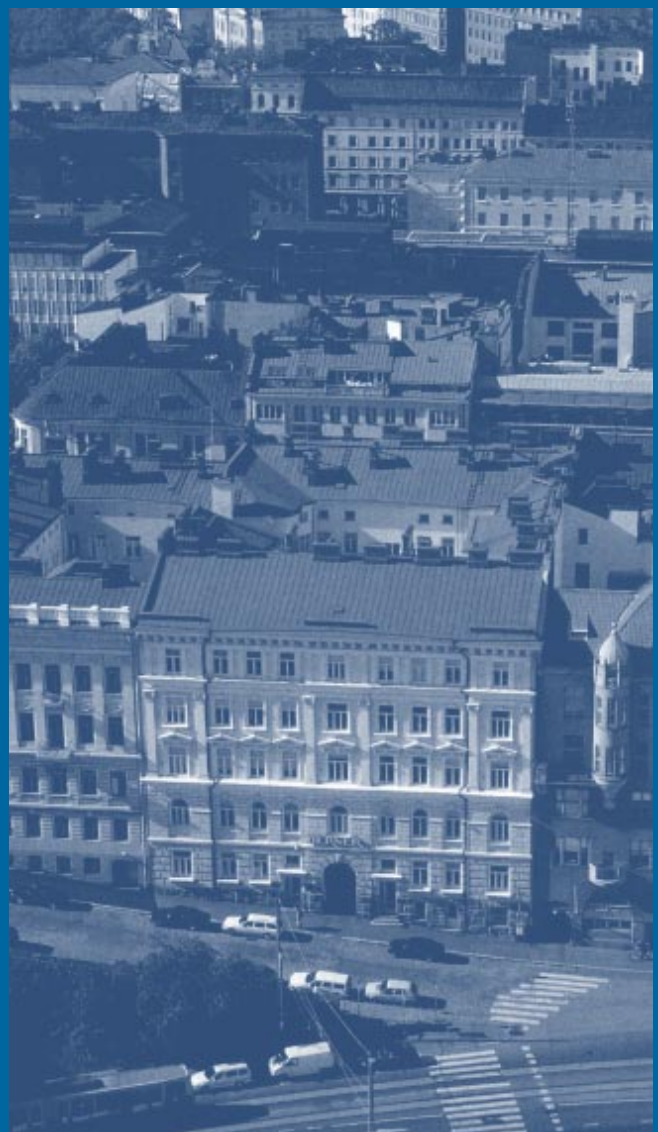


BERNER LTD
ANNUAL REPORT 1997



BERNER

BERNER LTD

ANNUAL REPORT FOR THE 114TH YEAR OF BUSINESS

THE OPERATING ENVIRONMENT

The Finnish economy continued to expand in 1997 at an exceptionally strong rate. GDP grew by a whopping 5.9%, one of the highest growth figures among the EU countries.

The trend in the wholesale and retail trade, which is vital to our company's operations, was favourable. Retail trade grew by 5.7% and the convenience goods wholesale trade by a hefty 7.8%. The trend was the strongest in a decade.

It is believed that the favourable trend will continue. Inflation will remain low even though upward pressures can be detected in the overheated economy. Both private and public consumption will grow further and since unemployment furthermore appears to be heading downward in earnest, there appears to be a good basis for strong consumer demand in 1998.



The new car sales outlet in Kouvola – all lit up at night.

GROUP OPERATIONS AND PROFITS

The year saw major capital expenditures. The largest of the investments carried out was the building of a new convenience goods and cosmetics warehouse in Herttoniemi. The warehouse has a volume of 24,000 cubic metres and it is equipped with the latest in warehousing technology. Another large investment was the building of a 600 cubic metre new vehicle outlet in Kouvola. The new outlet will decisively improve the operating conditions of the automotive sales unit.

New facilities were also acquired in Herttoniemi to facilitate the operations of the Forklift Truck Department. The warehouse of the outlet in Askola was expanded and the entire warehousing operations of the Sport Department were moved there.

Consolidated turnover rose to FIM 760 million, an increase of 13% on the previous year. Furthermore, the value of sales mediated by the Agency Department was FIM 300 million. The increase in sales was distributed unevenly among the different areas of operations. The percentage gross margin on sales dropped noticeably owing to the change in the product mix, the unfavourable trend in the currencies that are important to us – an increase of 17% in the US dollar and 14% in the British pound – as well as a generally tougher competitive situation.

The Group's profit before extraordinary items, appropriations and taxes was FIM 53.4 million. The Group's equity ratio rose to 64.4% and the return on investment was 15.7%.



The new warehouse in Herttoniemi reaches the topping-out stage.

