

Press release



STORA

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August 11, 1998

For distribution in the U.S., Canada, Australia or Japan

STORA's half-year results will be presented at a press conference to be held at 10.30 a.m. today in the Group's Stockholm office, Västra Trädgårdsgatan 15.

REPORT ON OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1998

- | | | |
|---------------------------------|-----------------------------|------|
| * Net sales: | SEK 22,567 million (22,023) | +2% |
| * Profit after financial items: | SEK 1,663 million (1,224) | +36% |
| * Net profit after tax: | SEK 1,116 million (808) | +38% |
| * Earnings per share: | SEK 3.45 (2.50) | +38% |
- * STORA and Enso announced that the companies planned to merge. The new company will be the world's largest forest products company.
 - * The new SC machine at Stora Port Hawkesbury, which was started up in mid-April, has experienced certain running-in problems.
 - * On June 12, agreement was concluded regarding STORA's acquisition of an interest corresponding to 60 percent of Suzhou Papyrus Paper in China.
 - * Completion of the proposed merger between Enso and STORA will take place in mid November, 1998 at the earliest.

Net sales and earnings

The Group's net sales for the first six months of 1998 amounted to SEK 22,567 million (compared with SEK 22,023 million for the corresponding period of 1997).

Profit after financial items totaled SEK 1,663 million (1,224) and included items affecting comparability in an amount of SEK 149 million (-150). The improvement was due to higher sales prices for most of the Group's products.

Current profit was charged with SEK 115 million due to start-up and running-in problems related to the PM2 in Port Hawkesbury, Canada. The problems are mainly due to the calender machines (used to create a glazed surface) and prevented the unit from achieving the quality planned for the volumes produced. Measures have been implemented and gradual improvements have been achieved.

For comparable units, delivery volumes of pulp, paper and board rose by 3 percent, compared with the first six months of the preceding year, but were slightly below the level of the first quarter of 1998. With a few exceptions, prices were higher than during the corresponding period of 1997.

The financial net declined to an expense of SEK 540 million (expense: 387), due to increased net indebtedness. No interest was capitalized in connection with ongoing investment projects.

Net profit for the period, after tax and minority shares, amounted to SEK 1,116 million (808). Tax for the period was SEK 537 million (404), which corresponded to 32 percent (33) of profit before tax.

Group earnings per share were SEK 3.45 (2.50). The return on capital employed, after deductions for tax liabilities, was 8 percent (6) for the period July 1997 to June 1998, compared with 7 percent for full-year 1997. The corresponding return on shareholders' equity was 6 percent (5) and 5 percent.

The capital employed in Skoghall (Sweden), Port Hawkesbury (Canada), and Skutskär (Sweden), in which considerable investments have been made in recent years, totaled approximately SEK 12 billion, corresponding to about 25 percent of STORA's total capital employed. Due to start-up and running-in problems, these units jointly showed a slight operating loss, which had a major effect on Group profitability.

The operating cash flow was negative in an amount of SEK 1,708 million. The outflow was due to the final payments for the investment in Port Hawkesbury and the acquisition of Suzhou Papyrus. After deductions for net financial items, taxes and dividends, the Group's interest-bearing net indebtedness rose by SEK 3,502 million to SEK 19,059 million.

Net sales and earnings for the second quarter

The Group's net sales for the second quarter of 1998 amounted to SEK 11,067 million (11,341) and were down on first quarter 1998 sales of SEK 11,500 million.

Profit after financial items totaled SEK 788 million (664), compared with SEK 875 million for the first quarter of 1998. The figure for the second quarter includes positive items affecting comparability in an amount of SEK 149 million (negative: 150), which related to repaid capital taxes in Germany and a capital loss on the sale of shares in the Swedish publishing company, Svenska Dagbladet Holding AB. Earnings for the quarter were charged with SEK 115 million for the start-up in Port Hawkesbury. Power operations, which are highly seasonal, showed an operating loss of SEK 40 million (loss: 3) for the period, compared with operating profit of SEK 103 million (180) for the first quarter. Earnings for the preceding year also included approximately SEK 200 million from concluded long-term investments within Financial Operations.

For comparable units, delivery volumes of pulp, paper and board rose by nearly 1 percent, compared with both the second quarter of 1997 and the first quarter of 1998. With a few exceptions, prices were higher than during the second quarter of 1997.

The financial net declined to an expense of SEK 295 million (expense: 222), due to increased net indebtedness resulting from the program of investments. No interest was capitalized in connection with ongoing investment projects.

Net profit, after tax and minority shares, amounted to SEK 530 million (439). Tax for the period was SEK 255 million (219), which corresponded to 32 percent (33) of profit before tax.

Group earnings per share were SEK 1.65 (1.35), compared with SEK 1.80 for the preceding quarter. The return on capital employed, after deductions for tax liabilities, was 8 percent (6) for the period July 1997 to June 1998, compared with 7 percent for full-year 1997. The corresponding return on shareholders' equity was 6 percent (5) and 5 percent.

Market and deliveries

Western Europe, STORA's main market, showed volume growth during the period in most of the Group's product areas. Adjusted for divestments and the closure of units, STORA's total deliveries of paper and board have increased by 3 percent, compared with the year-earlier period. Sales prices were higher without exception, than at the beginning of the year. Compared with the first quarter of 1998, sales prices remained at an unchanged level.

