Press release

STORA

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STORA ENSO prospectus

Helsinki and Stockholm, July 13, 1998. Enso and STORA have today published a joint exchange offer prospectus concerning the merger of the two companies to form Stora Enso Oyj. The Prospectus will serve as information to STORA shareholders as well as background information to Enso shareholders at their Extraordinary General Meeting on July 23, 1998.

The prospectus will be available at the head offices of Enso and STORA and at S-E-Banken from Monday, July 13, and at branch offices of Merita Bank, Leonia Bank and OKO Bank dealing in securities from July 15.

TERMS AND CONDITIONS OF THE EXCHANGE OFFER

Below is a summary of some key information in the prospectus to which reference is made for completeness.

The merger will be implemented by a public offer from Enso for all shares in STORA against newly issued shares in Enso. The combination is designed as a merger of equals and accounted for as a pooling of interest transaction.

Pursuant to the combination agreement reached between the parties, STORA shareholders will be offered to exchange their shares in STORA for shares in Enso to be renamed STORA ENSO. STORA shareholders will receive:

- 0.50829 A-shares and 0.94313 R-shares in STORA ENSO for each STORA A-share, and
- 1.45142 STORA ENSO R-shares for each STORA B-share

The newly issued shares will be entitled to dividend for the year 1998. Each A-share has 1 vote and every 10 R-shares have 1 vote.

The exchange offer can be accepted for the total number of STORA shares held by a shareholder. To the extent shareholders receive fractions of shares in STORA ENSO, the fractions will subsequently be sold free of commission on the Stockholm Stock Exchange.

The exchange offer is subject to a number of conditions as outlined in the press releases from Enso and STORA dated June 2, 1998, and as more fully set out in the prospectus. The newly issued shares of STORA ENSO will be listed on the Helsinki Stock Exchange and on the Stockholm Stock Exchange.

Important dates:

Enso Extraordinary General Meeting	July 23, 1998
Acceptance period	July 27 - August 28, 1998
Announcement of acceptance level	On or about September 3, 1998
Settlement date	On or about September 9, 1998
Listing of STORA ENSO shares on the Stockholm Stock Exchange and Helsinki Stock Exchange	On or about September 9, 1998

These dates are indicative and assume that the acceptance period is not extended and settlement is not delayed.

BENEFITS OF THE MERGER

The pulp and paper industry is characterised by high capital intensity and a fragmented industry structure. The high fragmentation and capital intensity have led to cyclical prices and earnings. The overall profitability level in the industry needs to be improved to achieve higher average return to shareholders. The management of Enso and STORA believes consolidation will improve the long-term utilisation of the industry's production capacity and therefore have a positive effect on the overall profitability. Both Enso and STORA have pursued a strategy of taking an active role in the consolidation of the industry. The combination is expected to result in a company with an improved strategic and cost position compared to STORA's and Enso's current positions, and thereby increase the ability to enhance shareholder value.

Synergy benefits to be obtained in the combination are estimated to amount to FIM 1.3 (SEK 1.9) billion annually. They are expected to be fully obtained in the year 2002. One third is expected in the year 2000 with the balance following equally in the two years thereafter. During autumn 1998, STORA ENSO management will develop and define a detailed action plan in order to achieve the estimated synergy benefits. Non-recurring restructuring costs associated with this plan will then be charged to the 1998 income statement, and therefore certain positive synergy benefits are expected to occur already in 1999.

The management of STORA ENSO has identified five main areas where it expects to achieve synergies as a result of the combination:

- **Streamlining of production** by concentrating on fewer product grades on each paper machine leads to longer production runs, thus reducing lead times. The resulting higher throughput as well as lower variable costs per ton produced will form the basis for significant cost savings and productivity improvements, particularly within the product areas of Fine Papers and Packaging Boards. Estimated benefits are approximately 30% of total anticipated synergies.

- **Combining purchasing and logistics** will permit significant savings due to increased scale of raw materials purchasing, optimised transport within Europe as well as improved logistics of final products to overseas destinations. In 1997, Enso and STORA purchased chemicals and consumables amounting to more than FIM 9 billion. Estimated benefits are approximately 20% of total anticipated synergies.

- **Controlling investment and capacity**. As a direct result of increased critical mass, STORA ENSO's investment policy will be to use capital prudently in order to utilise the existing asset base optimally. Apart from lower combined capital spendings over time this will also have a positive effect on the market, as the amount of excess capacity will be reduced. Estimated benefits are approximately 15% of total anticipated synergies.

- **Combining sales and administration** will enable cost savings and improve the service to customers. STORA and Enso have both established sales organisations in the same markets, particularly in Europe. In addition, STORA has a strong presence in North America whilst Enso has a more developed organisation in Asia. Estimated benefits are approximately 20% of total anticipated synergies.

