKOSKI OY

Sales	FIM 567 million
Production	Specialities, 77 000 t
Mills	Tervakoski

¹⁾ Includes figures for Berghuizer Papierfabriek N.V.



PUBLICATION PAPERS

- *Synergy benefits from strong growth passed on to customers*
- *Comprehensive range of products serving printed communications*
- *Organization based on individual product groups*



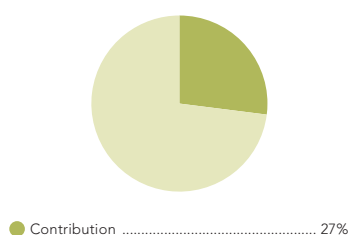
Kimmo Kalela
Vice President

Publication Papers is one of Enso's three main divisions. Printing papers are divided into newsprint, magazine papers and specialities. The main markets for these are in Finland and mainland Europe. Enso's publication papers are manufactured in Finland by Enso Publication Papers Oy Ltd and in Germany by Sachsen Papier Eilenburg GmbH and by E. Holtzmann & Cie. AG, which became part of the division in the spring. With its total capacity of three million tonnes, the division is the world's fourth largest and Europe's third largest manufacturer of publication papers. Production by the units in Germany is based largely on recycled fibre. The division also includes Laminating Papers Ltd, a subsidiary manufacturing laminating papers and films mainly for the building industry. ■

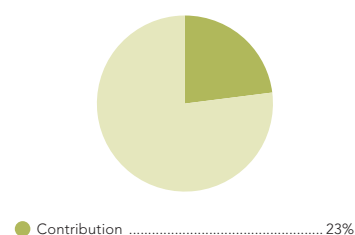
KEY FIGURES

<i>FIM million</i>	1997	1996	1995	<i>Production, 1 000 t</i>	1997	1996	1995
Sales	9 101	7 482	7 970	Newsprint	1 034	854	848
Operating profit	704	1 268	1 101	Magazine papers	1 006	614	722
Capital invested	10 066	8 017	7 685	Specialities	281	233	233
Investment	365	416	362	Laminating papers and films	156	129	136
Personnel, 31 Dec.	5 230	4 053	3 920	Deinked pulp	113	54	30

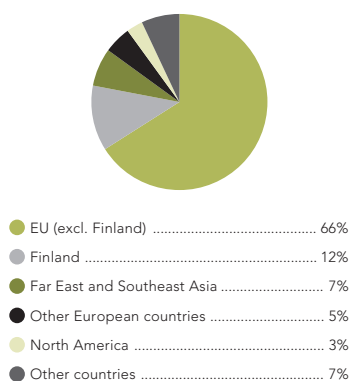
PUBLICATION PAPERS DIVISION'S CONTRIBUTION TO GROUP SALES



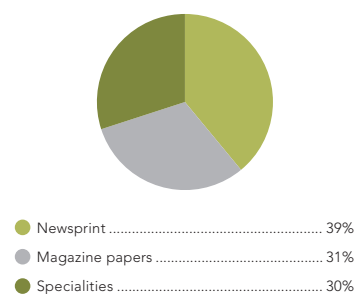
PUBLICATION PAPERS DIVISION'S CONTRIBUTION TO GROUP OPERATING PROFIT



PUBLICATION PAPERS DIVISION'S SALES BY MARKET



PUBLICATION PAPERS DIVISION'S SALES BY PRODUCT GROUP



FINANCIAL RESULTS AND MARKETS

The division's sales were FIM 9 101 million, 20% higher than the previous year. Operating profit was FIM 704 million, 8% of sales (17% in 1996). Sales were boosted by the acquisition of a controlling interest in E. Holtzmann & Cie. AG in spring 1997. Holtzmann's figures are included from the beginning of May.

The market for publication papers was good for almost the whole year. Capacity utilization rates remained high, production records were set by several machines, and production volumes were higher than the year before. Following the sharp fall in prices in the second half of 1996, prices remained low in 1997 despite gradual increases, and this weakened profitability.

The acquisition of Holtzmann added uncoated (SC) magazine papers to the division's portfolio, significantly strengthening Enso's position as a supplier of publication papers. Demand strengthened and prices rose at the end of 1997 and beginning of 1998.

NEWSPRINT

In addition to its standard newsprint, Enso has become a major supplier of newsprint specialities such as Hifi and tinted grades, and the trend in sales volumes has been favourable. In recent years, newsprint consumption has been rising by 1.5% a year in Western Europe. Supply and demand are expected to remain in balance over the next few years in view of the modest growth in production capacity in the main markets. The deterioration in the economic situation in Asia could cause North American manufacturers temporarily to turn their attention to Europe.



Directory papers are also part of the division's extensive range.

The European market for waste paper is in balance and prices are stable. Because of the decline in demand from Asia, the situation is expected to remain good in 1998.

MAGAZINE PAPERS

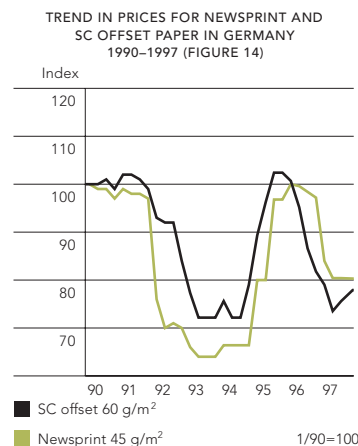
Prices for coated magazine papers fell early in the year and growth in demand was slow. The situation improved rapidly in the second half of the year and prices began to rise. Consumption is forecast to grow by 10–12% in 1998. Demand is expected to remain good during the first half of 1998.

Demand for uncoated magazine paper grew by 4% in Western Europe in 1997. The fall in coated magazine paper prices early in the year, combined with long delivery times, resulted in a sharp increase in demand for SC paper, which in the autumn made deliveries extremely difficult. The market is at present in balance.

Profitability for magazine papers was not satisfactory, but with price rises is expected to be much better in 1998.

SPECIALITIES

Enso's deliveries of directory papers have increased at the market growth rate of a few per cent a year. Prices were well down on 1996, following the same trend as for newsprint. In 1998, Varkaus PM 4 will be fitted with a new calender to improve product quality. Demand in 1998 is expected to remain strong and some improvement in prices is anticipated.



