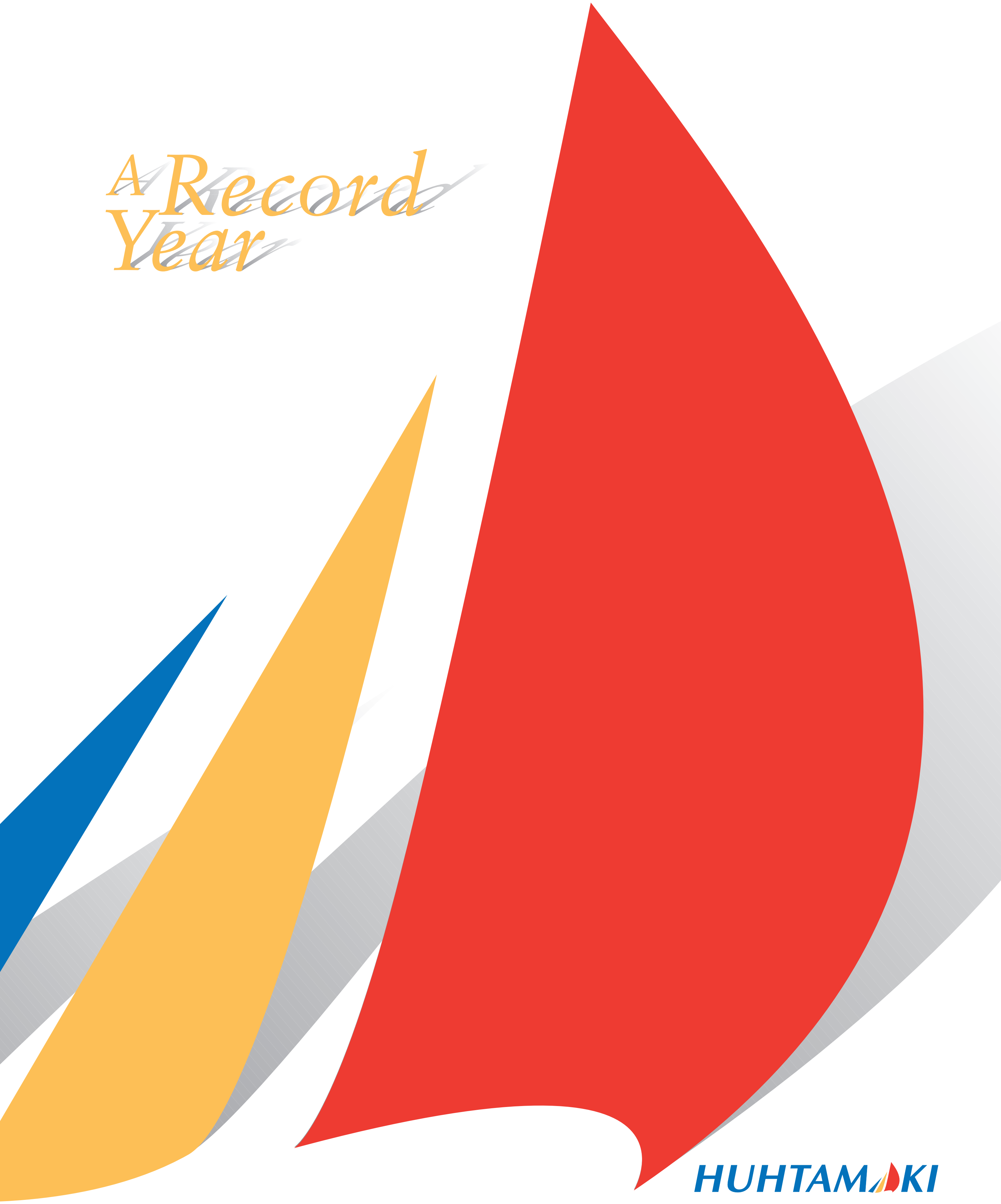
ANNUAL REPORT 1997

A Record Year



HUHTAMÄKI

ANNUAL GENERAL MEETING

The Annual General Shareholders' meeting of Huhtamäki Oy will be held on Thursday, April 2, 1998 at 3:00 pm in Finlandia Hall, Karamzininkatu 4, Helsinki. Apart from statutory business, the AGM is expected to deal with formal amendments to the Company's Articles of Association in keeping with new Finnish Company Law. The official name of the company will become Huhtamäki Oyj.

Shareholders wishing to exercise their rights at the meeting must have their shares registered in their own name with the Finnish Central Securities Depository Ltd. no later than March 26. Participation should be notified to the company no later than 11:00 am on Wednesday, April 1, either by telephone (Huhtamäki Oy, +358-9-6868 81) or in writing (Huhtamäki Oy, Ms. Kaarina Vaartio, Länsituulentie 7, 02100 Espoo, Finland). A registered shareholder may, by April 1, authorise another person to physically attend the meeting and vote by proxy.

Copies of all documents under review at the AGM will be available for public viewing from Monday, March 23, at Corporate Headquarters, Länsituulentie 7, 02100 Espoo, Finland. For further information contact Investor Relations, +358-9-6868 8361.

DIVIDEND

The Board of Directors proposes to the AGM a dividend of FIM 6.00 per share for 1997. This represents an increase of 33% over the dividend for 1996 (FIM 4.50).

Dividend for 1997 will be paid on April 16 to shares registered by April 7.

FINANCIAL CALENDAR

Huhtamaki will release the following financial information for 1998 in Finnish and English:

1998:

June 9 - 1st Interim Report
October 8 - 2nd Interim Report

1999:

February 9 - Full-year Results
Week 10 - Annual Report

As a rule, results will be released at or about 09:00 am Finnish time. All financial releases may be retrieved instantly from Huhtamaki's Internet website, www.huhtamaki.com.

CONTENTS

OUR MISSION

CONFECTIONERY AND FOOD PACKAGING - GLOBALLY

Huhtamaki's strategic intent, as a specialised food company, is to reach global leadership in closely defined segments of the confectionery and food packaging industries. Our core international products include pastilles, products for quick service restaurants and beverage operators, as well as ice cream packaging.

Our business operations are conducted under the name of Leaf in confectionery and Polarcup in food packaging. Each is a major international actor in their respective markets. Huhtamaki has operations in 35 countries and its products are sold in nearly a hundred. The parent company, Huhtamäki Oy, is a publicly traded company established in 1920 and based in Finland.

OUR FINANCIAL OBJECTIVE

CREATING SHAREHOLDER VALUE

Our long-term objective is to be an outstanding investment, i.e. to generate shareholder value through the growth and profitability of our current operations, and a constant evolution in our corporate strategy and structure. For each successive year, our financial target is to achieve a return on investment (ROI) which exceeds the Finnish five-year Government bond interest rate by five percentage points. Reflecting our profit trend, we aim at a stream of increasing dividends, with an average payout ratio of 40%.

OUR CORE VALUES

WHAT WE BELIEVE IN

EXCELLENCE IN BUSINESS
- Total customer and consumer orientation
- An entrepreneurial, innovative spirit
- Emphasis on performance, results and value creation

TRUST IN THE INDIVIDUAL
- Mutual loyalty and commitment
- Continuous development

HIGH ETHICAL STANDARDS
- Good corporate citizen
- Open and active communications
- Respect for the environment

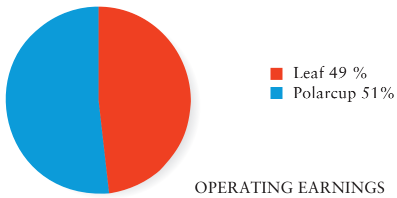
FINANCIAL HIGHLIGHTS FOR 1997

KEY FIGURES (IAS)

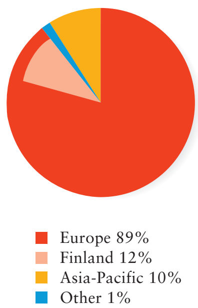
FIM million	1997	1996	Change %
Net sales	6,387	7,505	-15
Operating earnings	515	529	-3
Profit after financial items	519	416	25
Return on investment (ROI), %	13.1	10.8	21
Earnings per share FIM	15.04	10.29	46
Dividend per share FIM	6.00 [1)]	4.50	33
Capital expenditure	459	348	32
Number of employees	9,974	8,000	25

[1)] Board's proposal

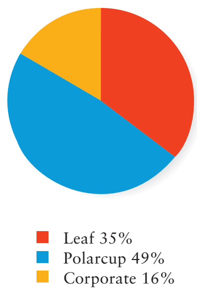
NET SALES BY BUSINESS SECTOR



NET SALES BY REGION



OPERATING EARNINGS BY BUSINESS SECTOR



MILESTONES

- New structure improved profits to record levels
- Reallocation of assets progressed according to plan
- Major investment in emerging markets for future expansion

HIGHLIGHTS

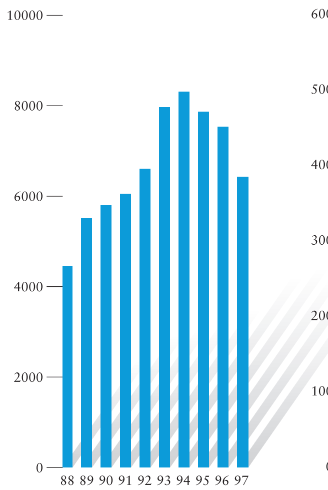
+ Polarcup's volume growth
+ Polarcup's financial result
+ Leaf's core brands' performance

DISAPPOINTMENTS

- Leaf's profitability hampered by hot and humid summer in Scandinavia
- Polarcup still underperforming in Germany
- Low return on liquid assets

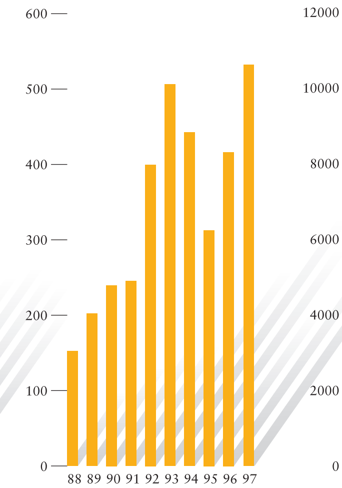
NET SALES

FIM million

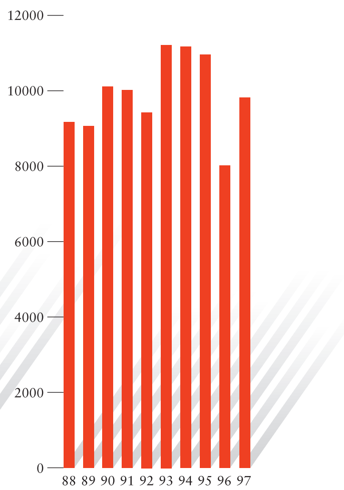


PROFIT AFTER FINANCIAL ITEMS

FIM million

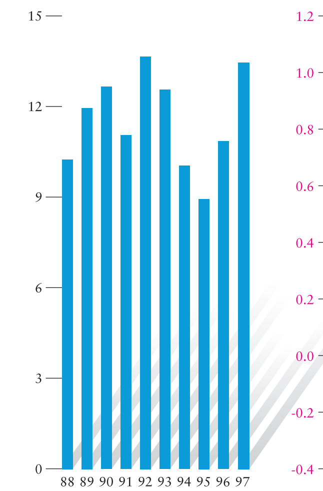


PERSONNEL

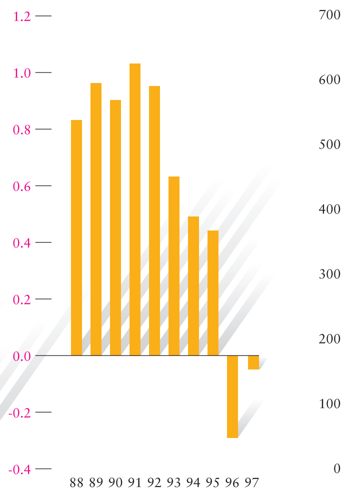


RETURN ON INVESTMENT (ROI)