CONVENIENCE GOODS AND COSMETICS

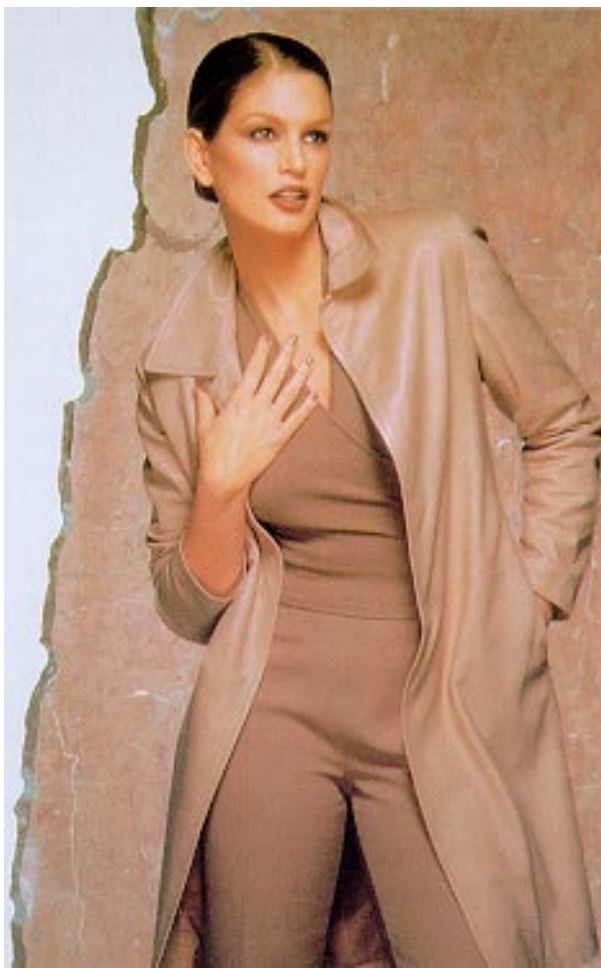
The trend in the wholesale and retail trade in Finland was good, though the growth in the convenience goods trade, 4.1%, was weaker than average. The 6.0% growth in department store sales, however, exceeded the retail trade average of 5.7% growth.

According to the statistics compiled by the Finnish Cosmetic, Toiletry and Detergent Association, the sales trends of product groups that are important to the company were an increase of 4.9% for convenience goods and an impressive 15.7% for cosmetics. Within cosmetics, Berner fell markedly short of the overall sales trend, although our largest brand, Revlon, held on to its third place in selectively distributed lines.

On the convenience goods side, the largest product family, the XZ line of hair care products, had no difficulty in retaining its position. A completely new product that was launched was XZ tablets, which are a hair nutrient that is taken internally. Previously, products of this kind have been sold only in pharmacies and health foods stores. The Barracuda line of men's cosmetics was renewed completely in the autumn 1997 and it was well received by consumers.

Sales of foods also developed favourably, though there were substantial fluctuations from product to product.

The accent in Revlon's autumn make-up collection is on soft, stone-washed shades.



**Anna hiustesi
nauttia yksi tabletti
aamuin illoin.**



Käsitönnä
käsittää
suosittelulle
kiitos.

Hiusten pöhtöyttä ja kovuutta pitää hoitaa
ulkoinesti. Mutta jos hiukset haluat antaa
hoitokseen todella tehokkaasti kasvatamaan,
vahvistusta ja laajuutta, paras tapa on
kuljuttaa sisään ravintoa hiusten
juurista sisäisesti. Siinä on uuden
suomalaisen XZ-linjan
idea kääntää yksitoista-
vuotiaan XZ-lin-
jan ravintolisästä,
seksuaaliprotei-
ni ja muut elinsi-
mät lisävit ravinteet
suosittuun hiustyyppiin, josta
sitten mistä kaava tapahtuu.



BERNER

HEALTH

The total market in the health care sector developed slowly owing to the difficult financial situation of the municipalities as well as to a further fall in prices in a number of product groups. This general trend was also reflected in our company's operations in this sector.

In a positive vein, sales of electronic pacemakers held up well, as did sales of urological prostheses and gastroenterological equipment. Also worthy of mention is the installation of Finland's first digital tape archive, complete with networked workstations, at the Turku University Central Hospital.

Promising new products that were included in the sales programme during the financial year were the electrocardiographs and stress test systems of Burdic Inc, the osteoporosis diagnostics equipment of Osteometer A/S as well as Dilling Weck's hemoclips and retractors.

AGRICULTURE

The summer of 1997 was exceptionally beautiful and boded well for harvests. Excessive dryness nevertheless prevented peak harvests from being achieved. The year was better than average for farmers and restored people's belief that farming has a future as a profitable livelihood. The Agenda 2000 programme that was made public in Brussels at the turn of the year unfortunately caused threatening clouds to appear on the horizon again.

During the report year, the Plant Protection Department beefed up its resources in both advisory and testing operations with a view to further increasing the input/output ratio within plant cultivation operations. Only by increasing efficiency can we ensure the vitality of agriculture in Finland.

The department's sales and profits developed favourably.



Baygon – a solution to all household insect problems.

Reebok presented two new shock absorption technologies: DMX10 and 3D Ultralite.



The 3D Ultralite shoe is "ultra" lightweight and flexible. It gives excellent contact with the exercise or playing surface along with high-efficiency shock absorption.



The DMX10 external sole is composed of two units incorporating five air cushions each. The air that circulates between them both absorbs the shocks transmitted to the shoe and acts as a support element.