Market trend (based on European supplier information)			Source: CEPI	
Percentage change	Deliveries to Western Europe		Sales prices in Germany*	
	Full year 96 versus full year 97	H1 97 versus H1 98	Q2 97 versus Q2 98	Q1 98 versus Q2 98
Newsprint	6	5	5	0
SC paper	8	9	16	0
LWC paper	25	2	23	0
Uncoated fine papers	5	2	11	0
Coated fine papers	12	15	16	0
Packaging board	8	6	9	0
White Top Liner	7	6	19	9

* Relates solely to a specific product within the product area in certain instances.

Power

Earnings were lower than in the corresponding period of 1997. Good access to water supplies and a mild winter led to lower electricity prices. Normal seasonal variations resulted in earnings for the second quarter being lower than for the first.

Electricity consumption in Sweden has risen by 1.2 percent on a rolling 12-month basis. In Norway and Finland the increase was greater. The increase is attributable to the industrial sector. Reservoir levels within STORA's area of operations are slightly above normal.

Forest

Earnings were slightly better than in the corresponding six months of 1997. Lower costs for saw timber were offset by reduced production costs. Second quarter earnings were slightly up on the first due to lower logging costs. Felling in the Group's own forests remained at an unchanged level.

Pulpwood consumption increased. This, in combination with a lower level of supply from private forest owners, led to an increase in pulpwood imports.

Sawn timber

Sawn timber operations showed a loss and were weaker than in the corresponding six months of 1997. Compared with the first quarter of 1998, results improved but remained negative. The downturn, compared with 1997, was mainly due to lower prices for spruce products. Deliveries were higher than in the corresponding quarter of 1997 and the first quarter of 1998. Average sales prices during the quarter were somewhat higher for spruce and unchanged for pine, compared with the first quarter. Demand in the European market is favorable but the substantial supply situation is resulting in price competition.

Pulp

Adjusted for the loss arising from the closure of the sulphite pulp mill in Canada, earnings totaled SEK 134 million. The second quarter was better than the first. Norscan paper pulp inventory levels declined during April and May but rose during June and totaled about 1.5 million tonnes at the end of the period.

Compared with the situation at year-end 1997, price levels deteriorated during the first six months of 1998. Currently, price levels are USD 530/tonne for long-fiber pulp and ECU 430/tonne for short-fiber pulp. The pulp market weakened during the summer as a result of reduced demand from Asia. Customers' pulp inventory levels increased and are currently at a high level.

Printing papers

Compared with the corresponding six months of 1997, earnings improved as a result of increased volumes and, in particular, higher sales prices. Adjusted for start-up costs on the PM2 in Canada, earnings were better during the second quarter than the first. Fixed costs within the product area were reduced during the period.

STORA's total deliveries of newsprint rose by 1 percent. The European market is strong and has absorbed the effects of reduced exports to Asia. Price levels remain stable. North America has been affected by the crisis in Asia but labor conflicts led to reduced supply, enabling the market to remain in balance.

STORA's total deliveries of SC paper increased by 6 percent. The market for SC paper is favorable. A certain shift from LWC to SC paper occurred. This applied in both Europe and North America. Price levels remained stable and a slight price increase for the highest grades was implemented in North America.

Compared with the first half of 1997, STORA's total deliveries of LWC paper rose by 4 percent. Demand in Europe remained unchanged following the sharp increase in 1997. The market in North America is in balance but is being affected by increased imports due to the strong USD. Compared with the preceding quarter, price levels remained unchanged.

Technical office papers

Earnings deteriorated compared with the year-earlier period and with the first quarter of 1998. The decline was due to carbonless paper, which showed a loss during the second quarter.

The weak demand for carbonless paper is creating pressure on prices. STORA's strict pricing policy reduced the Group's total deliveries of carbonless paper by more than the market change for the period.

Compared with the preceding year, STORA's deliveries of thermal papers increased substantially. The European market increased by 6 percent. Prices for thermal papers in Europe were stable during the period.

Fine papers

Earnings were lower than during the first six months of 1997. The second quarter was down on the first quarter of 1998 as a result of lower volumes and slightly lower price levels. The Chinese mill, Suzhou, is included in the product area as of mid-June 1998.

Compared with the first half of 1997, STORA's total deliveries of fine papers remained unchanged. Production curtailments totaling around 27,000 tonnes were implemented during the second quarter.

Sales prices were under pressure as a result of the weakened pulp market. Both demand and price levels declined in Southeast Asia.

Paper merchant operations

Compared with the corresponding six months of 1997, earnings remained unchanged. Earnings for the second quarter were down on the first as a result of depressed margins.

Distributed volumes increased as a result of the recently acquired paper merchants in Poland and Hungary.

Board and packaging paper

Earnings improved, compared with the first half of 1997, and were at the same level during the second quarter of 1998 as during the first. The improvement derived from operations in Skoghall, Sweden.

In relation to the first half of the preceding year, deliveries of all board products increased for comparable units. The favorable demand during the first quarter weakened slightly during the second three months. The high demand was partly due to inventory build-up at customers.

Sales prices increased for most product types during the first three months of the year and remained stable during the second quarter.

Financial operations

Earnings for the second quarter were at the same level as in the first three months of 1998. During the corresponding period of 1997, earnings included a substantial amount deriving from concluded long-term investments.

Earnings were generated in interest-rate and currency markets, as well as in share-related instruments. Earnings do not include interest on shareholders' equity or internal margins.

Financial position

The Group's equity/assets ratio was 42.7 (45.9) percent and the debt/equity ratio was a multiple of 0.63 (0.54). At year-end 1997, the corresponding ratios were 45.9 percent and a multiple of 0.52, respectively.