Demand for book papers was good and the capacity utilization rate was high. The division increased its shares of the main markets, but the fall in prices meant the financial result was only satisfactory. EnsoClassic, a high-brightness book paper launched during the year, was well received by the market. Delivery volumes are likely to grow in 1998, and Enso expects to further consolidate its position as Europe's leading book paper producer.

The acquisition of Holtzmann has made Enso a leading producer of wallpaper base. The market for this product was steady in 1997 and profitability was good. The situation is expected to remain good in 1998.

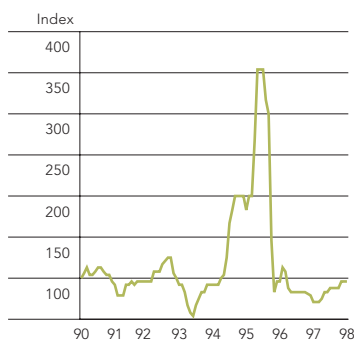
LAMINATING PAPERS LTD

Sales by Laminating Papers Ltd were substantially higher than the year before and the financial result was satisfactory. A plant producing overlay films went into production in Malaysia in January. The economic problems in the Far East had little impact on the laminating papers business in 1997. A satisfactory financial result is expected in 1998. However, a continuation and worsening of the economic crisis in Asia, an important market for the company, could reduce both sales volumes and prices.



Together, the Holtzmann mills and Sachsen Papier provide significant benefits in both raw material procurement and end-product logistics.

TREND IN WASTE PAPER PRICES IN GERMANY (FIGURE 15)



1/90=100

Source: Euwid

ENSO PUBLICATION PAPERS OY LTD¹⁾

Sales	FIM 8 080 million
Production	Newsprint, 1 034 000 t Magazine paper, 1 006 000 t Specialities, 281 000 t
Mills	Anjala, Kotka, Summa, Varkaus, Veitsiluoto, Eilenburg, Maxau, Wolfscheck

LAMINATING PAPERS OY

Sales	FIM 647 million
Production	Laminating papers, 156 500 t
Mills	Kotka, Imatra

¹⁾ Includes figures for Sachsen Papier Eilenburg GmbH and E. Holtzmann & Cie. AG.

The key factor behind the success of the Enso Group's rapid international expansion is its highly trained and experienced personnel. Enso has produced a plan for the period 1997–2002 specifying the main goals and action programmes for human resources development.

Enso's development programmes are based on surveys of the skills needed by employees and take into account individual needs for development and the changing age structure of the Group's personnel. Management practices are revised and developed to improve the organization's preparedness for change and to permit greater employee participation.

TRAINING BRINGS RESULTS

Human resources development seeks to improve both performance standards and working climate throughout the entire organization.

Enso's own training programmes are a vital part of human resources development. These are supplemented when necessary by outside training. In 1997, Enso arranged 1 600 courses encompassing 67 000 student days.

Enso has its own business management training programme. The Enso Competence course is designed to provide basic management skills to those who are just beginning their careers in management. The Enso Executive course trains those who already have management experience for the most demanding managerial responsibilities. The Sales Desk Enso course prepares participants for international sales and marketing work, while the Enso International course is for employees who are moving to an Enso unit in another country.

In management training, particular emphasis is placed on teamwork and on the changing role of the manager.



Management training for Enso's own Executive group.

Enso encourages its employees to study for vocational qualifications and arranges apprenticeship training.

Wherever possible, vacant posts are filled from within the Group. This promotes personnel mobility and job rotation.

In 1997, Enso provided work for 486 summer workers and students.

JOB SATISFACTION IMPROVES PERFORMANCE

An Enso Team questionnaire was used to survey management practices, human resources development, employee performance and arrangements in jobs and at the workplace. The number of respondents was 11 762.

The findings were used to draw up a list of recommended measures, which the units have used in launching their own action programmes.

Discussions on the issue of development will be expanded to include the Group's entire personnel. Development plans drawn up at the individual level form a basis for continuous professional improvement. Job satisfaction is gauged by means of annual questionnaires.



Learning about paper through the digital press at Oulu.



People from Enso's Forest Operations unit learn about biotopes.

Enso encourages its employees to engage in activities that help maintain and improve their working ability, for example by providing more opportunities for exercise.

A quality system was introduced for occupational health care, and the occupational health care service produced and arranged by Enso in Finland was awarded an ISO 9001 quality certificate.

PROFIT-SHARING SCHEME INTRODUCED

A profit-sharing scheme was introduced for all employees at Enso's units in Finland. The scheme is based on Group

or subsidiary company profits and on achievement of key targets.

Enso uses the International Position Evaluation (IPE) system to assess the demands of the work of salaried employees. The system has been expanded to cover new units within the Group.

Intra-Group collaboration at the European level was a new Enso initiative in 1997. The purpose is to establish internal procedures for information transfer and discussion that are open and confidential.

TABLE 5

<i>Personnel, key figures</i>	1997	%	1996	%	1995	%
Personnel, average						
– in Finland	15 847	80	16 134	84	16 014	83
– in other countries	4 023	20	2 960	16	3 284	17
Total	19 870	100	19 094	100	19 298	100
Sales/employee (FIM 1000)	1 473		1 344		1 452	
Personnel turnover (%)	2.8		3.7		2.7	
Training days/employee	4.39		3.93			

Enso is well aware of the importance to its business success of the environmental impact of its operations. Under the environmental policy ratified in 1997, the company's Board of Directors is committed to the continuous improvement of environmental protection and to promoting sustainable development in Enso's forest management, manufacturing and products.

In accordance with its fibre strategy, Enso's production in Finland is based largely on primary fibre, while that in Europe, the main market, is based on recycled fibre. The purchase of a controlling interest in E. Holtzmann & Cie. AG supports this strategy in that it increases the use of recycled fibre and thus further widens the raw material base. In 1997, Enso used 1.2 million tonnes of recycled fibre, which represents about 22% of the total fibre raw material used in the Group's production.

Less than a fifth of Enso's wood raw material comes from Russia and the Baltic states. In recent years, Enso has made major efforts to improve the environmental aspects of wood imports from Russia in order to ensure smooth supplies of good-quality raw material in the future.

Enso has a system in place with which to ascertain the origins of imported wood. During 1997, a total of 565 logging stands were audited in Russia and Belorussia.