LEISURE

The sports and leisure trade developed favourably in Finland, and this showed up as an increase of nearly a quarter in Berner's sales.

The integration into the Sport Department of the Karhu Ball Games business that was acquired at the beginning of the financial year went well, though it tied up a good deal of the department's resources. Among Karhu products, Finnish baseball enjoyed good sales, and there was satisfactory demand for indoor bandy equipment.

The department's flagship brand, Reebok, suffered from the sharp rise in the US dollar, which could not be completely factored into prices. This had an impact on the earnings of the entire department. Other brands that sold well were Arena, Craft and Mäser.

AGENCY OPERATIONS

In 1997 the Agency Operations Department continued to seek new business areas and market opportunities in Finland and abroad. By opening up new product areas and customer contacts, we succeeded in developing and diversifying our product line and service know-how in the areas of chemicals, foods and the feed industry.

TECHNICAL PRODUCTS

Both the car and forklift truck trade developed very favourably in Finland, enabling Berner's departments in these fields to achieve good success. Sales by the Forklift Truck Department rose by 27%, and the automotive sales outlet in Kouvola registered an increase of 24%.

More Mitsubishi forklift trucks were sold than ever before and their market share rose. Competition was considerably keener following the start-up of imports of Korean forklift trucks into Finland. They are certain to stake out their own market niche owing to their low prices. Towards the end of the year, forklift truck sales and service moved into their own modern facilities in Herttoniemi and the department now has excellent operating conditions.

In Kouvola, operations were hampered by the extension and modification works that were started at the outlet in August, but despite this we achieved re-cord sales. Expectations for the current year are also high, even though sales in the first part of the year have suffered somewhat from a severe shortage of goods.

Within automotive chemicals, Lasol's sales

inparticular developed well and the product reinforced its position as the market leader. Korrek products, too, maintained their market leadership position, although sales dipped somewhat along with the market as a whole.

BERNER INDUSTRY

The company had production operations at three units now that the Herttoniemi and Rajamäki factories were joined by the Askola factory, which manufactures Finnish baseball bats, gloves and balls as well as indoor bandy sticks, for which a new machine was purchased.

Production of technochemicals grew somewhat during the year, mainly due to subcontracted work. The total value of the company's output was FIM 75.1 million.

A major project was the building of a new central warehouse in the Herttoniemi industrial park. The building was completed at the end of 1997 and it will be put into use stage by stage during the spring 1998.



EXPORTS

The company continued to focus its exports on the Baltic countries, Russia, the Czech Republic and Slovakia. Exports to Russia enjoyed the best growth. In the Czech Republic, it was decided to give up our own sales organization and to enter into cooperation with a local company that manufactures and markets automotive chemicals.

The biggest product renewal in the 35-year history of the Korrek series was received enthusiastically, further boosting Korrek's brand leadership.

BERNER GROUP FIGURES

Mmk

	1992	1993	2/1994	12/1994 (10 months)	1995	1996	1997
Turnover	422,7	442,2	507,7	439,6	595,3	668,4	758,2
Growth, %	-3,0	4,6	14,8	-13,4	35,4	12,3	13,4
Personnel	405	384	380	379	433	424	449
Salaries and wages	58,5	57,2	74,4	67,7	88,0	92,4	95,2
as a per cent of turnover	13,8	12,9	11,2	10,4	14,8	13,8	12,6
Operating profit before depreciation	28,3	33,5	46,1	42,2	61,9	70,8	62,7
% of turnover	6,9	7,6	9,1	9,6	10,4	10,6	8,3
Net profit	17,3	28,6	38,4	39,6	51,5	58,1	50,7
Change in untaxed reserves	-0,9	-3,6	0,0	-1,4	-3,2	-12,9	-24,9
Taxes	6,1	7,2	10,1	10,2	13,1	19,1	16,9
Interest expense	7,1	8,8	5,2	2,6	1,1	0,2	0,2
Interest income	2,6	5,9	3,3	2,3	2,7	1,8	1,8
Depreciation according to the Business Taxation Act	8,1	8,8	7,2	3,1	15,3	23,0	24,0
Total assets	253,8	285,5	267,0	271,3	303,9	332,6	372,4
Gross investments	11,6	9,7	12,4	12,3	27,9	16,9	36,3
Equity ratio, %	32,5	34,8	46,6	54,4	58,7	59,9	63,5

SUBSIDIARIES OPERATING IN FINLAND

OY KARL BEUS AB

The company is a hospital supply wholesaler. Its turnover was FIM 28.1 million and 17 employees were on the payroll.

TERPIA BERNERIN LÄÄKETEHDAS OY

The company's turnover was FIM 18.2 million and it had 5 employees.

OTHER SUBSIDIARIES IN FINLAND

Aroma Blend Co Oy

Berco Trading Co Oy

Oy Berfin Ab

Bernerin Kiinteistöasakeyhtiö (property management company)

Kymen Moottoritalo Oy

Lasse Viren - Tiger Oy

Bostads Ab Södra Kajen 4 (housing corporation)

FOREIGN SUBSIDIARIES

Bröderna Berner HAB, Sweden

The company's turnover was FIM 14.0 million and it employed 7 people.