Interest-bearing net indebtedness amounted to SEK 19,059 million (15,863), compared with SEK 15,557 million at the end of 1997. Interest-bearing net indebtedness included pension liabilities of SEK 3,907 million (3,937) and 3,960, respectively.

At the end of the period, the Group had granted but unutilized credit lines corresponding to SEK 11.2 billion.

Investments

Investments in plant during the period totaled SEK 2,811 million (3,272), of which SEK 1,363 million (1,747) was in Sweden. Depreciation according to plan amounted to SEK 1,954 million (1,882). The project involving the construction of a new paper machine (PM2) at Stora Port Hawkesbury, Canada, is in the final stage. The machine was started up in mid April. To date, SEK 3,750 million has been invested in this project, of which SEK 950 million during 1998.

Personnel

The average number of employees in the Group during the period was 19,916 (20,732). During the whole of the preceding year, the Group had an average of 20,431 personnel.

Other

Tax process – aircraft leasing

On June 24, 1998, Sweden's Supreme Administrative Court decided not to accept tax deductions for value decreases in connection with joint ownership in two limited partnership companies active in aircraft leasing. The Supreme Administrative Court thereby reversed the decisions made earlier by the lower courts in respect of these two cases.

The background is that jointly with Sandvik and Skanska, STORA entered into two Swedish limited partnership companies in 1988, which acquired aircraft from Boeing and subsequently leased them to international aircraft companies.

The immediate effect of the Supreme Administrative Court's decision in these two cases is that STORA must pay tax earlier than would otherwise have been the case. The additional net total expense for STORA has been estimated at around SEK 90 million, which has been charged against consolidated earnings for the first half of 1998. In addition to taxes, the amount also includes interest on the tax charges which, according to the Supreme Administrative Court's decision, should have been paid during earlier years.

STORA is a joint owner in two other limited partnership companies, which are engaged in similar operations. These two companies are also the subject of tax proceedings. Since the circumstances are not identical with those in the limited partnership companies that have now become the subject of legal proceedings, the outcome of the legal process cannot be anticipated with any certainty. In its half-year accounts for 1998, STORA has made a provision totaling SEK 280 million, which corresponds to the additional net expenses that would be incurred if these deductions should also not be accepted.

Tax process – Germany

STORA's German subsidiary, FPB Holding AG, has won a tax case dating back to 1976 in the Bundesfinanzhof, which is the German equivalent of the Supreme Administrative Court. As a result, STORA's German company will receive an amount exceeding DEM 100 million from the German tax authorities during the next three years as repayment of the income tax paid earlier in Germany. Since the exact amount is difficult to calculate, an amount corresponding to only DEM 80 million has been taken up in the half-year accounts for 1998. The remainder will be taken up later during the year. The rules of the Swedish Financial Accounting Standards Council and the IASC effectively limit opportunities to adjust goodwill to one year following a company acquisition. Accordingly, STORA's earlier plans to reduce goodwill arising from STORA's acquisition of Feldmühle, will not be possible.

Repayment of capital tax in Germany

With the application of a new interpretation of tax legislation in Germany, by which it is permissible to use loans raised for the acquisitions of subsidiaries to reduce the capital base for the calculation of capital tax, Stora Beteiligungen GmbH has the right to the repayment of capital taxes paid earlier. During 1997, DEM 6 million was repaid for the years 1996 and 1997. Demands for repayment for the years 1992 to 1995, totaling DEM 40 million, have now been approved. Since tax on shareholders' equity has been reported as an operating expense within STORA, the repayments have been reported as operating revenue under the heading "Items affecting comparability."

Divestment of Svenska Dagbladet

STORA has accepted an offer to sell its holding in Svenska Dagbladet Holding AB to the Norwegian media group, Schibsted. The sale will result in a capital loss of SEK 27 million, which was charged against earnings under Items affecting comparability.

Merger between STORA and Enso

In June, the Board of STORA and Enso reached agreement regarding a merger of the two companies. During the same month, Finland's Parliament decided to remove its demand that the Finnish state own at least one third of the shares in Enso, which was one of the factors upon which the merger was contingent.

On July 23, an Extraordinary General Meeting of Enso's shareholders voted to approve changes in the company's Articles of Association and a directed issue of shares to STORA's shareholders. Currently, the merger is being examined by the EU's competition authorities.

A short description of the merger between STORA and Enso is enclosed to this report as well as preliminary consolidated financial statements for the first half of 1998.

The merger between Enso and STORA

As previously announced, the EU competition authorities have stated that more time will be needed to examine the proposed merger of Enso and STORA. The merger cannot be completed until mid November, 1998 at the earliest.

Accounting principles

The accounting principles shown in the 1997 annual report have been applied in the preparation of this interim report.

*Falun, August 11, 1998***STORA KOPPARBERGS BERGSLAGS AB***Björn Hägglund*

President and Chief Executive Officer

This interim report has not been subject to examination by the Company's auditors.

Publication of the interim report for the third quarter of 1998 has been moved to November 11, 1998 to correspond with the publication of Enso's Q3 report.