%

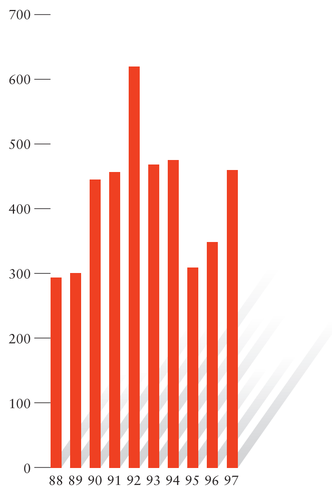


NET DEBT TO EQUITY



GROSS CAPITAL EXPENDITURE

FIM million



ACQUISITIONS IN 1997

	Annual sales FIM million	Employees
Packaging		
PWP (Asia-Pacific)	350	770
Güven Plastik (Turkey; 50%)	100	230
Monoservizio Bibo (Italy; 63%)	320	<300
Wace Conical Containers unit (UK)	40	30
Tulipia S.A. (France)	90	100-150
Confectionery		
Wuxi Leaf (China; remaining 50%)	40	280
Syrena (Poland)	100	<300
Approx.	1,000	2,000

The major asset disposals of 1996 left Huhtamaki with a strong balance sheet and FIM 2.4 billion of liquid assets. Immediately, the redeployment of these assets became a top priority for corporate management. The company's Supervisory Board, which represents the main shareholders, approved the following principles for reinvestment in early 1997:

- The bulk of financial assets is to be held in liquid form in order to enable the company to react quickly to emerging opportunities
- Acquisitions must support Huhtamaki's confectionery and food packaging strategies as well as financial objectives
- A stream of complementary, easily digestible acquisitions is preferable to "megadeals" which typically result in the accumulation of excessive goodwill in the balance sheet
- No "third leg", i.e. a totally new business

During 1997, management carried out a succession of complementary, earnings-enhancing acquisitions which lead to full or partial control in seven companies:

- Outstanding 50% of the shares of Wuxi Leaf, a Chinese joint-venture manufacturing chewing gum
- Pacific World Packaging, a major manufacturer of food containers with 8 plants and two sales offices in Australia, Hong Kong, China, Taiwan and Malaysia
- Monoservizio Bibo (63% of the equity), a manufacturer of food packaging and consumer tabletop products, with two plants in Italy, sales companies in Spain, France and Sweden, and a new manufacturing joint-venture, Kaps, in Argentina
- Güven Plastik Sanayi (50%), Turkey's leading manufacturer of rigid thin-walled plastic food containers
- Syrena, Poland's largest manufacturer of sugar confectionery
- Wace Group's Conical Containers unit, a specialised UK manufacturer of paper and plastic ice cream containers
- Tulipia, the leading French manufacturer of ice cream containers

Five of the companies are active in food packaging and two in confectionery. This ratio should not be taken as an indication of corporate preference for one business area over the other. Rather, it shows that inherently more opportunities were available on the packaging side.

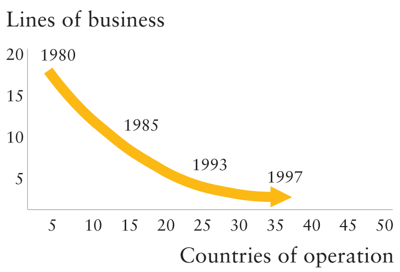
Together, the new units will contribute about FIM 1,000 million to Huhtamaki's sales annually. The aggregate acquisition price including assumed debt amounts to FIM 800 million. The companies are profitable, and synergies should lead to further improvement.

In 1998, new opportunities are under evaluation. Polarcup may expand to new geographical regions again. At the same time, it will continue to strengthen its positions in existing markets. Certain product areas close to its current core segments are also being explored.

Leaf, in turn, will take further steps towards becoming a truly focused branded sugar confectionery company. This implies a continued interest in distinctive, high value added brands in core segments, as well as ventures which will significantly enhance Leaf's sales clout and distribution in markets where it currently is underrepresented.

Huhtamaki entered 1998 from a strong financial position. The balance sheet permits substantial borrowing without exceeding a net debt to equity ratio of 1.0. Ultimately, the three million Series I shares held by Huhtamaki Finance B.V. could be used as acquisition currency. These considerations bring the company's theoretical acquisition potential to the order of FIM 4.0 billion.

A WORD FROM THE CEO



Huhtamaki entered 1997 with a dual mission. First, we had to prove that the extensive structural changes undertaken in 1996 would, indeed, lead to a significant profit improvement. Secondly, we had to embark on the strategic reinvestment of funds resulting from major asset disposals at the end of 1996.

Once again, I am happy to report a mission accomplished. Profit-wise, 1997 became a record year for Huhtamaki. Seven acquisitions concluded during the year will contribute to higher future sales and earnings.

The year was not all smooth sailing, however. At the eight-month checkpoint, the confectionery business, Leaf, appeared to lag behind its targets. While most of this was due to a new seasonal earnings pattern, where Christmas sales now play a crucial role, weather-induced manufacturing problems in Scandinavia took their toll during the summer months.

Strong Christmas sales, especially by the UK and Italian operations, nevertheless restored Leaf's full-year operating earnings closer to original projections. The acquisition of Poland's leading sugar confectionery company will change Leaf from a marginal player into a strong segment leader in a growing market with over 40 million consumers.

When judging Leaf's profit development, a distinction must be made between its established operations, more recent additions to the network, and new ventures in emerging markets. The first group mainly consists of efficient and profitable units, the second category lags clearly behind, and the third one, representing investment for future, is loss-making on the aggregate.

On the food packaging side, the year progressed according to expectations. As a whole, Polarcup's Western European units performed smoothly, and growth opportunities e.g. in Eastern Europe justified further capacity expansions. The acquisition of Pacific World Packaging Group doubled our packaging business in the Asia-Pacific region. Subsequent acquisitions in Europe complemented Polarcup's manufacturing technologies and product range. Notably, it is now the only company with a full range of packaging alternatives for ice cream manufacturers.

Within Polarcup, there are also units with different levels of profitability. The overall trend is up, but new acquisitions typically need some time to catch up with the rest.
A good example is Australia, where Polarcup recovered only after years of struggle and, after the very smooth integration of newly acquired units, is now stronger than ever.

During 1997, we strengthened our positions in the Asia-Pacific region, an area targeted for major growth. Obviously, our prospects are not fully immune to the deterioration of the Asian economic arena. However, we operate in businesses far less vulnerable than e.g. investment goods. One must also bear in mind that almost three quarters of our current sales in Asia-Pacific take place in Australia, New Zealand and China, all less affected by the ongoing crisis.

Common to both Leaf and Polarcup at their current stage of development is the need for a higher degree of central direction-setting and control. During 1997, their organisations were adjusted accordingly. We have also reinforced the headquarters' resources and concentrated all central functions to one location in Espoo, Finland.

What, then, does 1998 hold in store for Huhtamaki?

I see three strategic imperatives: faster growth, further profit improvement, and an acceleration in our strategic reinvestment programme.

Last year's acquisitions alone will boost Huhtamaki's net sales by some FIM 1 billion. We also expect higher organic growth, driven by Leaf's core brands, Polarcup's increasing market shares, and further penetration of emerging markets.

Profits, too, will be enhanced by the new acquisitions. In most cases, synergies are available without heavy-handed restructuring. The benefits from Leaf's past rationalisation will also become fully visible.

From an investor's perspective, our strategic reinvestment programme is probably the question surrounding Huhtamaki in 1998 and beyond. Therefore, we have included a special section on the subject in this Annual Report. As an "executive summary", acquisitions will again dominate Huhtamaki's corporate agenda in 1998.

Once again, I would like to sincerely thank our customers, suppliers, shareholders and investors for their support, as well as our employees for another year of high achievement. Also, I am pleased to welcome new units to the Huhtamaki family of enterprises.

Timo Peltola

LEAF

FIM Million	1997	1996	Change %
Net sales	3,136	2,315	35
Europe	3,096	2,285	35
Asia-Pacific	40	30	33
Operating earnings	178	170	5
Net assets	1,809	1,234	47
Return on net assets %	9.8	13.8	..

For Leaf Group, 1997 was a crucial year in many respects. The Group, for the first time without its former North American operations, saw a 35% expansion in its European and Asian sales. This mainly reflected the newly acquired businesses in Germany and Italy, as organic sales growth in Western Europe remained slow. Sales in the emerging Eastern European and Asian markets increased by nearly 20%.

Leaf's underlying performance responded to the strategic actions and rationalisation carried out during the past two years. However, weather-induced manufacturing problems in Scandinavia delayed the profit improvement markedly during the summer. Seasonal Christmas sales then fuelled a strong recovery during the final four months, which accounted for 85% of Leaf's full-year operating earnings.

The acquisition of Poland's leading sugar confectionery manufacturer Syrena from Wedel Group (PepsiCo) towards year-end will increase Leaf's business fivefold in this highly potential market.

In North America, Leaf's brands now manufactured and marketed by Hershey Foods performed to expectations. Royalty payments from Hershey have been entered as corporate income.

OVERVIEW

The European confectionery markets developed in an incoherent fashion in 1997. The UK, for example, displayed healthy growth, while Sweden and Germany represented the opposite. Consumption in Eastern Europe continued to increase, despite unsettled trading conditions in its largest market, Russia. Aggregate data is scant on the Asian markets, which currently represent widely different stages of development.

In Europe, Leaf's sales were up by 35% following the acquisition of Gubor in Germany and Sperlari in Italy. Excluding acquisitions, Leaf's overall sales were flat as, again, the good progress of key brands was offset by the planned phasing out of non-core local products.

Leaf strengthened its position as the leading sugar confectionery company around the Baltic Sea. In *Finland*, overall market leadership materialised for the first time on a full-year basis. In *Sweden*, where most competitors experienced a negative development, Leaf posted a 5% sales growth and became the leader in packaged sugar confectionery. The *Danish* business was relatively unaffected by the closure of the two local manufacturing units mid-year, and sales might not have declined at all without the supply bottlenecks experienced in Finland and Sweden during the summer. In *Norway*, overall sales stagnated but certain core brands continued their healthy growth.

Sales in *Russia* and other former Soviet regions continued to expand despite volatile trading conditions. Within the *Baltics*, Leaf gained strength in *Estonia* in particular. A new chapter began in *Poland* late in the year with the acquisition of Syrena, the country's leading manufacturer of sugar confectionery.