Sören Berner AS, Norway

Turnover was FIM 12.9 million and the company employed 11 people.

Betra Marketing Ltd, Slovakia

Turnover was FIM 1.1 million and the company had one employee.

Berner CZ Ltd, Czech Republic

Turnover was FIM 0.3 million and the company had one employee.

Berner Eesti AS

Turnover was FIM 3.0 million and the company employed 12 people.

Berner Brothers Inc., USA

No operations during the year.

Berner's values:

1. Labor
2. Fides
3. Humanitas

BALANCE SHEET AND PROFIT

The consolidated gross profit on sales was FIM 242.9 million (32.0%). Operating profit before depreciation was FIM 62.7 million (8.3%). The Group had net interest income of FIM 1.8 million. Gross capital expenditure totalled FIM 36.3 million. Total assets stood at FIM 372.4 million. The equity ratio was 63.5%. The transitional reserve was discharged and used for investments. Adjusted depreciation amounted to FIM 12.0 million.

PERSONNEL WAGES AND SALARIES

An average of 449 people were in the Group's employ, and personnel expenses totalled FIM 95.2 million. A bonus of FIM 4.4 million inclusive of social costs was paid out. The bonus amounted to 11.44% of the salaries and wages it was based upon.

JOINT COOPERATION

Company labour relations have remained good. Joint cooperation negotiations have been held regularly at all the units. In these sessions, the company has informed employees of the company's financial situation and the trend in earnings.

MANAGEMENT OF THE PARENT COMPANY

BOARD OF DIRECTORS

Chairman
Harry B. Berner, Consul General
Vice Chairman
Erik Berner, Commercial Counsellor
Vice Chairman
Peter Berner, M.Sc. (Econ.)
Managing Director
George Berner, M.Sc. (Eng.), Consul
Deputy Managing Director
Hannes Berner, M.Sc. (Econ.)

Other members

Juhani Klemola, M.Sc. (Pol.Sc.)
Antti Korpiniemi, M.Sc. (Agriculture & Forestry)
Kirsi-Marja Koskelo, M.Sc. (Econ.)
Markku Koski, B.Sc. (Eng.)
Hannu Raiskio, LL.M.
Michael Sandbacka, M.Sc. (Econ.),
Managing Director of Oy Karl Beus Ab

AUDITORS

Per-Olof Stenvall, Authorized Public Accountant and
Rabbe Nevalainen, Authorized Public Accountant,
both of the firm of public accountants Tilintarkastajien
Oy – Ernst & Young.

SOCIAL AFFAIRS

Professor Edward Andersson and Bank Director Kalevi
Sorsa have acted as advisors for social affairs.



The renewed Barracuda series for men.

CONSOLIDATED INCOME STATEMENT

	01.01.1997 – 31.12.1997	01.01.1996 – 31.12.1996
Turnover	758 182 878,90	668 421 157,52
Decrease (-)/increase (+) in product inventories	4 512 856,51 1 816 252,54	– 995 059,00 3 752 403,62
Income from other operations		
Variable costs		
Materials, supplies and goods:		
Purchases during the financial year	511 187 603,66	418 969 359,31
Increase (-)/decrease (+) in inventories	– 7 376 511,14	2 454 443,10
Outside services	4 391 362,51	4 945 249,45
Personnel expenses	4 113 942,96	2 577 096,92
Other variable costs	9 300 796,71	5 988 588,90
	<u>– 521 617 194,70</u>	<u>– 434 934 737,68</u>
Gross profit	242 894 793,25	236 243 764,46
Fixed costs		
Personnel expenses	95 246 611,08	92 416 278,06
Rents	8 665 580,21	7 638 300,25
Other fixed costs	76 253 243,60	65 436 896,33
	<u>– 180 165 434,89</u>	<u>– 165 491 474,64</u>
Operating profit before depreciation	62 729 358,36	70 752 289,82
Depreciation		
Fixed assets and other long-term expenditure	11 853 824,32	12 367 168,90
Amortization of goodwill on consolidation	153 585,02	241 981,61
	<u>– 12 007 409,34</u>	<u>– 12 609 150,51</u>
Operating profit	50 721 949,02	58 143 139,31
Financial income and expenses		
Dividend income	230 011,90	247 444,60
Other financial income	3 418 423,06	2 255 196,25
Interest expenses	– 159 558,94	– 284 899,70
Other financial expenses	– 827 365,00	– 827 605,83
	<u>2 661 511,02</u>	<u>1 390 135,32</u>
Profit before extraordinary items, appropriations and taxes	53 383 460,04	59 533 274,63
Extraordinary income and expenses		
Extraordinary income	1 117 471,40	4 289 697,53
Extraordinary expenses	– 1 111 789,40	– 955 735,57
	<u>5 682,00</u>	<u>3 333 961,96</u>
Profit before appropriations and taxes	53 389 142,04	62 867 236,59
Increase in accelerated depreciation (-)	– 22 046 452,79	– 10 410 700,19
Increase (+) in voluntary untaxed reserves	24 906 729,01	12 854 484,46
Direct taxes		
For the financial year	16 871 594,00	19 072 957,48
For previous financial years	– 150,00	– 91,00
Taxes paid from retained earnings	– 16 871 444,00	– 19 061 060,00
	<u>0,00</u>	<u>– 11 806,48</u>
Profit for the financial year before minority interest	56 249 418,26	65 299 214,38
Minority interest in net profit for the financial year	27 346,03	31 462,33
Consolidated net profit	<u>56 276 764,29</u>	<u>65 330 676,71</u>