CONSOLIDATED INCOME STATEMENT

(SEK m)

	January – June			Full year
	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>
Net sales	22,567	22,023	24,041	44,464
Operating expenses	- 18,559	- 18,380	- 20,402	- 37,305
Items affecting comparability	149	- 150	71	- 262
Planned depreciation	- 1,954	- 1,882	- 1,827	- 3,683
Operating profit	2,203	1,611	1,883	3,214
Net financial items	- 540	- 387	- 273	- 832
Profit after net financial items	1,663	1,224	1,610	2,382
Taxes	- 537	- 404	- 539	- 775
Minority share	- 10	- 12	- 11	- 25
Net profit for the period	1,116	808	1,060	1,582
Earnings per share, SEK	3.45	2.50	3.30	4.90

ANALYSIS OF FINANCIAL NET

(SEK m)

	January – June			Full year
	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1997</u>
Net interest items	- 540	- 411	- 441	- 856
Interest difference, translation hedge	—	24	168	24
Net financial items	- 540	- 387	- 273	- 832

NET SALES AND OPERATING PROFIT BY PRODUCT AREA

(SEK m)

	Net sales			Operating profit		
	January – June			January – June		
	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Power	753	879	824	63	177	- 3
Forest ¹⁾	3,104	3,026	2,897	434	419	300
Sawn timber	867	891	691	- 32	32	- 54
Pulp	2,332	2,280	2,230	47	- 238	- 427
Eliminations	<u>- 1,386</u>	<u>- 1,330</u>	<u>- 1,173</u>	<u>—</u>	<u>—</u>	<u>—</u>
Base products	5,670	5,746	5,469	512	390	- 184
Printing papers	7,532	6,815	7,382	1,140	619	1,528
Technical office papers	1,005	1,042	982	- 17	24	- 78
Fine papers	4,094	4,004	3,812	397	452	103
Paper merchant operations	3,079	2,920	3,193	48	47	34
Eliminations	<u>- 820</u>	<u>- 870</u>	<u>- 1,044</u>	<u>—</u>	<u>—</u>	<u>—</u>
Graphic papers	14,890	13,911	14,325	1,568	1,142	1,587
Board and packaging paper	4,691	4,730	4,725	340	256	603
Financial operations	—	—	—	101	311	115
Divested units	—	—	1,721	—	—	- 67
Items affecting comparability	—	—	—	149	- 150	71
Amortization of surplus values	—	—	—	- 175	- 178	- 180
Other	<u>- 2,684</u>	<u>- 2,364</u>	<u>- 2,199</u>	<u>- 292²</u>	<u>- 160</u>	<u>- 62³</u>
Total	22,567	22,023	24,041	2,203	1,611	1,883

- 1) Operating profit includes capital gains in connection with the divestment of land in amounts of SEK 33 million, SEK 23 million and SEK 22 million, respectively.
- 2) Includes SEK 70 million provision for open positions in forward contracts on GBP (of which SEK 20 million during Q2) and a SEK 50 million increase in intra-Group profit reserve.
- 3) Includes reversal of internal inventory gain in an amount of SEK 120 million.

CONSOLIDATED BALANCE SHEET

(SEK m)

	<u>June 30, 1998</u>	<u>Dec 31, 1997</u>
<i>Assets</i>		
Fixed assets	49,061	46,487
Current assets	15,719	14,625
Interest-bearing assets	<u>5,801</u>	<u>4,387</u>
Total assets	70,581	65,499
<i>Liabilities and shareholders' equity</i>		
Shareholders' equity	29,643	29,788
Minority interests	463	266
Tax liabilities	7,864	7,507
Interest-bearing liabilities	24,860	19,944
Operating liabilities	<u>7,751</u>	<u>7,994</u>
Total liabilities and shareholders' equity	70,581	65,499

KEY RATIOS

	<u>January – June 1998</u>	<u>1997</u>	<u>July '97– June '98</u>	<u>Full year 1997</u>	<u>July '96– June '97</u>
Profit for the period, SEK m	1,116	808	1,890	1,582	1,308
Return on shareholders' equity, %		–	6	5	5
Return on capital employed after deduction of tax liabilities, %		–	8	7	6
Earnings per share, SEK	3.45	2.50	5.90	4.90	4.10
		<u>June 30, '98</u>	<u>Dec 31, '97</u>	<u>June 30, '97</u>	
Capital employed, SEK m		57,029	53,118	52,412	
Capital employed excl. tax liabilities, SEK m		49,165	45,611	45,291	
Net indebtedness, SEK m		19,059	15,557	15,863	
Equity/assets ratio, %		42.7	45.9	45.9	
Debt/equity ratio, multiple		0.63	0.52	0.54	
Reported shareholders' equity per share, SEK		92	93	91	
Adjusted shareholders' equity per share ¹⁾ , SEK		131	132	132	

1) Including surplus values in forest and power assets.

CHANGE IN INTEREST-BEARING NET INDEBTEDNESS

(SEK m)

			January – June 1998			Jan – June 1997
	Ongoing operations	Translation diff., for. units	Items affecting comparability		Total	
			1)	2)		Total
Operating profit	2,203				2,203	1,611
+/- Operating receivables/liabilities	- 425	- 9	- 400	- 6	- 840	- 1,393
+/- Inventories	- 260	- 6		- 231	- 497	- 368
+ Depreciation	1,954				1,954	1,882
Cash flow before investments	3,472	- 15	- 400	- 237	2,820	1,732
– Investments	- 1,861		- 950		- 2,811	- 3,272
+/- Other changes in net fixed assets	59	39		- 1,815	- 1,717	- 159
Cash flow from operations	1,670	24	- 1,350	- 2,052	- 1,708	- 1,699
– Net financial items	- 540				- 540	- 387
+/- Taxes	- 183	3			- 180	- 218
+/- Minority interests	- 18			205	187	- 25
+/- Change in shareholders' equity, excluding net profit for the period	0	- 55			- 55	85
Cash flow before owner transactions	929	- 28	- 1,350	- 1,847	- 2,296	- 2,244
– Dividend	- 1,206				- 1,206	- 1,206
Change in interest-bearing net indebtedness	- 277	- 28	- 1,350	- 1,847	- 3,502	- 3,450