Brisk chocolate sales drove the overall improvement in the *UK*, and the *Irish* unit had an excellent year for its novelty products. In the *Benelux* area, Leaf maintained its strong market positions in chewing gum, but other products did not advance significantly. The *Spanish* unit's domestic sales increased, and an improvement in manufacturing efficiency was evident.

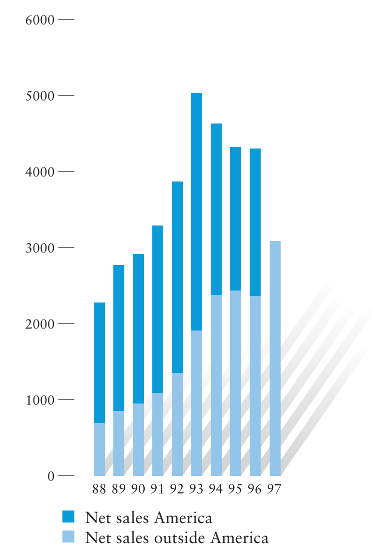
In *Germany*, Leaf's sugar confectionery business maintained its positions despite serious out-of-stock situations during periods of supply bottlenecks in Scandinavia. In *Switzerland*, a decline in sales could not be avoided.

Of the two new units, Gubor suffered from a general weakness in the German pralines market. While a major new product launch and a strong Christmas season accelerated the sales towards year-end, Gubor's full-year sales remained below targets and the unit posted only a small operating profit. Leaf *Italy* (formerly Sperlari), in turn, displayed an improvement on 1996, stemming both from a growing year-round business with increasing market shares, and from vigorous Christmas sales.

Leaf's new *Asian* ventures became fully operational during the year, but delays in product launches left sales volumes quite modest. The Asian economic crisis had little direct impact on progress. However, marketing efforts were concentrated in *China* instead of certain smaller markets originally targeted for early action. Leaf gained full control of the Wuxi Leaf chewing gum factory but failed to reinvigorate its sales. In *India*, the Leaf Parrys manufacturing joint-venture came on stream ahead of schedule.

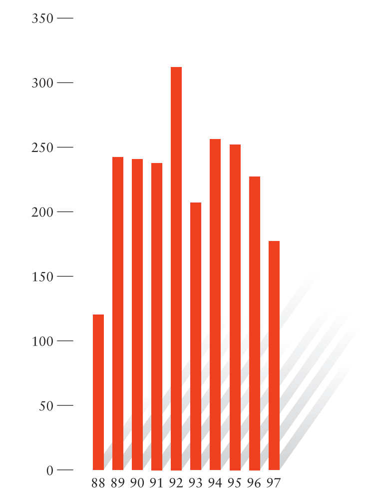
NET SALES

FIM million



OPERATING EARNINGS

FIM million



Among Leaf's top brands, LÄKEROL pastilles, CHEWITS children's toffee, as well as SPORTLIFE and XYLIFRESH sugarfree chewing gums, increased their sales by an average of 7% and accounted for approx. 40% of Leaf's total sales of non-chocolate products.

Of the product groups, pastilles, chocolate and candy were up, while chewing gum declined due to lower sales of private label products, and certain marginal products were phased out entirely.

The LÄKEROL pastilles, together with the regional sub-brands MYNTHON and PECTOL by Läkerol, established themselves firmly as Leaf's flagship brand. Its total sales have almost tripled since Leaf took the brand over in 1993. While new flavours in the CLASSIC range drove growth in 1994-96, the introduction of new product formats accounted for Läkerol's continued growth in 1997. The FRESH & EFFECTIVE variety was successfully launched in China in the autumn and is currently being introduced in several new markets.

The CHEWITS children's fruit toffee has also become one of Leaf's top international brands. In 1997, important markets where it performed well included the UK, Russia and Middle East. The product is sold in 15 countries, and is now also manufactured locally by the Leaf Parrys joint-venture in India.

New flavours enhanced the JOLLY RANCHER brand of fruit candies and gave it a higher shelf visibility in the UK. Among locally important candy brands, BILAR, Sweden's best-seller, was again strong, and the Italian milk-based GALATINE tablet continued its rapid growth.

Leaf's leading sugarfree chewing gum brands, SPORTLIFE and XYLIFRESH, retained or improved their high shares in the core Benelux and Scandinavian markets, while a disappointing trend was evident for the SORBITS/BENBITS brand, and sales of private-label gum also declined.

The ELIZABETH SHAW premium chocolate range was in good demand in its core UK market, and seasonal Christmas deliveries were clearly up from 1996. The LO lower-calorie range benefited from the newly introduced LO Go bar, and the brand's total sales increased by over 25%.

The GUBOR brand suffered from Germany's weak chocolate market all year but recovered for the all-important Christmas season. A new super premium pralines line, COLLINI AL CAFFÉ, was successfully launched in September.

The SPERLARI brand of nougat bars, a traditional Italian Christmas treat, enjoyed a strong demand, as did Leaf Italy's MESSAGGI and MORBIDELLI pralines.

INVESTMENTS

Leaf's capital expenditure, FIM 112 million, was mainly related to the major rationalisation programme concluded during the year. The two Danish plants were closed down mid-year and their production lines relocated to Finland, Sweden, The Netherlands and Italy.

ORGANISATION

The former Hershey units were integrated into Leaf's structure without disruption. In the autumn, a new organisation was announced, effective from January 1, 1998. In order to speed up the development of Leaf's key international brands, such as LÄKEROL and CHEWITS, a new Strategic Marketing unit was established in the Group Headquarters. For the same reason, and in order to optimise Leaf's manufacturing assets from a Group perspective, the sales/marketing and manufacturing functions were separated within Western Europe, with all manufacturing units reporting to Headquarters.

Several new branch offices were established in Russia and in adjacent regions; the total number of Leaf's personnel in those countries exceeded 100 at year-end. The Asian organisation, based on two joint-ventures with local partners, became fully operational. The restructuring phase of EAC, Leaf's joint-venture partner in East Asia, has not affected co-operation or reduced Leaf's commitment to the venture.

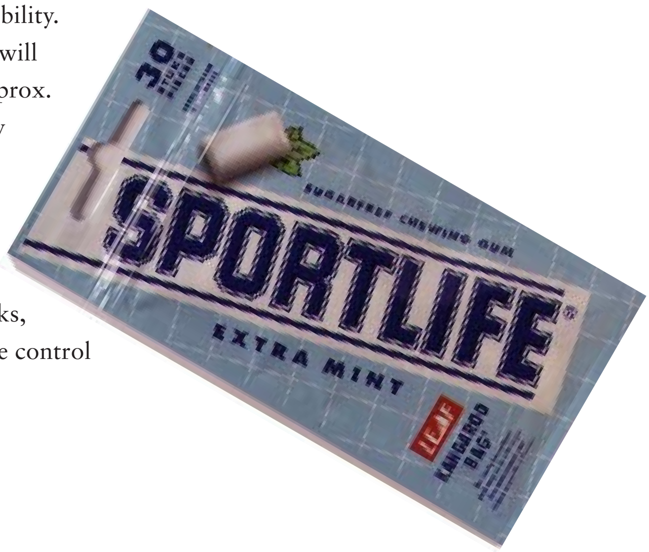
OUTLOOK FOR 1998

Leaf's primary objectives for 1998 are an acceleration in growth and a clear improvement in profitability.

Organic growth will be pursued through a busy launch programme for the key international brands. Expenditure in advertising and promotion will concentrate on fewer brands than hitherto, yet rather increase. The integration of Syrena will multiply Leaf's market share in Poland and radiate to adjacent CEE countries as well. All production will be concentrated to Syrena's Warsaw plant early in the year.

The economic turmoil in Asia has not deterred Leaf from carrying its plans forward. One of the principal tasks is to achieve nationwide distribution in India and China. Overall, sales in emerging markets should show a sharp upturn.

Manufacturing efficiency and improving customer service levels will be focal issues for Leaf's new operations structure. This, coupled with the full cost-saving effects from past restructuring, is expected to result in improving profitability. Leaf's capital expenditure will increase moderately, to approx. FIM 180 million. Contrary to past rationalisation and replacement investments, the main part of expenditure will now address capacity bottlenecks, including improved climate control in Scandinavian units.



FOOD PACKAGING

POLARCUP

FIM Million	1997	1996	Change %
Net sales	**3,251**	2,551	27
Europe	**2,620**	2,188	20
Asia-Pacific	**631**	363	74
Operating earnings	**255**	214	19
Net assets	**2,130**	1,612	32
Return on net assets %	**12.0**	13.3	..

Polarcup is the leading converter of plastics and paperboard into rigid thin-walled food and beverage cups and containers in Europe, Asia and Australasia. It serves most major multinational food processing and food service companies as well as their local counterparts in some 50 countries. The largest clients are addressed on a global account basis and many others as direct business-to-business relationships, while dedicated sales teams have been created for local purposes. Polarcup's extensive geographical network and comprehensive range of manufacturing technologies and products enable it to pursue strong positions within a broader range of products than most of its competitors.

In 1997, acquisitions strengthened Polarcup both regionally and in key product segments. It became the only supplier in Europe and Asia-Pacific with a full range of preformed ice cream packaging. Also, it now has a growing international business in branded consumer tabletop products, such as single- and multi-use cups, plates, cutlery, napkins and other soft tissue products.

New joint-ventures in Turkey and Argentina indicate the directions for Polarcup's future expansion. A new business structure is currently evolving, based on a distinction between food service, food packaging, trade packaging and consumer packaging (see page 15).

OVERVIEW

Polarcup's markets developed in an uneven fashion in 1997. Most established Western European markets continued to grow slowly, but Germany as a whole stagnated, and so did certain product segments, such as vending cups and ice cream containers. The summer season was strong in sunny Scandinavia but weaker in Continental Europe, where rain and cool temperatures slowed down ice cream consumption until August. High growth rates were again achieved in Eastern Europe, whereas the economic crisis depressed demand in Asia during the second half of the year. Australia, on the other hand, remained a buoyant market.

Raw materials play a key role in Polarcup's cost structure. In 1997, their prices fluctuated less than in previous years, although upward pressures grew stronger towards year-end. Product prices, as an average, continued to decline, whereby Polarcup's volume growth, 7%, again exceeded its sales growth when acquisitions are eliminated.

Polarcup strengthened its positions in Western Europe, both through a solid sales performance and complementary acquisitions. In terms of operating earnings, most units did equally or slightly better than in 1996, but in *Germany* the situation deteriorated towards year-end, calling for corrective action in early 1998.

In *Finland*, sales volumes and manufacturing efficiency continued to increase. Major capacity expansions were in progress both at the main plant and the new dedicated food packaging plant in Hämeenlinna. Steady progress characterised the *Swedish* manufacturing unit and the *Norwegian* sales company's activities. Sales in *Estonia* and *Latvia* developed in a positive direction.

The *UK* operations fared well under conditions of intensified competition, both domestic and imports helped by a strong Sterling. Both the main Gosport compound and the Portadown unit in Northern Ireland improved their earnings. The acquisition of the Leicester-based Conical Containers unit from Wace Group in November complemented Polarcup's range with high-quality paper containers and injection moulded inmould labelled lids for ice cream. The versatile Flex-E-Fill filling machines built by Polarcup UK and leased to ice cream manufacturers and other food processors were in good demand, and several new deliveries took place.