CONSOLIDATED BALANCE SHEET

ASSETS	31.12.1997		31.12.1996	
FIXED ASSETS AND OTHER LONG-TERM INVESTMENTS				
Intangible assets	716 316,74		612 175,24	
Intangible rights	9 057 932,87		11 631 842,51	
Goodwill			153 471,02	
Goodwill on consolidation	<u>2 611 754,23</u>	12 386 003,84	<u>1 808 835,33</u>	14 206 324,10
Other long-term expenditure				
Tangible assets	6 568 046,14		6 560 846,14	
Land	36 107 050,18		14 289 018,04	
Buildings and structures	17 547 289,08		14 012 573,76	
Machinery and equipment	<u>149 100,00</u>	60 371 485,40	<u>61 785,97</u>	34 924 223,91
Advance payments				
Fixed asset securities and other long-term investments	32 180,00		32 180,00	
Shares in subsidiaries			434 831,90	
Shares in associated companies	<u>1 305 766,37</u>	1 337 946,37	<u>1 390 300,91</u>	1 857 312,81
Other shares and holdings				
VALUATION ITEMS		29 988,78		14 464,93
Translation adjustment				
INVENTORIES AND FINANCIAL ASSETS				
Inventories	16 773 041,67		12 978 778,09	
Materials and supplies	2 490 930,92		2 284 668,52	
Uncompleted goods	<u>107 314 282,90</u>	126 578 255,49	<u>98 929 751,56</u>	114 193 198,17
Finished products/goods				
Receivables	72 353 535,95		62.443.709,00	
Accounts receivable	380 130,65		337 601,49	
Loan receivables from shareholders	561 634,85		665 307,64	
Other loan receivables	3 903 094,20		4 133 300,97	
Accrued income and prepaid expenses	<u>41 182 616,91</u>	118 381 012,56	<u>49 181 936,24</u>	116 761 855,34
Other receivables				
Securities held in financial assets		25 707 647,61		30 000 000,00
Other securities		<u>27.605.947,55</u>		<u>20.676.036,38</u>
Cash and banks		<u>372.398.287,60</u>		<u>332.633.415,64</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
SHAREHOLDERS' EQUITY				
Restricted equity				
Share capital	5 106 520,00		5 106 520,00	
Reserve fund	<u>1 009 256,13</u>	6 115 776,13	<u>1 004 337,61</u>	6 110 857,61
Non-restricted equity				
Disposal fund	5 623 955,90		5 508 454,47	
Loan repayment fund	50 949,36		50 949,36	
Retained earnings	162 569 585,86		119 474 316,65	
Dividends	- 9 727 200,00		- 4 168 800,00	
Taxes	<u>-16 871 444,00</u>		<u>-19 061 060,00</u>	
	<u>135 970 941,86</u>		<u>96 244 456,65</u>	
Net profit	<u>56 276 764,29</u>	<u>197 922 611,41</u>	<u>65 330 676,71</u>	<u>167 134 537,19</u>
MINORITY INTEREST		203 215,77		246 515,05
UNTAXED RESERVES				
Accelerated depreciation		42 247 599,40		20 201 773,10
Voluntary untaxed reserves				
Transitional reserve			24 906 729,01	
Other reserves	<u>6 547,80</u>	6 547,80	<u>34 217,24</u>	24 940 946,25
VALUATION ITEMS				
Gains on foreign exchange	1 361 688,82		870 627,18	
Translation adjustment	<u>196 862,50</u>	1 558 551,32	<u>198 240,45</u>	1 068 867,63
LIABILITIES				
Long-term				
Loans from financial institutions	23 696,80			
Advances received	<u>270 085,00</u>	293 781,80	<u>308 668,00</u>	308 668,00
Current				
Advances received	111 995,75		833 557,92	
Accounts payable	83 478 144,99		63 128 676,93	
Accrued expenses and prepaid income	26 394 064,63		36 862 501,27	
Other current liabilities	<u>14 065 998,60</u>	<u>124 050 203,97</u>	<u>11 796 514,69</u>	<u>112 621 250,81</u>
		<u>372 398 287,60</u>		<u>332 633 415,64</u>