In December, Enso extended the purchasing moratorium on the old-age forests of the Karelian Republic and the Murmansk area until the end of 1998, or until a proper understanding has been reached on how the forests should be utilized. Enso has also arranged environmental training for its own personnel and its Russian partners, and stepped up its dialogue with civic organizations in Russia.

It is also part of Enso's environmental strategy to increase its self-sufficiency in energy. The aim is to make greater use of biofuels and domestic fuels and to make use of back-pressure power. Reducing CO₂ emissions is a priority in the choice of energy sources. Enso was one of the first companies to have its own carbon dioxide balance audited. The preliminary work was done under the direction of the Technical Research Centre of Finland (VTT) at the end of the year, and the results are published in Enso's Environmental Report.

SPENDING ON ENVIRONMENTAL PROTECTION

In 1997, Enso spent a total of FIM 437 million (1.5% of sales) on environmental protection (1996: FIM 480 million and 1.9%).

The figure includes capital expenditure as well as operating and maintenance costs, but excludes interests and depreciation.

Enso's investment in environmental protection in 1997 was FIM 164 million (FIM 227 million). This represents 3.9% of the Group's total investment for the year. Enso's need for environmental protection investment in the next few years is likely to be smaller than in 1997.

Enso's investment in environmental protection is either external or internal. The purpose of external measures is to reduce environmental loadings without changing the production process. Internal measures seek to achieve the same end through improvements to the production process.

Environment-related operating and maintenance expenditure totalled FIM 273 million in 1997 (1996: FIM 253 million). Operating and maintenance costs include all costs related either directly or indirectly to environmental protection.

Meaningful figures showing long-term trends in environmental protection investment and expenditure cannot be produced because the general rules for calculating such figures in the forest industry are only just being established. Nevertheless, long-range development work on environmental protection and the results achieved, such as reduction in waste volumes, more effective use of resources, greater logistic efficiency, and sustainable management of forest resources, can be shown to have a positive impact on the Group's cash flows.

ENSO'S ENVIRONMENTAL BALANCE, 1997

TABLE 6

Raw materials	
Wood raw material consumption	20 323 000 m ³
Recovered paper consumption	1 173 651 t
Electricity consumption	
	9 319 GWh
Fuel consumption	
	2 981 000 toe
Water consumption	
	474 163 000 m ³
Discharges to water	
COD	92 278 t
P	114 t
Emissions to air	
CO ₂ from non-renewable fuels	3 116 000 t
CO ₂ from renewable fuels	8 803 000 t
CO ₂ total	11 918 000 t
SO ₂	4 283 t
No _x (NO ₂)	8 856 t
Waste for landfill	
	255 860 t
Sales production	
Market pulp	484 000 t
Paper, board, etc.	5.7 mill. t
Sawn timber and converted products	1.8 mill. m ³

INVESTMENT PLANNING AND RESERVES

Under Finnish law, effluent discharge permits are granted to production plants for a fixed period of usually 5–10 years. In 1997, Enso submitted applications for discharge permits on behalf of Pankakoski Boards Oy Ltd and Enso Fine Papers Oy's Veitsiluoto business unit. The following are due to renew their discharge permits in 1998–2000: Enocell Oy, Enso Fine Papers Oy's Oulu business unit, and Enso Publication Papers Oy Ltd's Anjala business unit. In preparation for this, the Anjala business unit has begun improvements to its treatment plant. The estimated cost is FIM 40 million and most of the work will take place in 1998. Anjala's gas turbine plant is to be modernized by 2000, bringing a major reduction in nitrogen oxide emissions. Investments needed by Pankakoski Boards Oy Ltd, Enso Fine Papers Oy's Veitsiluoto unit and by the Oulu unit are estimated at several tens of million markka.

Enso's consolidated balance sheet shows a total reserve of FIM 40 million to cover future environmental expenditure. In 1996, a reserve of FIM 4 million was made, out of which FIM 0.3 million was used in 1997 to determine the need for soil remediation at Tervakoski. The unused reserve is for clean-up work on soil and buildings at the old forest chemicals plant at Imatrankoski and for an overhaul of the Oulu chemical plants.

The most significant change in the Group's structure in 1997 was the purchase of a controlling interest in the German publication papers manufacturer E. Holtzmann & Cie. AG. Changes in the Group's composition in 1997 have no material effect on environmental responsibilities. There are currently no legal proceedings in progress that could have major financial implications for the Enso Group.

ENVIRONMENTAL MANAGEMENT SYSTEMS

Targets at several levels are set for environmental protection. One way of gauging how well these are reached is by looking at compliance with emission targets at individual mills. One tool that can be used alongside administrative measures relating to normal business operations to set and monitor targets is an environmental management system.

Environmental management systems can be used systematically to influence the entire production chain. They are based either on the EU's EMAS regulation or on the International Organization for Standardization's ISO 14000 system. The two systems embrace management of both the environment and the financial risks.

It is the aim of all Enso's production units to be prepared for EMAS certification in 1998 and to attach a management system to their existing quality systems. By the end of 1997, EMAS certificates had been awarded to Enocell Oy, Berghuizer Papierfabriek N.V., and Enso's Veitsiluoto and Imatra mills. Sachsen Papier Eilenburg GmbH received an EMAS certificate in January 1998.

Certificates under the ISO 14001 quality system had been awarded to the following Enso units by the end of 1997: the Veitsiluoto business units, Varkaus business units, Imatra mills, Kotka mills, Berghuizer Papierfabriek N.V., Enocell Oy and Sachsen Papier Eilenburg GmbH.



Forest biodiversity is safeguarded by taking environmental values into account in forestry work and by designating areas for nature conservation.

One of the aims of Enso's research and development work is "source reduction", that is to achieve the appropriate product quality with the minimum consumption of resources and materials.

The Group's R&D expenditure was FIM 195 million (25% up on 1996), of which the Research Centre, including investments, accounted for FIM 60 million. R&D involved 236 man-years of work, with the Research Centre accounting for 120 of this. The number of R&D personnel at the end of the year was 211, including 127 at the Research Centre. In June, Enso's Board of Directors decided to expand the Research Centre at Imatra. This will involve building 3 900 m² of new premises and modernizing 2 000 m² of existing premises. The building was at roof height at the end of the year, by which time costs had reached FIM 16 million. The expanded facilities will allow new investment opportunities based on fibre raw material to be studied far more actively in Europe and Asia. It will also allow Enso to step up partnerships in R&D work with key customers and other interest groups. The total cost of the investment will be around FIM 60 million.