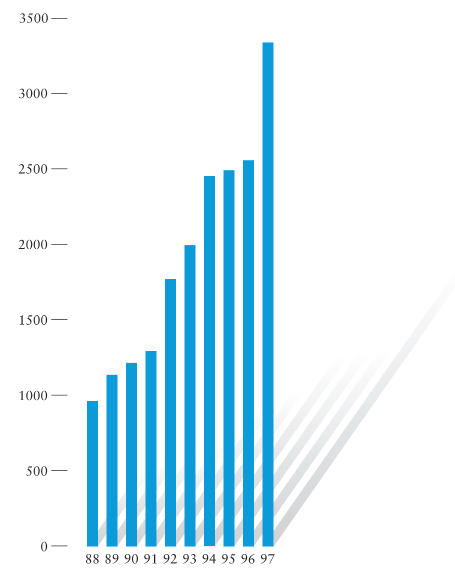
The *Benelux* unit based in Groenlo, The Netherlands, was on schedule with the relocation of its plant to a new state-of-the-art facility adjacent to the main warehouse. Sales of ice cream containers, one of the unit's key product groups, normalised during the second half of the year after a slow start.

In *France*, sales volumes increased clearly, while in *Italy*, sales excluding acquired business were flat. In both countries, product prices were under heavy pressure and slowed down earnings improvement. Acquisitions finalised towards year-end strengthened Polarcup in each country.

- Monoservizio Bibo, based in Turin and with a smaller plant in Southern Italy, is particularly strong in branded tabletop products sold to consumers via retail trade channels. Its total sales touched FIM 320 million in 1997. The company has a newly launched manufacturing joint-venture, Kaps, in Argentina.

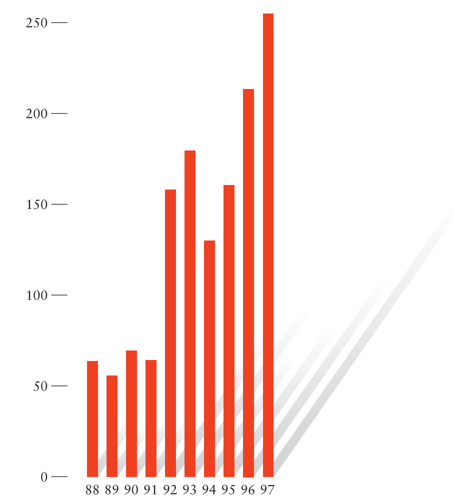
NET SALES

FIM million



OPERATING EARNINGS

FIM million



- Tulipia, located close to Polarcup's existing units in Auneau, is the leading French manufacturer of preformed plastic and paper ice cream containers. Its sales in 1997 were approx. FIM 90 million.

The *Spanish* unit was among the strongest in sales and earnings growth. The *Portuguese* unit, a small, specialised plastic converter, performed to expectations during its first full year as a wholly-owned venture.

In *Poland*, dynamic growth continued and manufacturing capacity was again built up substantially. The unit in Katowice is now firmly one of Polarcup's mid-sized operations which gradually needs to shift its focus from growth to efficiency and cost control. Sales in *Hungary* also advanced sharply. A good start was made in nearby *Lithuania* and *Ukraine*.

Following initial investments into plastic thermoforming capacity, Polarcup *Russia's* sales tripled. Further capacity expansion in food packaging, as well as the construction of a new warehouse, were launched during the year.

The acquisition of 50% of Güven Plastik, *Turkey's* leading rigid plastic containers manufacturer in the dairy and edible fats segments, will help Polarcup establish itself in this rapidly growing market and explore further potential in nearby regions.

Outside Europe, Polarcup's *Saudi Arabian* joint-venture, APPCO, maintained its excellent track record. Its majority shareholder is the diversified industrial and trading giant Olayan Group which celebrated its 50th Anniversary during 1997.

Polarcup's business volume in the *Asia-Pacific* region doubled through the acquisition of the Pacific World Packaging Group (PWP), consolidated from the beginning of April. Two distinct business regions were immediately organised, *Asia* and *Australasia*.

The former PWP unit in *Hong Kong* forms the hub of the Asian organisation. In 1997, its sales and profits suffered from the economic downturn in the region, but also from internal inefficiency when benchmarked against Polarcup standards. The larger *Chinese* unit in Tianjin exceeded its sales and profit targets and will see substantial capacity expansion in food packaging during the coming years. The smaller unit in Foshan is still in its infancy. Sales in *Malaysia* and *Taiwan* were broadly in line with expectations. The *Singaporean* unit increased its efficiency through various restructuring measures.

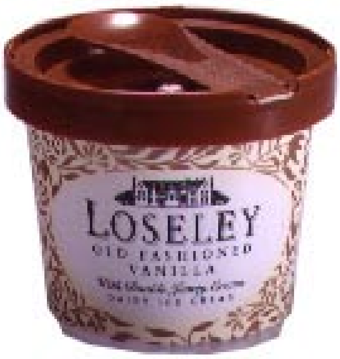
In *Australia*, the merger of Polarcup's and PWP's operations proceeded smoothly. The immediate synergies achieved in integrating their commercial and administrative functions resulted in a sharp improvement in profitability. In *New Zealand*, by contrast, increased competition depressed prices and left sales below expectations.

INVESTMENTS

Polarcup's capital expenditure amounted to FIM 341 million, more than doubling the 1996 figure. Among major projects were additional edible fats containers capacity and a new warehouse in Finland, a new factory in the Netherlands, thermoforming lines in Italy, Poland and Russia, and advanced printing technology in the UK and Italy.

OUTLOOK FOR 1998

Polarcup's activities in 1998 will be characterised by the integration of newly acquired operations, a busy capital expenditure, and further expansion into new market areas. The contribution from acquisitions undertaken in 1997 will expand net sales by another FIM 400 million. Higher operating earnings will also materialise; the challenge is to maintain the current level of profitability in a stage of dynamic expansion.



Polarcup's strong volume growth is expected to continue in Europe. The new strengths in ice cream packaging and consumer products will be leveraged through Polarcup's global network.

One of the main tasks is to improve the German unit's efficiency and profitability. Similarly, some further streamlining is necessary to arrive at an optimal manufacturing structure in Asia.

Among Polarcup's emerging market areas are Russia, Central Eastern Europe, Turkey, Central Asia, and Latin America. This does not rule out complementary acquisitions in more established regions.

The main threat, as in previous years, is a sudden rise in raw materials prices. For paperboard, a distinct increase has already been announced. Asia's economic situation has not materially affected Polarcup's short-term outlook. If prolonged, however, it may curtail the expansion plans of Polarcup's key multinational customers present in the region.

POLARCUP'S BUSINESS STRUCTURE

Category Segment

Food service

- Beverage
  - * Beverage - Plastic and paper cups for global customers as well as for regional and local soft drink and beer operators
  - * Quick Service Restaurants - A comprehensive range of food and beverage packaging for global chains and other branded operators
  - * Vending - Hot and cold beverage cups for vending machine providers and operators
- Catering - Single-use food and beverage service packaging and accessories for institutional and local catering operators

Food packaging

- Ice cream - Complete range from paper cone jackets to large paper and plastic tubs for global and local customers
- Dairy - Containers and lids for yoghurt, cream, cheese etc. for a customer base similar to above
- Edible fats - Margarine, butter and spreads tubs and lids, again for a similar customer base
- Ready meals - Innovative solutions for frozen/chilled full meals

Trade packaging

- Fresh produce - Meat, fish and vegetable trays and accessories for fresh foods packers and food retailers
- Delicatessen - Attractive containers for take-away fresh food

Consumer

- Table - Full range of attractive, branded tabletop products sold internationally through retail chains
- Kitchen - freezer-to-oven containers, cooking and baking accessories

THE HUHTAMAKI SHARE

SHARE CLASSES AND SHARE CAPITAL

The shares are divided into Series K and Series I, which grant the same rights to shareholders vis-à-vis company capital and dividends. However, each K share carries 20 votes at the General Shareholders' meetings while each Series I share entitles only one vote. The nominal value of each share is FIM 20.

In 1997 the share capital of Huhtamäki Oy increased from FIM 594.8 million to FIM 596.1 million, reflecting share conversions under previously approved management stock option schemes. The 3 million Series I shares repurchased in 1996 and corresponding to 10.1% of the equity and 1.1% of the voting power, remained in the books of the Dutch finance company Huhtamaki Finance B.V. These shares have been eliminated from all calculations for per share data.

REGISTRATION

The Huhtamaki shares are registered in the Finnish electronic book-entry system. Shareholding will be registered immediately when a transaction is effected. Non-Finnish shareholders may register their holdings through a nominee, such as a commercial bank. Shareholders wishing to exercise their rights at the General Shareholders' Meetings must register their shares under their own name.

QUOTATIONS

Huhtamäki Oy has been publicly quoted on the Helsinki Exchange since 1959. The K and I shares are quoted separately. The Series I shares are traded in London on the SEAQ International system. The Series I shares are also traded on the unsponsored "Freiverkehr" lists at the Frankfurt and Munich bourses in Germany.

AUTHORISATIONS

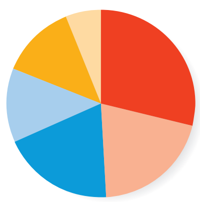
The Executive Board had no authorisation to increase the company's share capital. However, pursuant to stock option schemes adopted in 1993, a maximum of 198,000 new Series I shares may be issued in 1998-2000, corresponding to an increase in share capital of up to FIM 3.96 million and representing 0.7% of share capital and 0.07% of voting power.

According to a new management stock option plan adopted in 1997, a maximum of 450,000 new Series I shares may be issued in 2000-2004, corresponding to an increase in share capital of up to FIM 9.0 million and representing 1.5% of share capital and 0.17% of voting power.

SYMBOLS

Helsinki Exchange:	Series K - HUHKV
	Series I - HUHIV
SEAQ International:	Series I - HTI
Reuters:	Series I - HUHK.HE

SHAREHOLDING IN HUHTAMAKI AT DECEMBER 31, 1997



Foreign shareholders	30%
Non-profit organisations	20%
Financial institutions	19%
Individuals	13%
Corporations	12%
Non-corporate public sector	6%

ISSUE-ADJUSTED SHARE PRICE QUOTATIONS AND TURNOVER AT THE HELSINKI EXCHANGE

	Series K lowest FIM	Series K highest FIM	Series K turnover	Series I lowest FIM	Series I highest FIM	Series I turnover
1993	175.00	249.00	2,317,688	166.00	218.00	8,064,024
1994	136.00	160.00	154,568	132.00	161.00	7,446,240
1995						
I quarter	125.00	171.00	240,033	125.00	170.00	2,271,493
II quarter	125.00	150.00	331,751	127.00	152.00	1,519,593
III quarter	138.00	158.00	246,324	143.00	160.00	1,509,313
IV quarter	103.00	143.00	130,057	105.00	144.00	2,229,334
1996						
I quarter	107.00	150.00	304,565	106.80	156.00	3,748,807
II quarter	141.00	160.00	277,512	146.00	164.00	2,094,015
III quarter	147.00	170.00	213,588	150.00	173.50	1,868,172
IV quarter	163.00	211.00	764,046	166.00	218.00	3,059,515
1997						
I quarter	211.00	248.00	1,202,205	212.00	252.30	3,128,218
II quarter	215.10	238.00	384,394	220.00	245.00	1,837,360
III quarter	195.00	241.00	147,735	197.00	249.00	1,869,069
IV quarter	190.00	223.00	272,089	191.00	233.00	1,534,220

SHAREHOLDERS

At the end of 1997, Huhtamäki Oy had 16,566 registered shareholders. Shareholding outside Finland remained stable around 30% during the year, when excluding the shares held by Huhtamaki Finance B.V. from the calculations.