- **Sharing of best practices** between the two companies should allow the Group to reach about 0.5 % higher efficiencies and 0.5 % lower manufacturing costs, as STORA ENSO will have significant resources in R&D as well as know-how on how to operate and develop pulp and paper operations. Estimated benefits are approximately 15% of total anticipated synergies.

STORA ENSO STRATEGY

Overall objective

STORA ENSO will focus on creating shareholder value through revenue growth as well as cost efficiency. In order to strengthen its position in the competitive environment in which the Group operates and in particular to respond to the trend towards further consolidation in the paper industry, STORA ENSO intends to improve its profitability by implementing the strategy outlined below. The management of STORA ENSO believes this strategy will position the Group as a leading company in its core operating areas.

Business strategy

STORA ENSO will be a leading international forest products group. The Group's aim will be to maximise shareholder value by providing high quality and cost competitive products to its customers and to pursue profitable growth opportunities within core areas from a sound financial base.

The principal elements will be:

- **Product and customer focus**. STORA ENSO will strive to develop its market position with focus on three core product areas: publication papers, fine papers and packaging boards. The Group will consider relevant options to maximise the value of a limited number of assets identified as non-core. STORA ENSO will be market orientated and offer high quality products and services supported by its global marketing network in order to build long-term partnerships with its customers.

- **Productivity and cost competitiveness**. This will entail full realisation of combination synergies as well as continued focus on current productivity programmes within both Enso and STORA. Significant synergy benefits will be available in streamlining, sharing of best practises and from improved economies of scale in production, purchasing, distribution and logistics. The Group will also be better positioned to co-ordinate and control its capital expenditure. Future expenditure will focus on high return projects.

- **Profitable growth**. STORA ENSO intends to play an active role in the future consolidation of the industry, when it is considered to be in the best interest of its shareholders. The primary market will be Europe, but the Group will have a strong foundation for continued global expansion. These improved conditions will create opportunities to access new and faster growing markets as well as to improve the cost position by accessing low cost sources. Potential structures include both alliances and acquisitions.

Financial strategy

STORA ENSO's objective is to be the most attractive listed forest industry company to investors by creating returns that exceed the full cost of capital and generate added shareholder value.

STORA ENSO's internal profitability target is currently set at 13 % return on capital employed (ROCE) on average over a business cycle. With the present capital structure, the 13 % ROCE target corresponds to a return on equity (ROE) of approximately 15 %. Emphasis will be put on efficient usage of capital. The 13 % return requirement also applies to new investments and represents the minimum acceptable return. The full cost of capital will be taken into account in all internal profitability measurements, and related management and employee incentive programmes linked in turn.

Financial strength is essential in a capital intensive and cyclical industry such as the forest products sector. Sufficient equity financing reduces financial risks and ensures the company's financial freedom of action and allows the use of best available financial arrangements. STORA ENSO's objective is that the debt/equity ratio, in the present interest rate environment, should be less than a multiple of 1.0. The ratio at the end of 1997 was, according to the Group's pro forma combined accounts under IAS, 1.06. Over 20 % of the capital employed of STORA ENSO will consist of power production plants and forest land with lower business risk and substantial hidden values, and have been taken into account when setting the debt/equity target for the Group. Compared with the existing accounting principles of the two companies, IAS accounting adjustments of sale and leaseback of power plants have a negative effect of 0.2 on the debt/equity ratio. The debt/equity target is regarded as a long-term goal and may be exceeded in connection with major acquisitions.

Combined with the Group's strategy of being a leading forest products company, these financial targets reflect the intention to achieve a sustainable earnings growth with a capital structure balance that will create added value to shareholders.

The following table sets forth the development of the key financial ratios:

	1995	1996	1997	Q1 1998	Target
Debt / equity, times	1.02	1.02	1.06	1.15	less than 1.0
ROCE, %	17.1	7.7	7.8	11.2	13.0

Dividend Policy

STORA ENSO will strive to pay stable dividends which are more closely linked to the long-term performance of the business than to the annual fluctuations that may result from the cyclical nature of the forest products industry. The Group will seek to pay out dividends corresponding to an aggregate of approximately one third of the total net profit over the business cycle.

CORPORATE GOVERNANCE AND ORGANISATION

STORA ENSO will be managed by a Board of Directors under international corporate governance principles. The new members of the Board of Directors of STORA ENSO will have significant experience from the forest industry as well as other industries. As outlined in the press releases from Enso and STORA dated July 8, 1998, the suggested board consists of Claes Dahlbäck (Chairman), Krister Ahlström (Vice Chairman), Jukka Härmälä (Chief Executive Officer), Björn Hägglund (Deputy Chief Executive Officer), Josef Ackermann, Harald Einsmann, Raimo Luoma, Paavo Pitkänen, Jan Sjöqvist, and Marcus Wallenberg.