BASE INDUSTRIES

Source reduction starts with the beginning of a product's life cycle, i.e. with wood procurement. The logistics side of wood procurement has been made more efficient by the development of a satellite-based transport planning system, which minimizes the distances driven with empty vehicles and optimizes raw material deliveries to mills.

In development work on chemical pulping processes, the aim is to retain the original strength of fibres as much as possible. Displacement batch cooking has improved the performance of the sulphate process in this respect. Enso leads the world in the application of this process.

An essential aspect of the thinking behind source reduction is to make maximum use of the wood raw material arriving at the mills and to select the right material for the right product. Enso uses sawdust to produce pulp, which is then processed into laminating papers and laminates. In this way, one of the by-products from sawmilling is converted into highly processed products that have useful lives of tens and possibly hundreds of years.

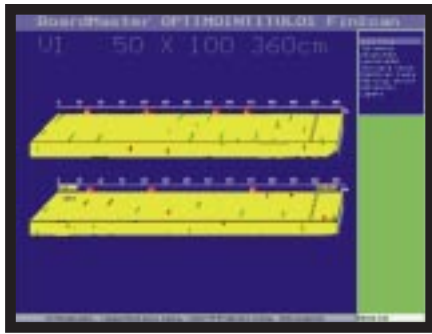
The energy consumed by the Finnish paper industry has for many years been based on back-pressure power, thus helping to save primary energy. Back-pressure power is generated more than twice as efficiently as condensing power. Advances in process technology have drastically reduced consumption of heat energy compared with that of electricity. The use of combined cycle power generation makes it possible to retain both high efficiency and the balance between different energy forms, even in a new situation. Enso has led the forest industry in making use of combined cycle technology.

PACKAGING BOARDS

Enso offers a wide range of consumer packaging boards for demanding purposes. In its board production, Enso employs new technology and develops both raw materials and polymer coatings to make packagings lighter. Mechanical pulps (both PGW and CTMP) produced from spruce are excellent for the middle layer of multiply boards. With these pulps 10–20% less fibre is needed than with other pulps. Packagings can be made even lighter thanks to the



Both conventional and digital printing techniques are studied at Oulu's modern printing laboratory.



Tomography provides a way of grading sawlogs automatically according to quality, dimensions and number of knots. Shown here is a typical printout.

new High Barrier coatings, which are patented in all Enso's main markets and in the United States. The use of Condebelt drying technology gives board a unique combination of characteristics.

Enso has been manufacturing liquid packaging boards for over 40 years. Packagings made from paperboard are recyclable. An efficient collection system is in place for used liquid packagings, which are used to make products such as paperboard tubes. In distribution, paperboard packagings cause smaller loadings than competing materials: a 1-litre paperboard packaging weighs about 25 g, while a 1-litre glass bottle weighs about 350 g. Advances in technology have allowed the weights of packagings to be reduced by over 10% without adversely affecting quality.

FINE PAPERS AND PUBLICATION PAPERS

Attempts to reduce the basis weights of printing papers, in other words use less material, are hampered by the need to preserve opacity. New techniques used to lower basis weight include the use of PCC as filler, film transfer coating of the paper surface, and soft calendering. Also being studied are completely new wood species such as *Acacia magnum*, whose fibre characteristics are being examined as a possible route to lowering the basis weights of copier papers and other fine papers.

Enso is the leader in the development and manufacture of MFC paper. Wood consumption per unit printing area is lower for this paper than for any other paper.

Enso is also working to save resources in converting. "On-demand" digital printing allows smaller print runs to be made cost-effectively, thus greatly reducing the transport

and storage of printed products. Enso's digital printing paper 4CC is rapidly increasing its share of the market.

In addition to wood fibre, papermaking also requires large volumes of clean water. The recycling of water in the production process has always been an integral part of papermaking. At present, only fairly coarse material is removed from this water, which means it cannot be used in place of fresh water at all points of the process. Enso was the first paper manufacturer in the world to introduce evaporation as a means of cleaning up process water. Evaporation also removes dissolved matter, and the treated water is clean enough to replace fresh water, even where high purity is needed.

The work of Enso Oyj's Board of Directors and the company's administrative practices are largely in compliance with guidelines on the administration of public limited companies published in February 1997 by the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers. A statement on the auditing of the administration is included in the Auditors' Report on page 43.

SUPERVISORY BOARD,

BOARD OF DIRECTORS AND PRESIDENT

The members of Enso Oyj's Supervisory Board are elected by the Ordinary Meeting of Shareholders for a term of three years at a time; however, one-third of the members, or the number nearest to this, are in turn to resign each year. The term of office of members who are in turn to resign ends when a meeting of shareholders holds a new election. The Supervisory Board has a minimum of eight and a maximum of twelve members. Persons who have reached 67 years of age may not be elected members of the Supervisory Board. The members of the Supervisory Board and the members next in turn to resign are listed on page 73.

According to the company's Articles of Association, the duties of the Supervisory Board are:

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

The Board of Directors has a minimum of five and a maximum of nine ordinary members and a maximum of three deputy members. The terms of office of ordinary and deputy members expire at the end of the third financial period following their election; however, the term of office of a full-time ordinary or deputy member expires when the member reaches the age of 65 at the latest.

According to the company's Articles of Association, the duties of the Board of Directors are:

1. to take care of the administration of the company and of the proper management of its business operations;
2. to appoint and dismiss the most important officers of the company;
3. to decide on applications for credit;
4. to decide on the acquisition, renting and alienation of real property;
5. to prepare the business to be discussed at meetings of the Supervisory Board; and
6. to take care of the other duties of the Board of Directors as stated in the Companies Act.

In addition to the statutory duties of the President as stated in the Companies Act, it is the duty of the President:

1. to direct the business activities of the company in accordance with the instructions and directions of the Board of Directors;
2. to follow economic developments in Finland and abroad, and to supervise the adaptation of the company's activities to the demands imposed by changing operating conditions;
3. to direct the long-term planning of the company and to supervise the development of the organization and efficiency of the company's operations;
4. to direct and supervise the study of possibilities for development offered by inter-corporate cooperation and to implement them in the company's own and related businesses; and
5. to present the proposals of the Board of Directors at meetings of the Supervisory Board.