1) PM2, Stora Port Hawkesbury

2) Suzhou Papyrus Paper

QUARTERLY DATA

Consolidated income statement

(SEK m)	1996			1997				1998	
	II	III	IV	I	II	III	IV	I	II
Net sales	11,611	10,209	10,911	10,682	11,341	10,976	11,465	11,500	11,067
Oper. expenses	-10,239	-8,909	-9,466	- 9,037	- 9,343	- 9,314	- 9,611	- 9,393	- 9,166
Items affecting comparability	71	- 30	- 78	-	- 150	-	- 112	-	149
Planned deprec.	<u>- 915</u>	<u>- 831</u>	<u>- 830</u>	<u>- 920</u>	<u>- 962</u>	<u>- 908</u>	<u>- 893</u>	<u>- 987</u>	<u>- 967</u>
Operating profit	528	439	537	725	886	754	849	1,120	1,083
Net financial items	<u>- 133</u>	<u>- 127</u>	<u>- 110</u>	<u>- 165</u>	<u>- 222</u>	<u>- 225</u>	<u>- 220</u>	<u>- 245</u>	<u>- 295</u>
Profit after net financial items	395	312	427	560	664	529	629	875	788
Taxes	- 132	- 111	- 120	- 185	- 219	- 174	- 197	- 282	- 255
Minority share	<u>- 5</u>	<u>5</u>	<u>- 13</u>	<u>- 6</u>	<u>- 6</u>	<u>- 8</u>	<u>- 5</u>	<u>- 7</u>	<u>- 3</u>
Net profit for the period	258	206	294	369	439	347	427	586	530

Net sales by product area

(SEK m)	1996			1997				1998	
	II	III	IV	I	II	III	IV	I	II
Power	299	280	465	545	334	313	509	453	300
Forest	1,352	1,203	1,328	1,508	1,518	1,195	1,545	1,576	1,528
Sawn timber	387	338	441	409	482	374	480	423	444
Pulp	1,110	1,064	946	1,033	1,248	1,284	1,222	1,196	1,136
Eliminations	<u>- 540</u>	<u>- 539</u>	<u>- 624</u>	<u>- 666</u>	<u>- 664</u>	<u>- 623</u>	<u>- 656</u>	<u>- 679</u>	<u>- 707</u>
Base products	2,608	2,346	2,556	2,829	2,918	2,543	3,100	2,969	2,701
Printing papers	3,651	3,799	4,038	3,196	3,618	3,809	3,812	3,699	3,833
Tech. off. papers	441	424	457	526	516	490	471	521	484
Fine papers	1,706	1,565	1,874	1,999	2,005	1,886	2,123	2,223	1,871
Paper merchant operations	1,465	1,322	1,382	1,462	1,458	1,344	1,471	1,604	1,475
Eliminations	<u>- 366</u>	<u>- 375</u>	<u>- 456</u>	<u>- 442</u>	<u>- 428</u>	<u>- 403</u>	<u>- 539</u>	<u>- 449</u>	<u>- 371</u>
Graphic papers	6,897	6,735	7,295	6,741	7,169	7,126	7,338	7,598	7,292
Board and pack-aging paper	2,215	2,172	1,974	2,233	2,497	2,374	2,181	2,327	2,364
Other	<u>- 1,004</u>	<u>- 1,044</u>	<u>- 914</u>	<u>- 1,121</u>	<u>- 1,243</u>	<u>- 1,067</u>	<u>- 1,154</u>	<u>- 1,394</u>	<u>- 1,290</u>
Adjusted net sales	10,716	10,209	10,911	10,682	11,341	10,976	11,465	11,500	11,067
Divested units	<u>895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	11,611	10,209	10,911	10,682	11,341	10,976	11,465	11,500	11,067