Members of the Supervisory Board and the Executive Board as well as their dependent family members owned a total of 47,414 shares at year-end, corresponding to 0.02% of the voting rights. The Board's full participation in the above mentioned incentive scheme would entitle them to a further 0.04% of the total votes in the company by 2004.

TRADING DEVELOPMENTS

After a very strong performance in 1996, the stock prices on the Helsinki Securities Exchange displayed a further increase until autumn, when turbulence in the Asian financial markets began to spread around the world. During the year, the HEX index nevertheless rose by 30%.

The Huhtamaki shares also continued to appreciate early in the year. The Series I share started the year at FIM 214, reached an all-time high of FIM 258 on March 13, and then began to weaken and display increasing volatility. The closing quote for the I-share was FIM 225 at year-end, whereby the share performed below the market average. Trading was generally thin. A similar pattern was evident for the Series K shares, which started the year at FIM 211, peaked at FIM 248 in March and closed the year at FIM 219. The turnover in Helsinki was 8.4 million I-shares and 2.0 million K-shares, in total 39% of the shares outstanding.

STOCK ANALYSIS

During 1997, equity analysis on Huhtamaki has been provided by the following institutions:

AG Bankirfirma, Helsinki
Alfred Berg, Helsinki
Aktia Securities, Helsinki
Aros Securities, Helsinki
Bikuben Girobank, Copenhagen
Carnegie International, Helsinki
Cheuvreux Nordic, Helsinki
Den Danske Bank, Copenhagen
Dresdner Kleinwort Benson Securities, London
Deutsche Morgan Grenfell, London
Enskilda Securities, Helsinki
Handelsbanken Markets, Helsinki
H. Lundén Fondkommission, Stockholm
Mees & Pierson, Amsterdam
Merita Bank, Helsinki
Merrill Lynch, London
Morgan Stanley Dean Witter, London
Opstock Securities, Helsinki
Paribas Capital Markets, London
Postipankki, Helsinki
Protos Stockbrokers, Helsinki
SBC Warburg, Stockholm
Schroder Securities, London

MAJOR OWNERS AT DECEMBER 31, 1997[1]

		Shares %	Votes %
1.	Finnish Cultural Foundation	15.4	31.2
2.	Huhtamaki Finance B.V.	10.1	- [2]
3.	Pohjola Insurance Group	10.0	18.2
4.	Sampo Insurance Group	4.4	6.4
5.	The Local Government Pensions Institutions	1.8	2.2
6.	Pension-Varma Mutual Insurance Company	1.5	2.5
7.	Tapiola Insurance Group	1.3	1.9
8.	Merita Bank Ltd.	0.9	2.0
9.	The University Foundation in Turku	0.8	0.4
10.	Pension Foundation Polaris	0.5	0.8
11.	Social Insurance Institution	0.3	-
12.	Yrjö Jahnsson Foundation	0.3	-
13.	Jenny and Antti Wihuri Foundation	0.3	0.3
14.	Finnish National Fund for Research and Development	0.6	0.4
15.	Alfred Berg Finland Asset Management	0.2	0.4
16.	Huhtamäki's Pension Foundation	0.2	0.4
17.	Yleisradion Eläkesäätiö (YLE Pension Foundation)	0.2	0.1
18.	Optimal Asset Management	0.2	0.4
19.	OP-Delta Asset Management	0.2	-
20.	Neste Pension Foundation	0.2	0.2

[1] Nominee registered shares represent 29.9% of shares and 4.8% of votes.
[2] No voting rights at General Shareholders' Meetings.

INVESTOR RELATIONS CONTACT

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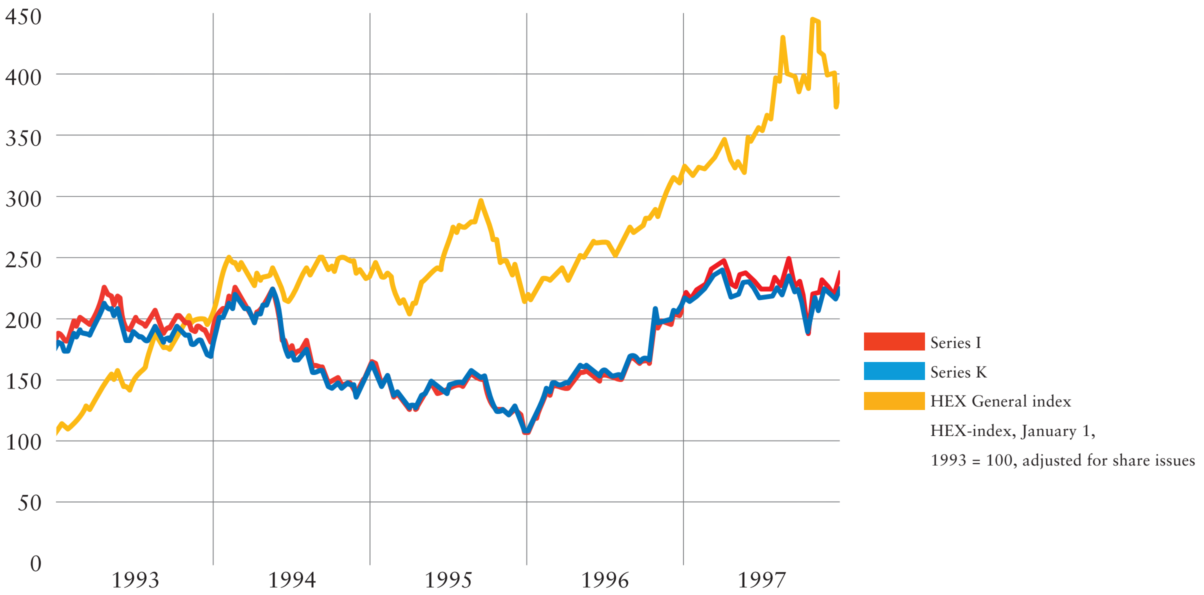
Fax +358-9-6868 8220
E-mail: cc.ir@huhtamaki.com
Internet: www.huhtamaki.com

STRUCTURE OF SHARE CAPITAL AT DECEMBER 31, 1997

	Number of shares	Shares %	Votes %
Series K	12,471,403	41.9	93.5
Series I	17,304,493	58.1	6.5
Subtotal	29,775,896	100.0	100.0
Repurchased	3,000,000	10.1	-
Total outstanding	26,775,896	-	-

SHARE PRICE DEVELOPMENT



PER SHARE DATA

		1993	1994	1995	1996	**1997**
Earnings per share	FIM	13.59	12.16	7.56	10.29	**15.04** [1]
Calculated earnings per share (FAS)	FIM	13.97	12.21	7.73	10.46	**15.18**
Dividend, nominal	FIM	3.70	4.00	4.00	4.50	**6.00** [2]
Dividend/earnings per share	%	27.2	32.9	52.9	43.7	**39.9** [2]
Dividend yield						
Series K	%	2.0	2.6	3.8	2.1	**2.8** [2]
Series I	%	2.1	2.5	3.8	2.1	**2.7** [2]
Shareholders' equity per share	FIM	124.43	124.16	121.92	135.82	**148.81**
Calculated shareholders' equity per share (FAS)	FIM	127.04	126.94	124.85	139.26	**152.38**
Share price adjusted for share issue at December 31						
Series K	FIM	188.00	156.00	104.00	211.00	**219.00**
Series I	FIM	180.00	157.00	105.00	214.00	**225.00**
Average number of shares adjusted for share issue		25,452,167	29,408,522	29,539,212	28,711,451	**26,748,354**
Number of shares adjusted for share issue at year-end		29,342,144	29,484,596	29,654,196	26,711,896	**26,775,896**
P/E ratio						
Series K		13.8	12.8	13.8	20.5	**14.3**
Series I		13.3	12.9	13.9	20.8	**14.9**
Market capitalisation at December 31	FIM mill.	5,381.4	4,616.6	3,101.2	5,678.9 [3]	**5,903.9** [3]

[1] The dilutive effect of the bonds with warrants of 1991, 1993 and 1997 included: FIM 14.70
[2] 1997: Board's proposal
[3] Exclusive of shares owned by Huhtamaki Finance B.V.

GENERAL REVIEW

After major structural changes undertaken in late 1996, Huhtamaki concentrated on developing its existing confectionery and food packaging operations into a closely focused enterprise, with a higher degree of central direction-setting and control, a global approach, improving profitability, and growth from investment in the emerging markets.

During the year under review, management faced the task of reinvesting the substantial assets freed through company disposals in a manner that would support Leaf's and Polarcup's strategic development, while ensuring a long-term benefit to shareholders.

The company's structural evolution during the year went according to plan. In total, seven company acquisitions were completed. Changes in Leaf's and Polarcup's organisation enhanced their headquarters functions, and a decision was made to concentrate these into one location in Finland from the beginning of 1998 onwards. Leaf's multi-year rationalisation programme was concluded. Both Leaf and Polarcup now have a strong foothold in emerging markets where, predictably, significant sales growth was achieved.

The year also brought about a major improvement in profitability. The profit after financial items improved by 25% and earnings per share by 46%, both reaching a record level. As announced at the start of the year, Huhtamaki's new structure entails a sharp improvement in profitability towards the end of the year. Such seasonality was even more pronounced than anticipated, due to severe weather-induced production problems for Leaf during the summer. These were also responsible for Leaf's full-year earnings remaining below expectations, whereas Polarcup progressed in a steady manner. Royalty and rental income from divested operations gave a significant contribution to operating earnings. The economic turmoil in Asia influenced Huhtamaki's sales and profits only marginally.

DIVIDEND PROPOSAL

In keeping with Huhtamaki's declared dividend policy aiming at an average payout ratio of 40%, the Board proposes a dividend of FIM 6.00 per share, 33% more than for 1996.

SALES BOOST FROM ACQUISITIONS AND IMPROVING MARKET SHARES

Huhtamaki's consolidated net sales in 1997 amounted to FIM 6,387 million. A decline of 15% from the previous year's figure was caused by company disposals. However, the sales figure was up by 31% when eliminating the divested operations. Exchange rate changes boosted the FIM sales slightly.

New German and Italian confectionery business boosted Leaf's European sales by 35%. In Asia, new product launches were delayed until late in the year. Polarcup's sales were up by 27%, mainly due to acquisitions. In Europe, sales growth amounted to 20% and in Asia-Pacific, to 74%. Comparable volume growth was 7%, indicating continuous gains in Polarcup's market shares.

Leaf accounted for 49% of the total sales and Polarcup for 51%. European Union's share of the sales was 78%, while other Europe accounted for 11%, Asia-Pacific for 10% and other regions for 1%. Sales in Finland amounted to 12% of the total, and exports from Finland were FIM 505 million.

The net sales of the parent company, Huhtamäki Oy, were FIM 1,244 million, representing Leaf's and Polarcup's Finnish-based operations.