The Management appointments for STORA ENSO were announced on July 8, 1998. The day-to-day management will be headed by Jukka Härmälä (Chief Executive Officer) and Björn Hägglund (Deputy Chief Executive Officer), and members of the management team have been selected based on competence and experience from both Enso and STORA. The objective is to integrate the two different corporate cultures and to create a new more internationally oriented company with a new corporate culture.

During the summer, STORA ENSO will conditional upon the EC Merger Control Approval continue developing the organisational structure in order to allocate the responsibility between various units and to ensure the ongoing integration of divisions as well as group/central functions.

The domicile of STORA ENSO will be in Helsinki, Finland, and the Group will be managed from dual headquarters in Sweden and in Finland. Corporate actions and records will, to the extent possible, be taken and recorded in the English language. STORA ENSO will prepare annual and interim financial accounts in accordance with accounting standards issued by the International Accounting Standards Committee ("IASC") to be published in the Finnish, Swedish and English languages. If possible in the future, the location of the Annual General Meeting shall alternate between Finland and Sweden.

PRO FORMA COMBINED FINANCIALS (based on IAS)

Principles and assumptions (IAS reconciliation)

The combination is intended to qualify as pooling of interest for accounting and reporting purposes. The preliminary unaudited combined consolidated financial statements of STORA ENSO are prepared in accordance with the accounting standards issued by IASC. The current financial statements of Enso and STORA have been prepared in accordance with accounting standards in Finland and Sweden, respectively, which differ in certain respects from IAS. In order to harmonise the accounting standards of Enso and STORA and to prepare financial statements in accordance with IAS standards, certain adjustments have been made. In the combined consolidated financial statements it has been assumed that the combination between Enso and STORA took place in the beginning of 1995.

The following table presents selected financial information for the Group in FIM:

	1996	1997	Q1 1997	Q1 1998
Income statement, FIM million				
Sales	56,571	59,446	13,626	16,013
Operating profit before depreciation	9,578	10,322	2,330	3,352
Operating profit	5,020	5,389	1,227	2,032
Profit after net financial items	3,337	3,770	869	1,576
Taxes	(1,085)	(1,209)	(361)	(532)
Minority interests	(20)	(85)	(8)	(17)
Net profit	2,233	2,477	500	1,027
Capital structure, FIM billion				
Fixed assets	64.8	69.8	64.2	72.1
Working capital	9.6	10.4	11.0	10.9
Operating capital	74.5	80.2	75.2	83.0
Tax liabilities	(8.3)	(9.1)	(8.3)	(9.5)
Capital employed	66.2	71.1	66.9	73.6
Shareholders' equity	32.4	33.8	31.8	33.7
Minority interests	0.4	0.8	0.4	0.5
Net interest bearing liabilities	33.3	36.5	34.7	39.3
Financing	66.2	71.1	66.9	73.6
Total Assets	86.5	92.4	87.6	96.4
Financial ratios, etc				
Operating margin, %	8.9	9.1	9.0	12.7
Return on capital employed, %	7.7	7.8	7.4	11.2
Return on shareholders' equity, %	7.0	7.5	6.2	12.2
Debt/equity ratio, times	1.02	1.06	1.08	1.15
Capital expenditure, FIM million	8,109	6,740		
Earnings/share, FIM	2.87	3.18	0.64	1.32
Equity/share[1], FIM	41.72	43.44	40.85	43.34
Dividend/share, FIM	1.78	1.93		
Number of shares, '000	777.7	777.7	777.7	777.7
Average number of employees	41,810	40,301		

[1] In addition to the shareholders' equity of FIM 33.8 billion in 1997, corresponding to FIM 43 per share, there are substantial hidden values totaling FIM 10.5 billion within the Group. These consist of FIM 6.9 billion in forest assets, FIM 3.2 billion in power assets and FIM 0.4 billion in listed shares. The adjusted shareholders' equity thus amounts to FIM 44.3 billion, or FIM 57 per share.

The following table presents selected financial information for the Group in SEK:

	1996	1997	Q1 1997	Q1 1998
Income statement, SEK million				
Sales	82,621	87,434	20,331	23,291
Operating profit before depreciation	13,989	15,182	3,477	4,875
Operating profit	7,332	7,926	1,831	2,955
Profit after net financial items	4,874	5,545	1,296	2,293
Taxes	(1,584)	(1,778)	(539)	(774)
Minority interests	(29)	(125)	(11)	(25)
Net profit	3,261	3,643	746	1,494
Capital structure, SEK billion				
Fixed assets	96.0	101.7	97.6	102.4
Working capital	14.2	15.2	16.7	15.6
Operating capital	110.2	116.6	114.3	118.0
Tax liabilities	(12.1)	(13.2)	(12.6)	(13.4)
Capital employed	98.1	103.6	101.7	104.6
Shareholders’ equity	48.1	49.2	48.3	47.9
Minority interests	0.6	1.2	0.6	0.8
Net interest bearing liabilities	49.4	53.2	52.8	55.9
Financing	98.1	103.6	101.7	104.6
Total assets	128.3	134.6	133.3	137.0
Financial ratios, etc				
Operating margin, %	8.9	9.1	9.0	12.7
Return on capital employed, %	7.7	7.8	7.4	11.2
Return on shareholders’ equity, %	7.0	7.5	6.2	12.2
Debt/equity ratio, times	1.02	1.06	1.08	1.15
Capital expenditure, SEK million	11,843	9,913		
Earnings/share, SEK	4.19	4.68	0.96	1.92
Equity/share[2], SEK	61.82	63.29	62.15	61.59
Dividend/share, SEK	2.60	2.84		
Number of shares, ‘000	777.7	777.7	777.7	777.7
Average number of employees	41,810	40,301		

[2] In addition to the shareholders’ equity of SEK 49.2 billion in 1997, corresponding to SEK 63 per share, there are substantial hidden values totaling SEK 15.3 billion within the Group. These consist of SEK 10.0 billion in forest assets, SEK 4.7 billion in power assets and SEK 0.6 billion in listed shares. The adjusted shareholders’ equity thus amounts to SEK 64.5 billion, or SEK 83 per share.

STORA ENSO will report the operational data by product area, as presented in the tables below (in FIM and SEK):

	Sales				Operating Profit			
(FIM million)	1996	1997	Q1 1997	Q1 1998	1996	1997	Q1 1997	Q1 1998
Power	1,575	1,651	506	454	622	732	260	222
Forest	8,054	8,837	2,282	2,405	576	662	175	171
Sawn products	3,742	4,294	965	995	(58)	304	63	(14)
Pulp	4,978	5,701	1,239	1,417	(550)	150	(118)	54
Internal sales	(3,901)	(4,230)	(1,084)	(1,151)				
Base products	14,447	16,254	3,908	4,120	590	1,847	380	433
Newsprint	9,441	9,216	2,031	2,476	2,201	942	205	347
Magazine paper	7,723	8,713	1,674	2,442	715	475	36	366
Fine paper	10,201	11,788	2,781	3,569	(28)	847	229	439
Packaging board and paper	12,995	14,129	3,386	3,619	1,368	1,347	347	418
Speciality papers	2,153	2,477	582	676	(144)	99	24	42
Paper merchants	4,754	4,760	1,192	1,351	35	32	12	19
Financial operations					114	222	38	35
Divested product areas	1,854	79	58		65	(3)	9	
Items affecting comparability					(25)	(233)		
Other	(6,997)	(7,970)	(1,986)	(2,240)	130	(184)	(53)	(67)
Total	56,571	59,446	13,626	16,013	5,020	5,389	1,227	2,032

	Sales				Operating Profit			
(SEK million)	1996	1997	Q1 1997	Q1 1998	1996	1997	Q1 1997	Q1 1998
Power	2,301	2,429	755	660	909	1,076	388	323
Forest	11,762	12,998	3,405	3,498	841	973	261	249
Sawn products	5,464	6,316	1,440	1,447	(85)	447	94	(20)
Pulp	7,271	8,385	1,849	2,061	(803)	221	(176)	79
Internal sales	(5,698)	(6,221)	(1,617)	(1,674)				
Base products	21,100	23,906	5,831	5,992	861	2,716	567	630
Newsprint	13,789	13,555	3,030	3,601	3,214	1,385	306	505
Magazine paper	11,280	12,815	2,498	3,552	1,044	698	54	532
Fine paper	14,898	17,338	4,150	5,191	(40)	1,245	342	639
Packaging board and paper	18,979	20,781	5,052	5,264	1,998	1,981	518	608
Speciality papers	3,144	3,643	868	983	(210)	145	36	61
Paper merchants	6,943	7,001	1,779	1,965	51	47	18	28
Financial operations					166	327	57	51
Divested product areas	2,708	116	87		95	(4)	13	
Items affecting comparability					(37)	(343)		
Other	(10,219)	(11,723)	(2,963)	(3,258)	190	(271)	(79)	(97)
Total	82,621	87,434	20,331	23,291	7,332	7,926	1,831	2,956

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FOR UK PRESS RELEASES
A prospectus containing the details of the offer is being distributed. Copies of the prospectus may be obtained from Enskilda Securities during usual business hours during the course of the offer. The contents of this announcement for which Enso and STORA are responsible, has been approved by Enskilda Securities, a member of the Securities and Futures Authority, for the purpose of Section 57 of the Financial Services Act 1986.