Adjusted operating profit/loss by product area

(SEK m)	1996			1997				1998	
	II	III	IV	I	II	III	IV	I	II
Power	- 82	- 113	101	180	- 3	- 47	120	103	- 40
Forest	161	147	207	186	233	140	261	210	224
Sawn timber	- 20	- 47	4	8	24	12	- 24	- 27	- 5
Pulp	<u>- 392</u>	<u>- 85</u>	<u>- 191</u>	<u>- 166</u>	<u>- 72</u>	<u>39</u>	<u>149</u>	<u>- 26</u>	<u>73</u>
Base products	- 333	- 98	121	208	182	144	506	260	252
Printing papers	696	747	455	223	396	545	449	579	561
Tech. off. papers	- 61	- 117	- 60	8	16	11	12	8	- 25
Fine papers	6	- 78	152	244	208	68	158	256	141
Paper merchant operations	<u>7</u>	<u>18</u>	<u>22</u>	<u>24</u>	<u>23</u>	<u>18</u>	<u>38</u>	<u>38</u>	<u>10</u>
Graphic papers	648	570	569	499	643	642	657	881	687
Board and pack-aging paper	232	118	- 22	127	129	134	- 36	173	167
Financial oper.	51	17	34	56	255	11	5	51	50
Amortization of surplus values	- 89	- 88	- 88	- 89	- 89	- 87	- 88	- 88	- 87
Other	<u>- 39</u>	<u>- 50</u>	<u>1</u>	<u>- 76</u>	<u>- 84</u>	<u>- 90</u>	<u>- 83</u>	<u>- 157</u>	<u>- 135</u>
Adjusted operating profit	470	469	615	725	1,036	754	961	1,120	934
<i>Oper. margin, l%</i>	<i>4.4</i>	<i>4.6</i>	<i>5.6</i>	<i>6.8</i>	<i>9.1</i>	<i>6.9</i>	<i>8.4</i>	<i>9.7</i>	<i>8.4</i>
Divested units	- 13	—	—	—	—	—	—	—	—
Items affecting comparability	<u>71</u>	<u>- 30</u>	<u>- 78</u>	<u>—</u>	<u>- 150</u>	<u>—</u>	<u>- 112</u>	<u>—</u>	<u>149</u>
Reported operating profit	528	439	537	725	886	754	849	1,120	1,083
Net financial items:									
Net interest items	- 227	- 208	- 175	- 189	- 222	- 225	- 220	- 245	- 295
Interest difference, translation hedge	<u>94</u>	<u>81</u>	<u>65</u>	<u>24</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net financial items	<u>- 133</u>	<u>- 127</u>	<u>- 110</u>	<u>- 165</u>	<u>- 222</u>	<u>- 225</u>	<u>- 220</u>	<u>- 245</u>	<u>- 295</u>
Reported profit after net fin. items	395	312	427	560	664	529	629	875	788

Deliveries by product area

(000s of tonnes)	1997				1998	
	I	II	III	IV	I	II
Newsprint	376	361	416	398	380	366
SC paper	98	111	120	113	101	121
LWC paper	188	224	238	245	209	221
Technical office papers	43	39	38	37	41	39
Fine papers	<u>260</u>	<u>270</u>	<u>265</u>	<u>270</u>	<u>276</u>	<u>251</u>
Total graphic papers	965	1,005	1,077	1,063	1,007	998
Board	227	262	230	196	206	231
Packaging paper	141	143	145	151	153	139
Other grades	<u>4</u>	<u>3</u>	<u>4</u>	<u>4</u>	<u>6</u>	<u>14</u>
Total board and packaging paper	372	408	379	351	365	384
Total paper and board	1,337	1,413	1,456	1,414	1,372	1,382
Pulp	307	342	316	299	321	290
Sawn timber (000s m ³)	187	207	155	221	206	213

DISTRIBUTION OF SHARES

	<u>Series A</u>	<u>Series B</u>	<u>Total</u>
Unrestricted	261,797,100	59,706,625	321,503,725

STORA ENSO, pro forma

On June 2, 1998, the respective Boards of Directors of Enso and STORA approved the merger agreement between the two companies. On completion of the merger, STORA ENSO will be the world's largest forest products group, with an annual production capacity of 13.1 million tonnes of paper and board and 2.8 million cubic meters of sawn timber.

STORA ENSO will hold a leading position in Europe, as well as globally, in many of its core product areas: printing papers, fine papers and packaging board. As Europe's largest sawn timber supplier, STORA ENSO will be a major global player in this business segment. The new Group's main market will be Europe but the company will also be strongly positioned for continued global expansion.

STORA ENSO's production will be based on the processing of wood fiber. The new Group will produce paper and board from both primary and recycled fiber. It will own 2.6 million hectares of forest land, of which 2.1 million is productive. STORA ENSO's annual consumption of waste paper is estimated at about 1.8 million tonnes.

STORA ENSO's own power plants and holdings in other power companies assure the new Group of substantial energy resources. Based on 1997 figures, the Group is 90-percent self-sufficient in terms of electric power.

STORA ENSO's business strategy, financial targets and dividend policy

STORA ENSO will be a leading forest products Group with a strong international presence. The Group's aims are to maximize shareholder value, by supplying high-quality, cost-competitive products to its customers, and to pursue profitable growth opportunities within core business areas from a sound financial base.

The principal elements of the business strategy will be:

- product and customer focus
- productivity and cost competitiveness
- profitable growth.

STORA ENSO's objective is to be the most attractive listed forest products company for investors and to create returns that exceed the full cost of capital and to generate added value for its shareholders.

STORA ENSO's internal profitability target is currently an average return on capital employed (ROCE) of 13 percent during a business cycle. The emphasis will be placed on the efficient utilization of capital. The 13-percent return requirement also applies to new investments and represents the minimal acceptable return.

In the present interest-rate environment, STORA ENSO's objective is that the debt/equity ratio should be less than a multiple of 1.0. More than 20 percent of the capital employed by STORA ENSO will consist of power production plants and forest land, which have a lower business risk and substantial hidden value. This has been taken into account when setting the Group's debt/equity target.

In accordance with its dividend policy, STORA ENSO will strive to pay stable dividends corresponding to an aggregate of approximately one third of total net profit during a full business cycle.

STORA ENSO'S shares will be listed on the Helsinki and Stockholm stock exchanges.

STORA ENSO'S consolidated financial statements are prepared in accordance with the accounting standards recommended by the International Accounting Standards Committee (IASC).

The following tables include the preliminary unaudited consolidated financial statements of STORA ENSO. The accounts have been prepared in accordance with the pooling-of-interests method. Some of the figures for STORA ENSO presented in the Offer Prospectus published on July 13, have since been updated.