EARNINGS PER SHARE AT RECORD LEVEL

The structural changes of 1996 led to a significant improvement in Huhtamaki's profitability. Although operating earnings from divested units amounted to FIM 156 million in 1996, the consolidated operating earnings (IAS) declined only marginally, to FIM 515 million. As a percentage of net sales, operating earnings improved from 7.0% to 8.1%. Polarcup's operating earnings improved by 19% to FIM 255 million or 7.9% of sales. The weak summer slowed down Leaf's progress, whereafter a strong autumn season could produce only a marginal increase in full-year operating earnings, to FIM 178 million or 5.7% of sales.

Royalty and other income from divested operations became a significant profit contributor. Netted against unallocated corporate expenses, such income amounted to FIM 82 million, against a net expense of FIM 11 million in 1996.

Similarly, a swing took place from a net financial expenditure of FIM 104 million in 1996 to a slight net income. The contribution from associated companies was also positive by FIM 4 million. Thus, the profit after financial items improved by 25% to FIM 519 million.

Taxes, in turn, decreased by 2% to FIM 117 million or 23% of the pre-tax profit. The relatively low tax charge reflects the matching of accumulated tax losses in certain countries against taxes on the 1997 results. Consequently, earnings per share improved by 46% to FIM 15.04.

No exceptional income or expenditure was booked. Net income for the year amounted to FIM 402 million, only 4% less than the 1996 figure, which was boosted by major capital gains on company disposals. Only a small portion of the restructuring reserve made in 1996 was used.

CAPITAL EXPENDITURE IN EXPANSION

Huhtamaki's gross capital expenditure amounted to FIM 459 million, 32% higher than in 1996. Leaf's investments, totalling FIM 112 million, were mainly related to line transfers and process improvements. Polarcup's corresponding figure, FIM 341 million, included major capacity expansions in Italy, Poland, Finland and Russia.

Expenditure on research and development decreased from FIM 44 million (excluding the divested pharmaceutical business) in 1996 to FIM 32 million. Leaf's share was FIM 20 million and Polarcup's FIM 12 million.

ANNUAL GENERAL MEETING

The Annual General Shareholders' Meeting, which convened on April 9, approved a dividend of FIM 4.50 per share. The meeting decided on a management stock option scheme, under which a maximum of 450,000 new Serie I shares may be issued in 2000-2004. The subscription price was set at FIM 255, less any dividend paid from 1998 until share conversion. The maximum increase in share capital is FIM 9.0 million, representing 1.5% of the equity and 0.17% of the votes in the company. The arrangement is intended for approximately 90 managers in Finland and other countries.

SHARE CAPITAL AND OWNERSHIP

The Executive Board of Huhtamäki Oy did not have authorisation to increase the company's share capital during the year. Pursuant to share conversions under the 1991 management stock option scheme, a total of 64,000 new Series I shares were issued at a price of FIM 88, and the company's share capital increased from FIM 594.8 million to FIM 596.1 million.

At the end of the year, there were 12,471,403 Series K shares in issue, corresponding to 41.9% of the shares and 93.5% of votes. The respective figures for Series I shares were 17,304,493, 58.1% and 6.5%. The Huhtamaki Finance B.V. subsidiary owned 3,000,000 Series I shares, corresponding to 10.1% of the equity and 1.1% of the votes. However, a subsidiary may not vote at a General Shareholders' Meeting. Excluding these shares from calculations, the average number of shares outstanding declined from 28,711,451 to 26,748,354. At year-end, the number of shares outstanding was 26,775,896.

No major changes took place in the company's ownership structure, although within the financial institutions sector, insurance companies increased their shareholding at the expense of banks. Huhtamäki Oy had 16,566 registered shareholders at year-end. Shareholding outside Finland remained stable at around 30%.

SHARE DEVELOPMENTS

The Huhtamaki Series I share reached an all-time high of FIM 258 on March 13. The lowest price for the year, FIM 191, was quoted in October. The closing price for the Series I shares was 5% above the quotes at the start of the year. The HEX index gained 30% during the year, hence the Huhtamaki shares underperformed the market. Volatile price movements were commonplace under generally thin trading. The less traded K shares displayed a similar behaviour. The bulk of trading in Huhtamaki shares took place on the Helsinki Exchanges.

A STRONG AND LIQUID BALANCE SHEET

The consolidated balance sheet remained strong, showing a net deposit to equity ratio of 0.04 at year-end. Following the 1996 company divestments, the structure of the balance sheet was changed rapidly through a reduction in external debt and through equity injections to subsidiaries. To ensure mobility in acquisition situations, excess liquidity was mainly held in marketable, short-term FIM and NLG assets with a relatively low yield.

During the year, liquid assets were, indeed, employed in acquisitions and the refinancing of assumed debt. Acquisitions and the growth of trading activities in general concentrated in countries with relatively high interest rates. Intercompany financing also entailed hedging costs reflecting the interest rate disparities between different currencies.

A minor portion of corporate assets was invested in equity and interest rate funds, as well as in bonds and shares. Declining equity prices towards year-end left little room for capital gains, and the overall return of corporate financial assets remained low.

CORPORATE STRUCTURE

The German and Italian confectionery units acquired from Hershey Foods were consolidated from January 1 and rapidly assumed Huhtamaki's management and reporting protocol.

The Pacific World Packaging Group, a food packaging manufacturer with net sales of FIM 350 million and operations in seven countries in the Asia-Pacific region, has been consolidated from April 1. On April 10, full control was assumed in Wuxi Leaf, a Chinese chewing gum manufacturer operated as a joint-venture since 1989, after the acquisition of its outstanding shares from the local partner.

Several acquisitions were accomplished during the second half of the year. The purchase of 50% of the shares of Güven Plastik, Turkey's leading manufacturer of plastic food containers with net sales of approx. FIM 100 million, was closed on December 2. The consolidated accounts for 1997 only include the purchase price.

The acquisition of Poland's leading sugar confectionery manufacturer Syrena from PepsiCo Foods International, announced in September, was equally concluded on December 2, and the company has been consolidated from December 1. Its annual sales amount to approx. FIM 100 million.

The acquisition of slightly over 63% of Monoservizio Bibo, an Italian manufacturer of food packaging and consumer tabletop products with net sales of approx. FIM 320 million, was disclosed in October. The deal was completed on November 28, but in accordance with the terms and conditions of the agreement, the company's sales and earnings have been consolidated from May 1.

The UK-based Conical Containers unit, a specialised manufacturer of ice cream containers with net sales of roughly FIM 40 million, was acquired on account of Polarcup (UK) Ltd. in October, with consolidation from November 1. Tulipia, the leading French manufacturer of ice cream packaging, with net sales of approx. FIM 90 million, was acquired in December. The deal was closed on December 30; the consolidated accounts only include the purchase price.

The acquired companies will boost Huhtamaki's annual sales by some FIM 1,000 million. The companies are profitable and will show their full contribution in 1998. Including debt accompanying some of the units, the aggregate amount paid for the 1997 acquisitions was approx. FIM 800 million.

Oy Star Ab, a wholly-owned subsidiary, was merged into the parent company during the year, following the sale of its business.

Leaf introduced a new organisation towards year-end. The main feature is an enhanced role for headquarters, the resources of which were strengthened accordingly. In Europe, national units were divided into two parts, with sales/marketing units reporting through a regional structure, while all manufacturing operations report to a new headquarters function. Polarcup also fine tuned its matrix organisation and strengthened the headquarter's resources.

At the beginning of 1998, Huhtamaki's Corporate Headquarters relocated to a rented office in Tapiola, Espoo. Polarcup's headquarters also moved to the same premises from Amstelveen, The Netherlands, and Leaf's central staff will follow by the middle of 1998. In all, the new office will house some 65 persons.

NET SALES BY BUSINESS SECTOR

FIM million	1993	%	1994	%	1995	%	1996	%	1997	%
Leaf[1]	5,013.4	63.2	4,612.9	55.7	4,307.3	55.0	4,289.0	57.1	3,135.9	49.1
Polarcup	1,988.9	25.0	2,446.6	29.5	2,484.1	31.7	2,551.3	34.0	3,251.8	50.9
Other[2]	932.9	11.8	1,225.3	14.8	1,044.2	13.3	665.2	8.9	-0.3	..
Total	7,935.2	100.0	8,284.8	100.0	7,835.6	100.0	7,505.5	100.0	6,387.4	100.0

OPERATING EARNINGS BY BUSINESS SECTOR

FIM million	1993	%	1994	%	1995	%	1996	%	1997	%
Leaf[1]	206.9	4.1	256.0	5.5	252.0	5.9	227.3	5.3	178.2	5.7
Polarcup	179.8	9.0	130.0	5.3	160.7	6.5	213.7	8.4	255.3	7.9
Other[2]	262.6	28.1	181.7	14.8	52.5	5.0	87.6	13.2	81.7	..
Total	649.3	8.2	567.7	6.9	465.2	5.9	528.6	7.0	515.2	8.1

[1] Donruss included in Leaf's figures in 1993 and thereafter in the group Other
[2] Unallocated costs and income; revenue from divested units (excluding Leaf North America Division)

EURO

Based on the Finnish Government's stated intention to join the single European currency regime at an early stage, Huhtamaki has set in motion the introduction of the euro as an accounting, trading and company currency from the start of 1999. The countries likely to adopt euro without delay account for some 60% of Huhtamaki's sales and 74% of its asset base.

YEAR 2000

The inability of numerous information-processing applications to recognise the changeover to a new millennium on January 1, 2000, has caused widespread concern. According to estimates made by Huhtamaki's experts, some 30% of the applications currently used in finance, administration, sales/marketing and operations do not present the problem. In another 30%, an updated release from the software issuer should deal with it, and for 40% of the applications, the necessary systems changes have been initiated. Further work is needed to determine the level of exposure inherent in manufacturing processes and various microprocessor-controlled devices. The issue requires particular attention in acquisition processes as well.

ENVIRONMENTAL DEVELOPMENTS

Huhtamaki's Environmental Policy, adopted in 1991, forms the backbone of the environmental programmes implemented by local units while operating in strict compliance with national and local legislation. A decentralised approach directs action to where it is needed, yet makes the measuring and reporting of overall progress a difficult task. Huhtamaki's constant structural change and numerous acquisitions have slowed down the development of a common environmental management system.

During the year under review, no serious accidents, uncontrolled discharges or other contingencies harmful to the environment or public health took place. In the Netherlands, the soil under sites occupied by both Leaf and Polarcup has been found to contain old deposits of substances stemming from the chemical industries previously operating in the vicinity. Necessary action has been initiated in co-operation with authorities.

Raw materials containing genetically modified organisms (GMOs) have become a major topic within the EU. For ingredients based on soybean and corn, it will become increasingly difficult to ascertain a completely GMO-free source in the future. The relevant EU and national legislation is still pending. Leaf is watching the situation carefully and will act in full compliance with EU and local legislation when it comes to selecting raw materials and declaring ingredients that may contain GMOs.

Polarcup continued to participate actively in the work leading to the national implementation of EU's Packaging and Packaging Waste Directive by 2001.

Polarcup UK, after achieving the ISO 14001 environmental management certificate for its Gosport facility at the end of 1996 started working on a similar status for its Portadown facility in Northern Ireland. A similar project was launched in Australia, while several other units followed their own environmental management principles.