The members of Enso Oyj's Board of Directors, the President, Senior Executive Vice President, and the Chairman and Vice Chairman of the Board of Directors were elected at a meeting of the Supervisory Board on 4 October 1995. Their names appear on page 72. The term of office of the members of the Board of Directors ends on 31 December 1998.

The main terms of the President's contract of employment are set out in writing.

BUSINESS ORGANIZATION

AND ALLOCATION OF RESPONSIBILITIES

The Group's business activities are handled through four divisions made up of business units. The way responsibilities are allocated is shown in the organization chart (page 75), which was approved at the Supervisory Board's meeting of 12 February 1996.

All heads of divisions are members of the Board of Directors. Six of the eight ordinary members of the Board of Directors and one deputy member are full-time management employees of Enso Oyj, while two ordinary members are consultants and not employed by Enso. The Board of Directors makes decisions on all matters of importance concerning the Group and its subsidiaries. This includes approving and ratifying the Group's business strategy, the long-range plan over the next few years, the budget, and the most important investments. Trends in the Group's business and financial results are monitored monthly and decisions made on any actions deemed necessary. Monthly reports are submitted to the Supervisory Board.

The timetable for the publication of financial information is on page 4.

The duties of the members of the Board of Directors within the Group's Central Administration are shown in the organization chart on page 75.

ACCOUNTING

Responsibility for the Group's internal and external accounting rests with the business units and subsidiaries, who are responsible for producing their own financial information and ensuring that it is correct. The accounts department of Central Administration defines accounting principles and principles of consolidation for the entire Group for approval by the company's Board of Directors. The principles of consolidation are presented in the Notes to the Financial Statements. The accounts department of Central Administration also issues instructions for the preparation of the financial reports, budget plans and accounts needed by the Group's top management. The department is also responsible for producing the consolidated and parent company financial statements, and oversees compliance with the Group's accounting principles and principles of consolidation.

FINANCING

The Group's long-term financing is arranged largely through the parent company, and subsidiary company financing is arranged through internal loans. Decisions on loans from outside the Group are made by Enso Oyj's Board of Directors. Loan administration and financial planning are the responsibility of the finance department.

Short-term financing: Overall management of liquidity is the job of the finance department. The subsidiaries report their cash budgets to the department. The cash funds of Finnish subsidiaries are administered via the Group's accounts.

FINANCIAL RISK MANAGEMENT

In accordance with the policy of the Board of Directors, the Group's Finnish divisions are independently accountable for their own foreign exchange risks, and carry out hedging operations against the parent company. In accordance with a decision by the Board of Directors, each business unit has produced for itself a written foreign exchange policy statement. The Enso's Group's foreign exchange exposure consists of cash flow risks and balance sheet risks. Subsidiaries are concerned mainly with cash flow risks because their financing is handled in the currency of the country in question, and the foreign exchange risk arising on financing is borne by the parent company. The balance sheet exposure comprises the parent company's foreign currency denominated receivables and debts, internal forward contracts and all hedging instruments. The shareholders' equity of foreign subsidiaries is regarded as a separate exposure. Interest rate and foreign exchange risks relating to the balance sheet exposure are the responsibility of the finance department.

AUDITING

The auditors appointed by the meeting of shareholders are SVH Coopers & Lybrand Oy (Certified Public Accountants), for whom Pekka Nikula, CPA, is auditor responsible for Enso Oyj. In addition to his statutory duties, the responsible auditor reports the findings of his audits to the company's Board of Directors as and when necessary and attends meetings of Enso Oyj's Board of Directors at least twice a year.

The Group's internal auditing is handled by the auditing department, which in turn is part of the area of responsibility of the member of the Board of Directors in charge of corporate financing and accounting. Reports of audit findings, together with any proposals for actions, are submitted to the members of the Board of Directors and to the Group's auditor.

RISK MANAGEMENT

The Enso Group's risk management seeks to identify and minimize risks relating to the personnel, property and assets, and activities. Responsibility for risk management is delegated to the local units, which ensure that their insurance cover and deductibles are in accordance with their insurance policies, and also report any accidents to the insurance company. Insurance policies are a matter for Central Administration to decide.

ENSO OYJ'S BOARD OF DIRECTORS



Chairman
Jukka Härmälä
born 1946, B.Sc. (Econ.)
President & CEO of Enso Oyj



Vice Chairman
Juhani Pohjolainen
born 1938, M.Sc. (Eng.)
Senior Executive
Vice President, Enso Oyj
Deputy to the President & CEO



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



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



Paavo Uronen
born 1938, Professor
Chancellor of Helsinki University
of Technology



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



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



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



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

ENSO OYJ'S SUPERVISORY BOARD AND AUDITORS

SUPERVISORY BOARD

CHAIRMAN
JUKKA MIKKOLA
born 1943, Master of Laws, Member of Parliament

VICE CHAIRMAN
MATTI VÄISTÖ
born 1949, M.Sc. (Agriculture & Forestry),
Member of Parliament

KRISTER AHLSTRÖM
born 1940, M.Sc. (Eng.),
Chairman of the Board of A. Ahlstrom Corporation

CARL-OLAF HOMÉN
born 1936, Master of Laws

ULLA LÄHTEENMÄKI
born 1939, Ph.D., Professor,
Director of Centre for Metrology and Accreditation

PEKKA MORRI
born 1939, B.Sc. (Pol. Sc.),
Director, Social Insurance Institution

MARKKU MÄKINEN
born 1945, L.Lic. Secretary General,
Ministry of Trade and Industry

KAUKO MÄKIVUOTI
born 1938, Agent for Puutyöväenliitto,
Oulu office (retired)

TUIJA NURMI
born 1958, army doctor, Member of Parliament

PEKKA RUOTSALAINEN
born 1947, Dip. Soc.,
Managing Director of Imatran Seudun Kehitysyhtiö Oy