During 1998, STORA ENSO'S functional currency will be the Finnish mark (FIM). Thereafter, the new company will report in Euro. To facilitate comparison, the following tables are thus shown in both FIM and SEK (rounding-off differences can occur) .

STORA ENSO**– PRELIMINARY CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

INCOME STATEMENT	FIM million			SEK million		
	<u>Jan-Jun 98</u>	<u>Jan-Jun 97</u>	<u>Jan-Dec 97</u>	<u>Jan-Jun 98</u>	<u>Jan-Jun 97</u>	<u>Jan-Dec 97</u>
Net sales	31,759	28,498	59,446	45,845	42,578	87,434
Expenses and other operating income	- 19,883	- 18,702	- 38,871	- 28,702	- 27,942	- 57,172
Personnel costs	- 5,357	- 5,108	- 10,330	- 7,734	- 7,632	- 15,193
Depreciation	- 2,648	- 2,316	- 4,933	- 3,823	- 3,461	- 7,256
Share in income of associated companies	40	22	77	58	33	113
Operating profit	3,910	2,393	5,389	5,644	3,576	7,926
Financial net	- 1,001	- 749	- 1,619	- 1,445	- 1,119	- 2,381
Profit after financial items	2,909	1,645	3,770	4,199	2,457	5,545
Taxes	- 944	- 558	- 1,209	- 1,362	- 834	- 1,778
Minority interests	- 23	- 26	- 85	- 33	- 39	- 125
Net profit	1,942	1,060	2,477	2,803	1,584	3,643
BALANCE SHEET	<u>June 30, 98</u>	<u>June 30, 97</u>	<u>Dec 31, 97</u>	<u>June 30, 98</u>	<u>June 30, 97</u>	<u>Dec 31, 97</u>
<i>Assets</i>						
Fixed assets and other non-current assets	73,192	69,012	70,497	106,198	102,712	102,721
Current assets	23,787	22,723	21,897	34,514	33,819	31,906
Total assets	96,979	91,735	92,394	140,712	136,531	134,627
 <i>Shareholders' equity and liabilities</i>						
Shareholders' equity	34,234	32,075	33,783	49,672	47,738	49,225
Minority interests	721	858	832	1,046	1,276	1,212
Interest-bearing liabilities	43,110	41,319	39,265	62,550	61,496	57,213
Other liabilities	18,914	17,483	18,514	27,444	26,021	26,977
Total shareholders' equity and liabilities	96,979	91,735	92,394	140,712	136,531	134,627
 KEY RATIOS						
Earnings/share, FIM/SEK	2.50	1.36	3.18	3.60	2.04	4.68
Operating margin, %	12.3	8.4	9.1	12.3	8.4	9.1
ROCE, %	10.8	7.0	7.8	10.8	7.0	7.8
Net interest-bearing liabilities	39,272	37,667	36,505	56,982	56,060	53,191
Capital employed	74,227	70,599	71,120	107,700	105,074	103,628
Capital employed, average	72,674	68,397	68,657	105,664	101,585	100,628
Debt/equity ratio, %	1.12	1.14	1.06	1.12	1.14	1.06
Investments	2,791	3,597	6,740	4,029	5,374	9,913
Number of employees	40,263	39,257	40,228	40,263	39,257	40,228

FIM million	NET SALES			OPERATING PROFIT		
	<u>Jan-Jun 98</u>	<u>Jan-Jun 97</u>	<u>Jan-Dec 97</u>	<u>Jan-Jun 98</u>	<u>Jan-Jun 97</u>	<u>Jan-Dec 97</u>
Power	780	840	1,651	378	395	732
Forest	4,661	4,442	8,837	334	327	662
Sawn timber	2,087	2,143	4,294	1	181	304
Pulp	2,788	2,725	5,701	142	- 157	150
Newsprint	4,962	4,218	9,216	777	374	1,068
Magazine paper	4,949	3,752	8,513	655	153	475
Fine papers	6,552	5,379	11,452	766	442	847
Board and packaging paper	7,256	7,067	14,129	773	689	1,347
Specialty papers	1,367	1,223	2,477	58	54	99
Paper merchants	2,592	2,368	4,760	15	18	32
Financial operations	—	—	—	70	209	222
Divested units	—	79	79	—	9	- 3
Items aff. comparability	—	—	—	103	- 132	- 233
Other	- 6,234	- 5,737	- 11,664	- 162	- 169	- 310
Total	31,759	28,498	59,446	3,910	2,393	5,389

SEK million	NET SALES			OPERATING PROFIT		
	<u>Jan-Jun 98</u>	<u>Jan-Jun 97</u>	<u>Jan-Dec 97</u>	<u>Jan-Jun 98</u>	<u>Jan-Jun 97</u>	<u>Jan-Dec 97</u>
Power	1,126	1,255	2,429	545	591	1,076
Forest	6,728	6,636	12,998	483	489	973
Sawn timber	3,013	3,202	6,316	1	271	447
Pulp	4,025	4,071	8,385	205	- 235	221
Newsprint	7,163	6,302	13,556	1,122	559	1,570
Magazine paper	7,144	5,605	12,522	945	229	698
Fine papers	9,458	8,037	16,842	1,106	661	1,245
Board and packaging paper	10,474	10,559	20,781	1,116	1,030	1,981
Specialty papers	1,973	1,827	3,643	84	81	145
Paper merchants	3,741	3,537	7,001	21	27	47
Financial operations	—	—	—	101	312	327
Divested units	—	118	116	—	13	- 4
Items aff. comparability	—	—	—	149	- 197	- 343
Other	- 9,000	- 8,572	- 17,156	- 234	- 253	- 457
Total	45,845	42,578	87,434	5,644	3,576	7,926