During 1998, Huhtamaki intends to firm up its environmental management, aiming at consistent unit-by-unit environmental monitoring and reporting and, hence, quantifiable corporate targets and progress reports.

MANAGEMENT DEVELOPMENT

The extensive organisational changes within Leaf and Polarcup led to promotions or significant changes in responsibilities for nearly 30% of management-level staff. Most recruitments were made from within the company. As a rule, executives in acquired companies retained their positions or were offered comparable roles in integrated organisations.

New elements were added to Huhtamaki's internal management development programme now comprising several different levels. A total of 210 managers and specialists attended the programme during the year. A two-day seminar for country managers was arranged in September in co-operation with the Swiss-based International Institute for Management Development (IMD).

PERSONNEL

At year-end, Huhtamaki had 9,974 employees, 1,974 more than at the end of 1997. 1,814 were employed in Finland, 1,607 in the UK, 1,070 in Germany, 716 in Italy, 712 in Poland, 675 in Australia and 3,380 in 30 other countries. There were 7,417 employees within the EU. Leaf had 4,626 employees and Polarcup 5,296. The average number of employees was 9,551, compared to 10,606 in 1996.

The parent company employed 1,811 at year-end. The corresponding figure for 1996 was 1,652. The respective annual averages were 1,717 in 1997 and 1,656 in 1996.

SIGNIFICANT DEVELOPMENTS AFTER DECEMBER 31

Mr Keijo Suila, Vice-chairman of the Executive Board and Executive Vice President of Huhtamaki, as well as President of Leaf Group, was selected to become the new Chief Executive Officer of Finnair Oyj. Consequently, he will leave Huhtamaki during 1998. Mr Kalle Tanhuanpää, Executive Vice President of Leaf Group, was appointed as Leaf Group's new President.

THE OUTLOOK FOR 1998

For Huhtamaki, 1998 will contain sales growth and continued profit improvement. New acquisitions will strengthen Leaf and Polarcup.

The company will pursue an active programme of acquisitions, joint-ventures and other ways to achieve leadership positions in closely defined product segments. Such actions will either strengthen existing operations or expand activities geographically.

Acquisitions made in 1997, a moderate organic growth assumption and further acquisitions likely to materialise through the year will restore Huhtamaki's net sales to the level achieved prior to the restructuring measures of 1996.

Leaf's sales growth will be based on the introduction of core international brands to new markets, further geographical expansion in Eastern Europe, as well as nation-wide sales and distribution in China and India.

Polarcup's steady volume growth will continue. Major capital expenditure projects will increase its capacity substantially. Acquisitions have strengthened Polarcup's position e.g. in ice cream packaging and consumer products. Turkey and its neighbours represent a new market, and a cautious start in Latin America may lead to further activity in the western hemisphere.

A capital expenditure of FIM 400 million has been budgeted, almost two-thirds of it dedicated to Polarcup's projects.

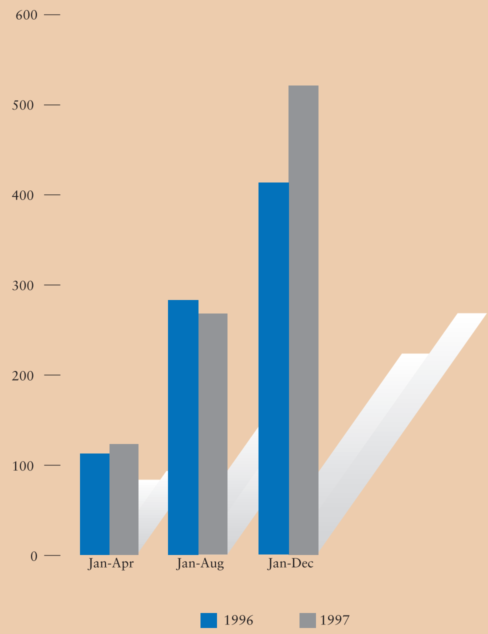
Contributing to higher operating earnings are growing sales, acquisitions of profitable companies and improving cost-efficiency. However, emerging markets will not yet make a significant profit contribution, and an escalation of the Asian economic crisis would further weaken the outlook in this respect. Of individual markets, Russia nevertheless presents the highest degree of uncertainty but also the greatest opportunities.

In sum, Huhtamaki expects its profit improvement to continue during 1998, another dynamic year in the company's evolution. Barring changes resulting from eventual acquisitions, the earnings profile within the year will be broadly similar to that in 1997.

PROFIT AFTER FINANCIAL ITEMS BY TERTIAL

(cumulative)

Fim million



INCOME STATEMENTS - IAS

Note	FIM million	Group 1997	%	Group 1996	%	Huhtamäki Oy 1997	%	Huhtamäki Oy 1996	%
	Net sales	6,387.4	100.0	7,505.5	100.0	1,243.9	100.0	1,193.3	100.0
	Cost of goods sold	4,398.9		4,937.9		831.3		796.0	
	Gross profit	1,988.5	31.1	2,567.6	34.2	412.6	33.2	397.3	33.3
	Sales and marketing	384.7		522.8		76.9		75.6	
	Advertising and promotion	409.5		492.7		74.5		67.7	
	Administration costs	358.1		412.4		94.5		80.9	
	Other fixed costs	321.0		611.1		-12.6		-4.9	
		1,473.3		2,039.0		233.3		219.3	
1, 2	**Operating earnings**	515.2	8.1	528.6	7.0	179.3	14.4	178.0	14.9
3	Net financial income/expense	+0.4		-103.6		+12.8		+11.6	
	Gain/loss on equity of associated companies	+3.9		-9.3		+3.5		+2.5	
	Profit after financial items	519.5	8.1	415.7	5.5	195.6	15.7	192.1	16.1
	Ordinary taxes	-117.2		-120.1		-53.3		-60.3	
	Exceptional taxes	-		-495.1		-		-260.2	
4	**Exceptional income**	-		1,013.8		278.6		1,058.7	
4	**Exceptional expense**	-		-393.3		-10.8		-226.5	
	Net income	402.3	6.3	421.0	5.6	410.1	33.0	703.8	59.0

BALANCE SHEETS - IAS

Note	FIM million	Group 1997	%	Group 1996	%	Huhtamäki Oy 1997	%	Huhtamäki Oy 1996	%
	ASSETS								
5	**Tangible assets**								
	Land and buildings	1,410.5		1,276.5		540.5		593.4	
	Machinery and equipment	3,182.8		2,719.8		665.7		487.1	
	Other tangible assets	184.3		168.0		4.3		15.4	
	Construction in progress	130.7		73.4		3.4		7.9	
	Accumulated depreciation	-2,358.2		-2,133.5		-652.5		-556.4	
		2,550.1	36.5	2,104.2	30.0	561.4	10.6	547.4	11.0
5	**Intangible assets**								
	Goodwill	806.8		646.1		-		-	
	Other intangible assets	291.5		261.7		216.0		179.2	
	Accumulated amortisation	-262.0		-366.6		-19.1		-162.5	
		836.3	12.0	541.2	7.7	196.9	3.7	16.7	0.3
	Other long-term assets								
6	Investment in subsidiaries	-		-		3,280.3		2,775.4	
7	Investment in associated companies	88.6		6.9		7.5		6.9	
7	Other investments	40.8		58.1		3.1		5.9	
8	Long-term loans receivable	86.2		103.4		18.4		25.4	
8	Other long-term receivables	18.1		-		-		-	
		233.7	3.3	168.4	2.4	3,309.3	62.4	2,813.6	56.5
	Current assets								
	Inventories	881.1		720.5		154.4		142.1	
8	Trade receivables	1,299.6		1,000.0		161.7		136.7	
8	Loans receivable	292.3		1,665.5		830.3		1,256.7	
8	Other receivables	253.2		172.2		81.8		54.8	
	Cash and marketable securities	644.4		640.3		7.3		10.2	
		3,370.6	48.2	4,198.5	59.9	1,235.5	23.3	1,600.5	32.2
		6,990.7	100.0	7,012.3	100.0	5,303.1	100.0	4,978.2	100.0
	LIABILITIES AND EQUITY								
	Long-term liabilities								
9	Loans	386.6		503.3		554.6		600.7	
10	Other long-term liabilities	420.0		382.9		82.1		84.0	
		806.6	11.5	886.2	12.6	636.7	12.0	684.7	13.7
	Current liabilities								
9	Short-term loans and overdrafts	449.0		369.4		437.2		244.5	
9	Current portion of long-term loans	18.7		472.4		0.4		-	
11	Trade payables	634.4		525.3		75.3		74.7	
12	Other current liabilities	1,072.9		1,131.0		149.7		252.6	
		2,175.0	31.1	2,498.1	35.6	662.6	12.5	571.8	11.5
	Minority interest	24.5	0.4	-		-		-	
11, 12	**Shareholders' equity**								
	Share capital	596.1		594.8		596.1		594.8	
	Premium fund	0.5		-		0.5		-	
	Reserve fund	1,613.6		1,609.7		1,613.6		1,609.7	
	Repurchased shares	-506.1		-501.7		-		-	
	Revaluation fund	15.0		15.0		15.0		15.0	
	Consolidation difference	114.2		62.8		-		-	
	Retained earnings	2,151.3		1,847.4		1,778.6		1,502.2	
		3,984.6	57.0	3,628.0	51.8	4,003.8	75.5	3,721.7	74.8
		6,990.7	100.0	7,012.3	100.0	5,303.1	100.0	4,978.2	100.0

CASH FLOW STATEMENTS - IAS

FIM million	Group		Huhtamäki Oy	
	1997	1996	1997	1996
Operations				
Net income	402.3	421.0	410.1	703.8
Depreciation and amortisation	376.7	456.4	69.8	81.0
Provisions	-35.3	274.2	2.7	24.2
Deferred tax	13.6	238.9	-52.9	14.7
Gain/loss on equity of associated companies	-3.9	9.3	-3.5	-2.5
Dividends from associated companies	2.9	3.4	2.9	3.4
Gain/loss on sale of long-term assets	-6.0	1.6	14.4	1.9
Other, net	-	-885.1	-17.3	-727.0
	750.3	519.7	426.2	99.5
Net change in working capital	-347.4	427.0	-10.0	-1.2
Total from operations	402.9	946.7	416.2	98.3
Investing				
Purchase of tangible assets	-458.8	-347.6	-148.3	-56.4
Disposal of long-term assets	48.2	27.2	69.3	4.9
Divestiture of net assets in subsidiaries	-	3,183.6	-	1,136.6
Acquisition of net assets in subsidiaries	-543.7	-581.5	-504.9	-884.8
Repurchase of Huhtamäki Oy shares	-	-501.7	-	-
Investment in associated companies	-	-	-	-
Other, net	-4.1	-	-182.8	-
Total investing	-958.4	1,780.0	-766.7	200.3
Financing				
Net increase/decrease of long-term loans/receivables	-177.4	-679.7	-41.4	-6.8
Net increase/decrease of short-term loans/receivables	1,311.8	-2,221.1	516.7	-178.0
Increase/decrease of current portion of long-term debt	-464.6	283.9	0.4	-0.3
Dividends paid	-120.2	-118.6	-133.7	-118.6
Proceeds from share issues	5.6	5.1	5.6	5.1
Other, net	4.4	3.7	-	-
Total financing	559.6	-2,726.7	347.6	-298.6
Cash and marketable securities at beginning of year	640.3	607.6	10.2	13.2
Cash and marketable securities at end of year	644.4	640.3	7.3	10.2
Net change	4.1	32.7	-2.9	-3.0