SISKO SEPPÄ
born 1954, M.Sc. (Pol. Sc.), Parliamentary Group Secretary

BEN ZYSKOWICZ
born 1954, Master of Laws, Member of Parliament

PERSONNEL REPRESENTATIVES PARTICIPATING
IN THE WORK OF THE SUPERVISORY BOARD:

TERHO AHONEN
born 1949, Shift Manager

VEIJO JUUTI
born 1944, Metering Supervisor

PENTTI KOMI
born 1939, Repair Worker

AUDITORS

SVH Coopers & Lybrand Oy,
Certified Public Accountants, with
PEKKA NIKULA,
CPA, as responsible auditor

OTHER POSTS HELD BY MEMBERS OF THE SUPERVISORY BOARD
AND BOARD OF DIRECTORS

BOARD OF DIRECTORS

JUKKA HÄRMÄLÄ

Chairman of the Board of the Confederation
of Finnish Industry and Employers,
Chairman of the Board of Sampo Insurance Company Ltd,
Vice Chairman of the Board of Finnlines Oy,
Vice Chairman of the Board of Pohjolan Voima Oy,
Member of the Board of Silja Oy Ab,
Vice Chairman of the Supervisory Board
of Pension Varma Mutual Insurance Company,
Member of the Supervisory Board of Merita Bank Ltd

ESKO MÄKELÄINEN

Member of the Board of FY-Industries Oy,
Member of the Board of PV Yhtymä Oyj,
Member of the Board of Garantia Insurance Company

PAAVO PITKÄNEN

President of Pension Varma Mutual Insurance Company,
Member of the Board of Metra Oy Ab,
Member of the Board of Partek Oyj Abp,
Member of the Supervisory Board of Instrumentarium Oy,
Member of the Supervisory Board of Merita Bank Ltd,
Member of the Supervisory Board of MTV Oy

JUHANI POHJOLAINEN

Member of the Board of the Confederation
of Finnish Industry and Employers,
Member of the Supervisory Board of Kemijoki Oy,
Member of the Supervisory Board
of Teollisuuden Voima Oy,
Member of the Supervisory Board
of Nova Life Insurance Company Ltd

PAAVO URONEN

Chairman of the Board of Culminatum Oy,
Chairman of the Board of Uniscience Oy,
Member of the Board of Helsingin Puhelin Oyj

SUPERVISORY BOARD

KRISTER AHLSTRÖM

Chairman of the Board of A. Ahlstrom Corporation,
Member of the Board of ABB Oy,
Member of the Board of Oy Aga Ab,
Chairman of the Supervisory Board
of Pension Varma Mutual Insurance Company,
Member of the Supervisory Board of Merita Bank Ltd

CARL-OLAF HOMÉN

Member of the Board of Hackman Oy Ab,
Member of the Board of Kyro Oyj Abp,
Member of the Board of Metra Oy Ab,
Chairman of the Supervisory Board
of Aktia Säästöpankki Oyj,
Member of the Supervisory Board of Tamro Oyj

MARKKU MÄKINEN

Chairman of the Board of Patria Industries Oy,
Member of the Board of Finnish Export Credit Ltd,
Member of the Board of Valmet Oyj

PEKKA RUOTSALAINEN

Managing Director of Imatran Seudun Kehitysyhtiö Oy

ORGANIZATION

GROUP	DIVISIONS
<p style="text-align: center;">BO R D O F D I R E C T O R S</p> <p style="text-align: center;">J. Härmälä President & CEO, Chairman</p> <p style="text-align: center;">J. Pohjolainen Vice Chairman, Senior Executive Vice President, Deputy to the President & CEO</p> <p style="text-align: center;">K. Kalela P. Laaksonen E. Mäkeläinen P. Pitkänen J. Taukojärvi P. Uronen</p> <p style="text-align: center;">P. Juvakka Deputy Member</p>	<p style="text-align: center;">B S E I N D U S T R I E S D I V I S I O N</p> <p>Juhani Pohjolainen</p> <p>Forest Operations.....V. Pölkki Enocell Oy.....M. Halonen Enso Forest Development Oy Ltd.....H. Rissanen Enso Timber Oy Ltd.....A. Pelkonen Kemijärven Sellu OyM. Halonen</p> <p style="text-align: center;">P C K G I N G B O R D S D I V I S I O N</p> <p>Pekka Laaksonen</p> <p>Heinola Fluting MillP. Suursalmi Enso Paperboards.....N. Pöyhönen Corenso United Oy Ltd.....P. Harkki Enso Cartonboards Oy LtdU. Rastas Pakenso Oy.....M. Pentikäinen Imatra MillsM. Lamberg</p> <p style="text-align: center;">F I N E P P E R S D I V I S I O N</p> <p>Jouko Taukojärvi</p> <p>Enso Fine Papers OyJ. Taukojärvi Imatra Business UnitS. Antti Oulu Business UnitH. Ruokolainen Varkaus Business UnitH. Alalauri Veitsiluoto Business UnitL. Ilves Berghuizer Papierfabriek N. V.H.v. Eeghen Merchants Business Unit.....E. Keino Tervakoski OyR. Panula Fortek OyP. Juvakka Oulu MillsH. Ruokolainen Veitsiluoto MillsP. Juvakka</p> <p style="text-align: center;">P U B L I C A T I O N P P E R S D I V I S I O N</p> <p>Kimmo Kalela</p> <p>Enso Publication Papers Oy Ltd.....K. Kalela Anjala Business Unit.....H. Karppinen Kotka Business UnitJ. Alm Summa Business Unit.....I. Alanen Varkaus Business Unit.....K. Saramäki Veitsiluoto Business UnitR. Järvelä E. Holtzmann & Cie. AGK. Korhonen, W. Müller Sachsen Papier Eilenburg GmbHH. Tarvonen Laminating Papers LtdP. Huhta Enso-Yhteispalvelut OyJ. Helve Varenso OyJ. Helkala Keräyskuitu OyJ. Airaksinen Anjalankoski Mills.....U. Rastas Kotka Mills.....P. Huhta Varkaus Mills.....K. Saramäki</p>
<p style="text-align: center;">C E N T R A L A D M I N I S T R A T I O N</p> <p>Jukka Härmälä</p> <p>Corporate Marketing Services.....S. Hietanen Legal Affairs.....J. Kurkinen Corporate CommunicationsK. Vainio Corporate Planning.....M. Diesen</p> <p>Juhani Pohjolainen</p> <p>Energy.....T. Koivuniemi Corporate Human Resources.....A. Ansaharju Industrial Business in AsiaE. Palokangas ProtectionJ. Helve Industrial Construction.....P. Roitto R&D ServicesI. Kartovaara Environmental AffairsL. Salovius</p> <p>Kimmo Kalela</p> <p>Total Quality Management.....L. Sihvo Purchasing Services.....J. Laalo</p> <p>Esko Mäkeläinen</p> <p>Information Systems and Head Office Services.....M. Uuttu Corporate Financing.....R. Suuraho Risk Management and InsurancesJ. Kähkönen Corporate AccountingV-J Potka Internal Auditing.....S. Schildt Information Technology.....E. Nuutinen</p>	