QUARTERLY DATA

FIM million	<u>I/97</u>	<u>II/97</u>	<u>III/97</u>	<u>IV/97</u>	<u>I/98</u>	<u>II/98</u>
<i>Net sales</i>						
Power	506	334	322	489	454	327
Forest	2,282	2,159	1,999	2,397	2,405	2,256
Sawn timber	965	1,179	940	1,210	995	1,092
Pulp	1,239	1,486	1,504	1,472	1,417	1,371
Newsprint	2,031	2,187	2,488	2,511	2,476	2,486
Magazine paper	1,639	2,113	2,312	2,450	2,392	2,557
Fine papers	2,705	2,675	2,809	3,263	3,453	3,099
Board and packaging paper	3,386	3,681	3,563	3,499	3,619	3,637
Specialty papers	582	641	617	637	676	691
Paper merchants	1,192	1,176	1,125	1,267	1,351	1,240
Financial operations	—	—	—	—	—	—
Divested units	58	21	—	—	—	—
Items aff. comparability	—	—	—	—	—	—
Other	<u>- 2,959</u>	<u>- 2,778</u>	<u>- 2,784</u>	<u>- 3,143</u>	<u>- 3,225</u>	<u>- 3,009</u>
Total	13,626	14,872	14,896	16,052	16,013	15,746
<i>Operating profit</i>						
Power	260	135	89	248	222	156
Forest	175	152	153	181	171	163
Sawn timber	63	118	73	49	- 14	15
Pulp	- 118	- 39	91	216	54	88
Newsprint	210	164	384	309	375	402
Magazine paper	36	117	162	160	366	289
Fine papers	229	213	140	265	439	327
Board and packaging paper	347	342	417	241	418	355
Specialty papers	24	30	18	27	42	16
Paper merchants	12	6	5	9	19	- 4
Financial operations	38	171	9	5	35	35
Divested units	9	0	- 12	—	—	—
Items aff. comparability	—	- 132	—	- 101	—	103
Other	<u>- 58</u>	<u>- 111</u>	<u>- 128</u>	<u>- 14</u>	<u>- 95</u>	<u>- 66</u>
Total	1,227	1,167	1,401	1,595	2,032	1,879

SEK million	<u>I/97</u>	<u>II/97</u>	<u>III/97</u>	<u>IV/97</u>	<u>I/98</u>	<u>II/98</u>
<i>Net sales</i>						
Power	755	499	466	708	660	467
Forest	3,405	3,232	2,898	3,464	3,498	3,229
Sawn timber	1,440	1,762	1,363	1,751	1,447	1,566
Pulp	1,849	2,222	2,190	2,124	2,061	1,964
Newsprint	3,030	3,272	3,625	3,629	3,601	3,562
Magazine paper	2,446	3,160	3,371	3,545	3,479	3,665
Fine papers	4,035	4,002	4,085	4,721	5,023	4,435
Board and packaging paper	5,052	5,508	5,178	5,044	5,264	5,210
Specialty papers	868	959	897	918	983	990
Paper merchants	1,779	1,759	1,634	1,830	1,965	1,776
Financial operations	—	—	—	—	—	—
Divested units	87	31	- 1	- 1	—	—
Items aff. comparability	—	—	—	—	—	—
Other	<u>- 4,416</u>	<u>- 4,157</u>	<u>- 4,043</u>	<u>- 4,541</u>	<u>- 4,691</u>	<u>- 4,309</u>
Total	20,331	22,248	21,662	23,194	23,291	22,554
<i>Operating profit</i>						
Power	388	203	126	360	323	222
Forest	261	228	222	262	249	234
Sawn timber	94	177	106	69	- 20	22
Pulp	- 176	- 59	137	318	79	126
Newsprint	313	246	563	447	545	577
Magazine paper	54	175	238	232	532	413
Fine papers	342	319	201	384	639	467
Board and packaging paper	518	512	608	344	608	508
Specialty papers	36	45	25	39	61	23
Paper merchants	18	9	7	13	28	- 7
Financial operations	57	255	11	5	51	50
Divested units	13	0	- 18	—	—	—
Items aff. comparability	—	- 197	2	- 147	—	149
Other	<u>- 87</u>	<u>- 166</u>	<u>- 187</u>	<u>- 18</u>	<u>- 139</u>	<u>- 95</u>
Total	1,831	1,745	2,041	2,309	2,955	2,689

	<u>I/97</u>	<u>II/97</u>	<u>III/97</u>	<u>IV/97</u>	<u>I/98</u>	<u>II/98</u>
<i>Deliveries, 000 tonnes</i>						
Packaging board	780	831	788	770	774	788
Magazine papers	458	551	592	596	553	588
Newsprint	696	732	813	781	767	756
Fine papers	584	614	640	705	705	689
Specialty papers	<u>85</u>	<u>91</u>	<u>92</u>	<u>93</u>	<u>95</u>	<u>97</u>
Total paper and board	2,603	2,819	2,925	2,945	2,894	2,918
 Sawn timber, 000 m ³	 587	 685	 509	 739	 622	 688
Market pulp, 000 tonnes	542	620	558	534	567	525
 Corrugated board, million m ²	 78	 88	 88	 89	 86	 90