CONSOLIDATED STATEMENT OF SOURCES AND APPLICATION OF FUNDS

	1000 mk	
Sources of funds	01.01.1997–31.12.1998	01.01.1996–31.12.1996
Funds generated from operations		
Operating profit before depreciation	62 729,00	70 752,00
Dividends and other financial income	3 648,00	2 503,00
Gains on the sale of fixed assets	2 735,00	8.842,00
Extraordinary items (net)	+ 6,00	+ 3 334,00
	<u>69 118,00</u>	<u>85 431,00</u>
Distribution of profits		
Financial expenses	– 987,00	– 1 113,00
Taxes	– 16 871,00	– 19 073,00
Dividends	– 9 727,00	– 4 169,00
	<u>– 27 585,00</u>	<u>– 24 355,00</u>
Capital financing		
Decrease/increase in long-term borrowed capital	– 15,00	– 1 484,00
	<u>– 15,00</u>	<u>– 1 484,00</u>
Total (A)	<u>41 518,00</u>	<u>59 592,00</u>
<u>Application of funds</u>		
Investments		
Investments in fixed assets	+ 36 756,00	+ 16 583,00
Increase due to translation adjustment	+ 17,00	+ 73,00
Purchase of shares in subsidiaries	+ 21,00	+ 1 147,00
Purchase of shares in associated companies		+ 200,00
Decrease in minority interests	– 43,00	– 6,00
	<u>36 751,00</u>	<u>17 997,00</u>
Total (B)	<u>36 751,00</u>	<u>17 997,00</u>
<u>Change in net working capital</u>		
Decrease in other long-term investments	–	– 2 355,00
Increase/decrease in inventories	+ 12 385,00	– 3 161,00
Increase in financial assets	+ 4 257,00	+ 38 705,00
Increase in valuation items	– 491,00	– 717,00
Increase/decrease in short-term borrowed capital	– 11 429,00	+ 10 605,00
Other change in working capital due to the elimination of foreign subsidiaries	+ 45,00	– 1 482,00
	<u>4 767,00</u>	<u>41 595,00</u>
Total (A – B)	<u>4 767,00</u>	<u>41 595,00</u>

Extent of the consolidation

The following companies have been included in the consolidated financial statements:

Parent company:	Berner Ltd
Subsidiaries:	Aroma Blend Co Oy
	Berco Trading Co Oy
	Oy Berfin Ab
	Bernerin Kiinteistöosakeyhtiö
	Bostadaktiebolaget Södra Kajen 4
	Oy Karl Beus Ab
	Kymen Moottoritalo Oy
	Lasse Viren Tiger Oy
	Terpia Bernerin Lääketehdas Oy
	Bröderna Berner HAB
	Sören Berner A/S
	Betra Marketing Ltd.
	Berner Eesti As
	Berner CZ Ltd.

Berner CZ Ltd. was established as a subsidiary in 1997 and is thus included in the consolidation for the first time.

Subsidiary not included in the consolidation: Berner Brothers Inc., USA

The company has not been consolidated because it is an overseas company that has not had business operations.

Accounting policies

Intercompany share ownership

The consolidated financial statements have been prepared using the acquisition cost method. In the acquisition of shares in subsidiaries, the price paid in excess of shareholders' equity has been allocated in part to fixed assets and in part it is stated as the goodwill on consolidation.

Internal transactions and margins

Intra-Group transactions, the unrealized margins on internal deliveries, internal receivables and debts as well as the internal distribution of profits have been eliminated.

Minority interests

Minority interests have been separated out from the consolidated shareholders' equity, untaxed reserves and net profits and have been stated as an independent item.

Translation adjustments

The financial statement figures of Group companies outside Finland have been translated to Finnish marks at the Bank of Finland's official rate on the balance sheet date. The adjustment differences arising in the elimination of the shareholders' equity amounts of subsidiaries outside Finland have been booked in non-restricted equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

<u>Personnel costs</u>	31.12.1997	31.12.1996
Salaries and wages	75.858.656,00	72.694.106,71
Pension costs	12.592.635,15	11.526.407,20
Other personnel expenses	<u>10.909.262,89</u>	<u>10.772.861,07</u>
Total	99.360.554,04	94.993.374,98
Fringe benefits	2.898.137,33	2.377.180,92
Total	<u>102.258.691,37</u>	<u>97.370.555,90</u>
<u>Extraordinary income</u>		
Extraordinary income includes a gain on the sale of MTV Oy Finland shares	<u>1.110.000,00</u>	
<u>Extraordinary expenses</u>		
Extraordinary expenses include a Group contribution paid to Berner Eesti As to support its local business operations	<u>1.110.854,00</u>	
<u>Valuation items</u>		
Translation adjustment (assets) 1.1.	14.464,93	35.975,50
Increase 1.1.-31.12.	+ 15.523,85	-
Decrease 1.1.-31.12.	-	-21.510,57
Translation adjustment 31.12.	<u>29.988,78</u>	<u>14.464,93</u>
Unrealized gains on foreign exchange 1.1.	870.627,18	153.238,17
Increase 1.1.-31.12.	<u>491.061,64</u>	<u>717.389,01</u>
Unrealized gains on foreign exchange 31.12.	<u>1.361.688,82</u>	<u>870.627,18</u>
Translation adjustment (liabilities) 1.1.	198.240,45	103.318,92
Increase 1.1.-31.12.	-	+ 94.921,53
Decrease 1.1.-31.12.	- 174.543,65	-
Translation adjustment 31.12.	<u>23.696,80</u>	<u>198.240,45</u>
<u>Receivables falling due in one year or more</u>		
Accounts receivable	650.768,04	1.044.529,00
Other loan receivables	<u>421.181,29</u>	<u>429.262,96</u>
	<u>1.071.949,33</u>	<u>1.473.791,96</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<u>Depreciation</u>	31.12.1997	31.12.1996
<u>Depreciation according to plan</u>		
Intangible rights	135.755,57	135.484,77
Goodwill	4.182.993,64	4.048.903,31
Other long-term expenditure	746.750,48	316.142,05
Buildings and structures	1.095.238,28	857.030,95
Machinery and equipment	5.528.300,34	6.860.881,17
Domestic items, total	<u>11.689.038,31</u>	<u>12.218.442,25</u>
<u>Foreign subsidiaries:</u>		
Intangible rights	1.935,14	5.057,94
Machinery and equipment	162.850,87	143.668,71
	<u>11.853.824,32</u>	<u>12.367.168,90</u>
<u>Change in accelerated depreciation</u>		
(increase-/decrease +)		
Intangible rights	65.073,84	– 110.029,09
Goodwill	– 670.451,67	
Other long-term expenditure	– 133.071,51	– 1.062.791,65
Buildings and structures	– 22.431.748,16	– 4.498.987,75
Machinery and equipment	1.123.744,71	– 4.738.891,70
Total, domestic	<u>– 22.046.452,79</u>	<u>– 10.410.700,19</u>