- 6 February.** ENSO RELINQUISHES ITS FOREST CHEMICALS BUSINESS: Enso sold the entire business operations of Enso Paperikemia Oy in Oulu. The sale was part of Enso's strategy of focusing on its core businesses, which are paper and board.
- 10 March.** FINANCIAL RESULTS FOR 1996: Market conditions were difficult and the fall in prices weakened profitability. Profit after financial items was FIM 1 665 million, which was satisfactory.
- 18 March.** ENSO PROPOSES WARRANT BOND ISSUE FOR MANAGEMENT: Enso Oyj's Board of Directors will propose to the Ordinary Meeting of Shareholders on 7 April that bonds with equity warrants be issued to a total value of FIM 1 million. If fully subscribed, the issue would increase Enso's share capital by a maximum of FIM 30 million.
- 7 April.** ORDINARY MEETING OF SHAREHOLDERS: The Ordinary Meeting of Shareholders discharged the members of the Board of Directors and Supervisory Board and the Managing Director from liability, and approved a dividend of FIM 1.80 per share and the issue of bonds with equity warrants for subscription by the management.
- Jukka Mikkola, MP, was elected Chairman of the Supervisory Board in place of Matti Louekoski, who had tendered his resignation. Tuija Nurmi, MP, was elected in place of Väinö Saario, who had died. The following members, whose terms had expired, were re-elected: Carl-Olof Homén, Ulla Lähteenmäki and Pekka Ruotsalainen. Ben Zyskowicz, MP, was elected in place of Eeva Laatikainen.
- 25 April.** OULU'S FINE PAPER MACHINE (PM 7) STARTS UP: The new paper machine produced 160 000 tonnes of fine paper during 1997. The total cost of the investment was FIM 200 million less than budgeted.
- 28 April.** ACQUISITION OF A CONTROLLING INTEREST IN THE GERMAN COMPANY E. HOLTZMANN & CIE. AG: Enso purchased 50.4% of the shares of the German newsprint and magazine paper manufacturer E. Holtzmann & Cie. AG for FIM 1 818 million. Holtzmann has an annual production capacity of around 700 000 tonnes of newsprint, magazine paper and wallpaper base. The company has 1 150 employees.
- 20 May.** INTERIM REVIEW FOR JANUARY–MARCH: Profit after financial items for the first quarter was FIM 480 million. Earnings per share were FIM 1.36.
- 13 August.** INTERIM REVIEW FOR JANUARY–JUNE: Profit after financial items for the first half of the year was FIM 982 million. Earnings per share were FIM 2.40.
- 16 September.** ENSO RAISES THE AMOUNT OF ITS CONVERTIBLE BOND LOAN 1/1997: Enso's Board of Directors decided to raise the amount of the serial convertible bonds (1/97) issued on 14 January 1997 to a maximum of FIM 2 000 million.
- 30 October.** ENSO SIGNS DEM 1 500 MILLION BANK LOAN.
- 13 November.** ENSO PUBLISHES PART OF ITS 9-MONTH FINANCIAL RESULTS: Sales FIM 21 132 million, profit after financial items FIM 1 533 million and earnings per share FIM 4.04.
- 13 November.** EXTRAORDINARY MEETING OF SHAREHOLDERS: The company's name was changed to that of a public limited company, for which the Finnish abbreviation is Oyj. Subscription rights were removed from the company's shares. It was also decided to change the maximum numbers of Series A and Series R shares and to delete the stipulations relating to the minimum number of shares, and to include the concept of Deputy to the Managing Director in the Articles of Association.
- The meeting authorized the Board of Directors to increase the company's share capital by issuing shares for subscription by the personnel. The authorization is valid until the 1998 Ordinary Meeting of Shareholders or until the end of March 1998.
- 18 November.** INTERIM REVIEW FOR JANUARY–SEPTEMBER.
- 20 November.** HOLTZMANN'S SC MACHINE TO BE REBUILT: Enso's Board of Directors decided on a rebuild for Holtzmann's PM 8. This will increase the machine's capacity by 50 000 t/a of uncoated (SC) magazine paper. The estimated cost is DEM 160 million, and the work will be done early in 1999.
- 24 November.** STATE'S INTEREST IN ENSO FALLS BELOW 50%: A total of 63 040 457 of Enso's Series A shares were converted into Series R shares during the first conversion period of 17–21 November 1997. As a result of the conversion, the State's share of Enso's voting rights fell to 46.8%. Following the conversion, Series A shares accounted for 37.5% of the total number of shares.

COMPUTATION OF KEY INDICES

$$\text{Return on investment, ROI (\%)} = 100 \times \frac{\text{Result after financing items + interest and other financial expenses}}{\text{Total assets - interest-free liabilities}^{1)}$$

$$\text{Return on equity, ROE (\%)} = 100 \times \frac{\text{Result after financing items - taxes for the period}}{\text{Equity + minority interests + accumulated adjustments}^{1}}$$

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

$$\text{Net indebtedness} = \text{Liabilities - current assets}$$

$$\text{Interest-bearing net liabilities} = \text{Interest-bearing liabilities - interest-bearing financial assets}$$

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

$$\text{Earnings per share} = \frac{\text{Result after financing items - taxes - minority interest}}{\text{Share issue-adjusted average number of shares for the period}}$$

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

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

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

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

$$\text{Average share price} = \frac{\text{Total value of shares traded}}{\text{Share issue-adjusted number of shares traded during the period}}$$

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

$$\text{Result after financing items} = \text{Result before extraordinary items and taxes, as "other income and expenses" only includes extraordinary items}$$

¹⁾ Average for beginning and end of financial period.