Uniform principles are applied to the depreciation according to plan for the Group's companies in Finland, and it is calculated as straight-line depreciation on the original purchase price based on the economic life of the fixed asset items.

The depreciation periods according to the plan are:

Intangible rights	4–5 years, rental period
Goodwill	4–5 years
Other long-term expenditure	5–10 years
Buildings	30 years
Structures	10 years
Machinery and equipment	4–10 years, rental period

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CHANGES IN FIXED ASSET ACQUISITION COSTS AND OTHER LONG-TERM EXPENDITURE 1.1.1997–31.12.1997

	Acquisition cost 1.1.	Increases 1.1.-31.12.	Decreases 1.1.-31.-12.	Acquisition cost 31.12.	Accumulated planned depreciation 31.12.	Book value 31.12.
<u>Intangible rights</u>						
Domestic	1.416.423,47	242,838.12	– 298.800,88	1.360.460,71	– 654.738,39	705.722,32
International subsidiaries, book value						<u>10.594,42</u>
						716.316,74
<u>Goodwill</u>						
Domestic	16.439.553,00	1.609.084,00 ²⁾		18.048.637,00	– 8.990.704,13	9.057.932,87
Consolidated goodwill	253.884,02	114,00 ²⁾		253.998,02	– 253.998,02	0,00
Other long-term expenditure	2.704.802,08	1.549.669,38	– 168.502,50	4.085.968,96	– 1.474.214,73	2.611.754,23
Land areas	1.463.920,37	5.104.125,77		6.568.046,14		6.68.046,14
Buildings and structures	22.719.071,88	24.771.258,03		47.490.329,91	–11.383.279,73	36.107.050,18
<u>Machinery and equipment</u>						
Domestic	39.799.977,09	10.114.323,17	–3.374.835,95	46.539.464,31	–29.418.440,41	17.121.023,90
International subsidiaries, book value						<u>426.265,18</u>
						17.547.289,08
<u>Advance payments</u>						
	61.785,97	149.100,00	– 61.785,97	149.100,00		149.100,00
¹⁾ Includes revaluation	1.060.750,44					
²⁾ Includes consolidated goodwill						
Land areas	5.096.925,77					
Buildings and structures	1.857.987,61	(netto)				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS 31.12.1997

Company-owned shares and holdings in other companies

Name	Number	Group's percentage of voting rights %	Group's percentage of total shares %	Par value, FIM	Book value, FIM	Profits/ loss according financial statements
------	--------	---	--	----------------------	-----------------------	--

Shares in subsidiaries

Berner Brothers Inc., New York, USA	99	99,00 %	99,00%	32.180,00	32.180,00	–
-------------------------------------	----	---------	--------	-----------	-----------	---

Shares in associated companies

Barlach - Berner Ab

**Shares and holdings in
other companies**

Asunto Oy Pääsky, Helsinki	2		0,7 %	7,00	102.009,60	
Asunto Oy Töölöntori 1, Helsinki	2		4,00%	20,00	165.986,00	
Kohdematkat Oy, Helsinki	50				250.000,00	
Sampo Insurance Company Ltd, Helsinki	3752			17.260,00	179.781,15	
Helsinki Telephone Company, Helsinki	82				106.285,20	
Helsinki Telephone Corporatio	820				45.100,00	
Golf Talma, Helsinki	2				162.560,00	
Other companies	–		–	–	<u>294.044,42</u>	
					<u>1.305.766,37</u>	

Machinery and equipment

31.12.97 31.12.96

Undepreciated portion of the purchase
cost of machinery and equipment
belonging to fixed assets

2.370.422,49 1.758.689,14

Group repurchases of shares outstanding

Number of shares purchased by the Group
total par value, FIM

3.052 3.052
1.354.600,00 1.354.600,00

Loans

Other loan receivables include loans
to the management of a Group company

99.256,41 216.774,58

Guarantees and commitments

For Group companies
Guarantees

1.781.688,19 330.396,52

Other own commitments
Other commitments

28.107.368,17 21.076.236,72

Total

29.889.056,36 21.406.633,24

TAXATION VALUES OF FIXED ASSETS

TAXATION VALUES OF FIXED ASSETS	31.12.1997	31.12.1996
Land	29.861.106,00	29.818.785,00
Buildings	36.523.647,39	15.958.463,00
Shares in subsidiaries	32.180,00	32.180,00
Shares in an associated company		434.832,00
Other shares and holdings	1.997.872,66	1.630.778,00

For the following asset items, the book value has been used as the taxation value, since the latter has not been confirmed.