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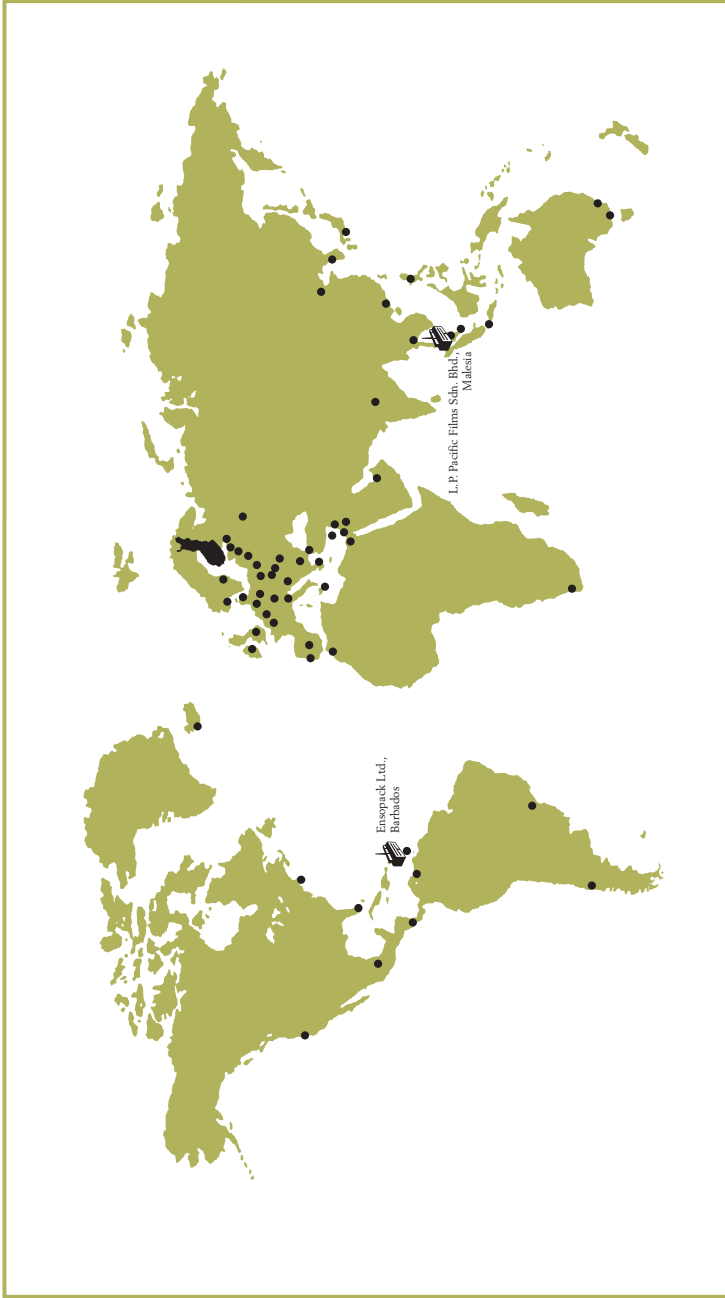
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INTERNATIONAL ENSO

PRODUCTS AND PRODUCTION PLANTS

Product	Annual capacity	Production plants/Machines
BASE INDUSTRIES		
Sawn timber	2.0 mill.m ³	9 sawmills
Converted products		2 planing mills
Market pulp	500 000 t	2 pulp mills
Wood procurement	25 mill.m ³	
Area of land properties	600 000 hectares	
PACKAGING BOARDS		
Consumer packaging boards	1.2 mill.t	8 board machines
Fluting	250 000 t	1 machine
Corrugated board	350 mill.m ²	8 corrugated board mills
Coreboard	250 000 t	3 board machines
Paperboard tubes	53 000 t	5 tube factories 3 pulp mills 4 PE extruders
PUBLICATION PAPERS		
Newsprint	1 280 000 t	7 paper machines
Magazine papers	1 095 000 t	7 paper machines
Speciality papers (book, directory and wallpaper base)	325 000 t	6 paper machines
Laminating papers and films	194 000 t	2 paper machines, 3 impregnating lines
Deinked market pulp	125 000 t	2 deinking plants
FINE PAPERS		
Graphic papers	860 000 t	4 paper machines
Office papers	940 000 t	6 paper machines
Speciality papers and digital printing papers	105 000 t	6 paper machines 6 sheet cutting plants 3 pulp mills

						
Integration	Production plant	Sawmill	Port terminal	Sales office	Head Office	



EUROPE

1	Pakense Eesti AS, Tallinn	Estonia
2	Pakense Baltika SIA, Riga	Latvia
3	Pakense Tambox AB, Jönköping	Sweden
4	Pakense Tambox AB, Skene	Sweden
5	Pakense Tambox AB, Vikingstad	Sweden
6	Enso Papier Format GmbH, Lübeck	Germany
7	Sachsen Papier Eilenburg GmbH, Eilenburg	Germany
8	Berghuizer Papierfabriek N.V., Wapenveld	Netherlands
9	Lumpipaper N.V., Antwerp	Belgium
10	Lumpipaper Ltd, Mendlesham	United Kingdom
11	Corenso France S.A., Saint-Seurin-sur-l'Isle	France
12	Enso Española, S.A., Martorell	Spain
13	Cartiberia, S.A., Martorell	Spain
14	Elfes GmbH & Co., Krefeld	Germany
15	Corenso (UK) Ltd, Milton Keynes	United Kingdom
16	E. Holtzmann & Cie. AG, Maxau	Germany
17	E. Holtzmann & Cie. AG, Wolfsheek	Germany
18	Enso West, Kallio	Belgium
19	Enso Trans (UK) Limited, Felistowe	United Kingdom
20	Enso Nord Transportgesellschaft mbH, Lübeck	Germany



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3	Helsinki	15	Oulu
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5	Imatra	17	Pori
6	Joutseno	18	Porvoo
7	Kemi, Veitsiluoto	19	Ruovesi
8	Kemijärvi	20	Summa
9	Kitee	21	Tervakoski
10	Kittilä	22	Tornio
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