Buildings and structures	21.098.379,39	
Shares in subsidiaries	32.180,00	32.180,00
Shares in an associated company		434.832,00
Other shares and holdings	38.413,46	11.420,00

CHANGES IN EQUITY ITEMS

Reserve fund 1.1.		
Transfer to fund (Bröderna Berner)	1.004.337,61	1.000.872,58
Translation adjustment	+ 4.844,59	+ 3.438,10
Reserve fund 31.12.	<u>+ 73,93</u>	<u>+ 26,93</u>
	<u>1.009.256,13</u>	<u>1.004.337,61</u>
Disposal fund 1.1		
Transfer to/from fund (Sören Berner)	5.508.454,47	5.798.889,47
Translation adjustment	+ 63.448,65	– 394.628,04
Disposal fund 31.12.	<u>+ 52.052,78</u>	<u>+ 104.193,04</u>
	<u>5.623.955,90</u>	<u>5.508.454,47</u>
Loan repayment fund 1.1.		
Increase during the financial period	50.949,36	50.949,36
Loan repayment fund 31.12.	–	–
	<u>50.949,36</u>	<u>50.949,36</u>
Retained earnings 1.1.		
Profit for the previous financial period	96.244.456,65	67.393.673,41
Eliminations on consolidation, previous financial period	<u>65.330.676,71</u>	<u>51.472.537,05</u>
	161.575.133,36	118.866.210,46
Transfers from reserves	+ 2.715.799,47	+ 3.026.244,03
International subsidiaries		
Translation adjustment	+ 1.039.044,58	+ 394.628,04
	<u>+ 742.804,22</u>	<u>– 96.966,41</u>
	166.072.781,63	122.190.116,12
Eliminations on consolidation	– 3.503.195,77	– 2.715.799,47
	<u>162.569.585,86</u>	<u>119.474.316,65</u>
Dividends		
Taxes	– 9.727.200,00	– 4.168.800,00
	<u>–16.871.444,00</u>	<u>– 19.061.060,00</u>
Group retained earnings 31.12.	<u>135.970.941,86</u>	<u>96.244.456,65</u>
Helsinki, 31 March 1998		

Harry B. Berner	Erik Berner	Peter Berner	George Berner	Hannes Berner
Juhani Klemola	Antti Korpiemi	Kirsi-Marja Koskelo	Markku Koski	Michael Sandbacka
				Hannu Raiskio

The above financial statements have been prepared in accordance with Generally Accepted Accounting Practice in Finland.
We have today submitted our auditors' report of the audit carried out by us.
Helsinki, 15 April 1998

Tilintarkastajien Oy – Ernst & Young

Rabbe Nevalainen
Authorized Public Accountant

Per-Olof Stenvall
Authorized Public Accountant

AUDITORS' REPORT

To the shareholders of Berner Ltd

We have examined the accounts, financial statements and administration of Berner Ltd for the financial year 1.1. – 31.12.1997. The financial statements prepared by the Board of Directors and the Managing Director include the annual report as well as the consolidated and parent company income statement, balance sheet and notes to the financial statements. On the basis of the audit carried out by us, we submit the following statement regarding the financial statements and the company's administration.

The audit has been carried out in accordance with Generally Accepted Accounting Practice in Finland. The accounts as well as the principles according to which the financial statements have been prepared, their content and format have thereby been examined to an extent sufficient to ascertain that the financial statements do not contain material errors or deficiencies. In examining the company's governance, the legality of the actions of the members of the Board of Directors and the Managing Director has been ascertained on the basis of the provisions of the Companies Act.

In our opinion, the financial statements, which show a profit for the parent company of 54,917,465.12 marks, have been prepared in accordance with the Accounting Act as well as the other provisions and regulations concerning the preparation of financial statements. The financial statements give, in the manner intended in the Accounting Act, correct and sufficient information on the result of the operations of the Group and the parent company and on their financial position.

The financial statements including the consolidated financial statements can be adopted and release from liability be granted to the members of the parent company's Board of Directors and Managing Director for the financial year audited by us. The proposal of the Board of Directors concerning the disposal of the profits shown in the balance sheet is in accordance with the Companies Act.

Helsinki, 15 April 1998

Rabbe Nevalainen
Authorized Public
Accountant

Per-Olof Stenvall
Authorized
Public Accountant



BERNER LTD
Eteläranta 4 B
P.O:Box 15, FIN-00131 Helsinki
Tel. +358 9 134 511
Telefax +358 9 1345 1500