INCOME STATEMENTS - FAS

	FIM million		Group						Huhtamäki Oy				
			1997	%		1996	%		1997	%		1996	%
	Net sales		6,387.4	100.0		7,505.5	100.0		1,243.9	100.0		1,193.3	100.0
	Cost of goods sold		4,398.0			4,935.5			845.8			794.3	
	Gross profit		1,989.4	31.1		2,570.0	34.2		398.1	32.0		399.0	33.4
	Sales and marketing		384.7			522.8			76.9			75.6	
	Advertising and promotion		409.5			492.7			74.5			67.7	
	Administration costs		358.1			412.4			94.5			80.9	
	Other operating expenses		533.2			749.7			48.5			59.9	
	Other operating income		-215.0			-141.0			-79.0			-67.2	
			1,470.5			2,036.6			215.4			216.9	
1, 2	**Operating earnings**		518.9	8.1		533.4	7.1		182.7	14.7		182.1	15.3
3	Net financial income/expense		+0.4			-103.6			+15.9			+15.2	
	Gain/loss on equity of associated companies		+3.9			-9.3			-			-	
	Profit before exceptional items, appropriations and taxes		523.2	8.2		420.5	5.6		198.6	16.0		197.3	16.5
4	**Exceptional income**		-			1,013.8			278.6			1,035.7	
4	**Exceptional expense**		-			-393.3			-10.8			-226.5	
	Profit before appropriations and taxes		523.2	8.2		1,041.0	13.9		466.4	37.5		1,006.5	84.3
	Depreciation difference, (-) increase, (+) decrease		-37.4			+68.4			-52.1			-5.2	
16	**Change in voluntary reserves, (-) increase, (+) decrease**		+43.6			+58.8			+60.6			+5.9	
	Ordinary taxes	-119.6			-150.5			-55.6			-51.6		
	Deferred tax on untaxed reserves	2.4			30.4			-			-		
	Exceptional taxes	-	-117.2		-495.1	-615.2		-	-55.6		-260.2	-311.8	
	Net income		412.2	6.5		553.0	7.4		419.3	33.7		695.4	58.3

BALANCE SHEETS - FAS

Note	FIM million	Group				Huhtamäki Oy			
		1997	%	1996	%	1997	%	1996	%
	ASSETS								
	Fixed assets								
5	**Intangible assests**								
	Intangible rights	158.8		160.2		3.7		3.3	
	Goodwill	591.4		337.7		-		-	
	Other capitalised expenditure	86.1		43.3		193.2		13.4	
		836.3	11.8	541.2	7.6	196.9	3.6	16.7	0.3
5	**Tangible assets**								
	Land	152.2		115.8		14.9		17.9	
	Buildings and constructions	861.0		772.7		328.8		371.7	
	Machinery and equipment	1,432.8		1,172.6		300.5		232.6	
	Other tangible assets	69.0		61.5		1.2		1.3	
	Construction in progress and advance payments	130.7		73.4		3.3		7.9	
		2,645.7	37.3	2,196.0	30.9	648.7	11.9	631.4	12.4
	Other fixed assets								
6, 7	Shares and holdings	129.4		65.0		3,339.2		2,841.6	
	Loans receivable	86.2		103.4		18.4		25.4	
	Other long-term receivables	18.1		-		-		-	
		233.7	3.3	168.4	2.4	3,357.6	61.7	2,867.0	56.0
	Current assets								
	Inventories								
	Raw and packaging materials	289.0		248.2		45.3		36.9	
	Work-in-process	98.3		71.1		12.2		12.2	
	Finished goods	493.4		398.6		96.9		93.0	
	Advance payments	0.4		2.6		-		-	
		881.1	12.5	720.5	10.1	154.4	2.9	142.1	2.8
8	**Receivables**								
	Trade receivables	1,299.5		1,000.0		161.7		136.7	
	Loans receivable	292.2		1,665.5		830.3		1,256.7	
	Accrued income	253.0		172.2		80.3		52.4	
	Other receivables	0.3		-		1.5		2.4	
		1,845.0	26.0	2,837.7	40.0	1,073.8	19.8	1,448.2	28.3
	Marketable securities	523.1	7.4	502.3	7.1	-	-	-	-
	Cash and bank	121.4	1.7	138.0	1.9	7.3	0.1	10.2	0.2
		7,086.3	100.0	7,104.1	100.0	5,438.7	100.0	5,115.6	100.0
	LIABILITIES AND EQUITY								
	Shareholders' equity								
12, 13	**Restricted equity**								
	Share capital	596.1		594.8		596.1		594.8	
	Premium fund	0.5		-		0.5		-	
	Reserve fund	1,107.4		1,108.0		1,613.6		1,609.7	
	Revaluation fund	15.0		15.0		15.0		15.0	
	Consolidation difference	114.3		62.8		-		-	
		1,833.3		1,780.6		2,225.2		2,219.5	
	Non-restricted equity								
	Retained earnings - transferred from untaxed reserves	209.9		216.1		-		-	
	Retained earnings available for distribution	1,624.7		1,170.1		1,232.3		670.6	
	Net income for the period	412.2		553.0		419.3		695.4	
		2,246.8		1,939.2		1,651.6		1,366.0	
		4,080.1	57.6	3,719.8	52.4	3,876.8	71.3	3,585.5	70.1
	Minority interest	24.5	0.3	-		-		-	
	Untaxed reserves								
	Depreciation difference	-		-		291.5		239.6	
	Other voluntary reserves	-		-		-		60.6	
		-		-		291.5	5.3	300.2	5.9
	Valuation items	-		-		53.1	1.0	57.4	1.1
	Long-term liabilities								
9	Loans from financial institutions	317.2		383.5		-		-	
9	Pension loans	69.4		119.8		69.4		119.8	
10	Deferred tax on untaxed reserves	81.6		84.0		-		-	
10	Other long-term liabilities	338.4		298.9		485.2		480.9	
		806.6	11.4	886.2	12.5	554.6	10.2	600.7	11.7
	Current liabilities								
9	Loans from financial institutions	467.7		841.8		0.4		-	
11	Trade payables	634.4		525.3		75.3		74.7	
11	Accrued expenses	1,073.0		1,131.0		149.7		252.6	
9	Other short-term liabilities	-		-		437.3		244.5	
		2,175.1	30.7	2,498.1	35.1	662.7	12.2	571.8	11.2
		7,086.3	100.0	7,104.1	100.0	5,438.7	100.0	5,115.6	100.0

FUNDS STATEMENTS - FAS

FIM million	Group		Huhtamäki Oy	
	1997	1996	1997	1996
Operations				
Operating earnings	518.9	533.4	182.7	182.1
Depreciation and amortisation	373.0	451.6	66.4	76.9
Financial income / expense	0.4	-112.9	15.9	15.2
Exceptional items	-	-19.5	267.8	892.2
Taxes	-121.6	-376.6	-55.7	-311.8
	770.7	476.0	477.1	854.6
Change in working capital				
Change in inventories	-31.2	35.8	-12.3	-1.2
Change in current receivables	-140.9	220.2	374.5	13.0
Change in non-interest bearing current liabilities	-172.5	147.7	-102.3	127.3
Total from operations	426.1	879.7	737.0	993.7
Investing				
Capital expenditure	-458.8	-347.6	-835.2	-884.2
Change in corporate structure	-702.8	2,557.0	-	-
Repurchase of Huhtamäki Oy shares	-	-501.7	-	-
Sale of fixed assets	48.2	27.2	69.3	4.9
Funds flow before financing	-687.3	2,614.6	-28.9	114.4
Financing				
Change in long-term receivables	-0.9	14.9	7.0	-3.4
Change in long-term loans	-193.8	-486.9	-46.1	8.5
Change in short-term loans	934.4	-2,165.7	193.2	-9.0
Dividends	-120.2	-118.6	-133.7	-118.6
Proceeds from share issues	5.6	5.1	5.6	5.1
Calculated change in cash and cash equivalents	-62.2	-136.6	-2.9	-3.0
Adjustments for non-cash items	66.3	169.3	-	-
Balance sheet change in cash and cash equivalents	4.1	32.7	-2.9	-3.0

ACCOUNTING PRINCIPLES

The financial statements of Huhtamäki Oy and its subsidiaries have been prepared in accordance with the accounting standards issues by the International Accounting Standards Committee (IAS). Additionally financial statements have been prepared according to Finnish Accounting Standards (FAS). The main differences are explained in more detail on page 39. The financial statements have been prepared on the basis of historical costs and do not take into account increases in the market value of assets, except where stated.

CONSOLIDATION PRINCIPLES
The Group's investments in subsidiaries have been eliminated on the basis of the acquisition cost method according to which the shareholders' equity of a subsidiary is deducted from the purchase price of that subsidiary's shares, including untaxed reserves net of tax. The excess of purchase price over the fair value of assets and liabilities in companies acquired is allocated to underlying assets and to goodwill. The consolidated financial statements include all subsidiaries where more than 50% of a subsidiary's voting power is controlled directly or indirectly by the parent company, or the parent company is otherwise in control of the company.

The financial statements of subsidiaries located in hyperinflationary economies have been locally adjusted for the effects of inflation. These adjustments are included in the consolidation.

GOODWILL AND OTHER INTANGIBLE ASSETS
Goodwill, as well as other intangible assets, are amortised on a systematic basis over their useful life. The period of amortisation does not exceed 20 years.

INVESTMENTS
Investments classified as current assets are carried at market value. Any increases or decreases in carrying values are credited or charged to financial income.

Investments classified as long-term assets are carried at cost, less amounts written off to recognise other than temporary declines in the value of the investment. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to income.

Investments in subsidiaries are carried at cost in the balance sheet of the parent company in accordance with the valuation policy applied to long-term investments. A listing of the Group's significant subsidiaries is set out in note 6.

Investments in associated companies are carried in the parent company's FAS balance sheet in accordance with the valuation policy applied to long-term investments noted above and in IAS balance sheet under equity method. In the Group's consolidated financial statements, the investments in associates are accounted for under the equity method and jointly owned companies according to the share of ownership. An associated company is one in which Huhtamaki holds, directly or indirectly, between 20% and 50% of the voting power of the company. A listing of the Group's significant associates is set out in note 7.

FOREIGN CURRENCY
Foreign currency trade receivables and payables are valued at the rate of exchange on the balance sheet date except when the amount is fixed by a forward contract in which case this rate is used. Exchange differences on foreign currency receivables and payables are recorded in the income statement.

In the consolidated financial statements, in regard to the shareholders' equity, translation differences due to exchange rate fluctuations have been recorded as a separate component of equity. To reduce translation differences, part of the foreign subsidiaries' shareholders' equity has been hedged with foreign currency loans. The unrealised foreign exchange gains arising from these loans have been recorded as valuation items in the parent company's FAS balance sheet.

The income statements of all foreign subsidiaries have been translated into Finnmarks at the average annual exchange rate and the balance sheets at the year-end exchange rate.

TAXATION
The provision for taxes is calculated in accordance with the rules for determining taxable income established by taxation rules in each country. Deferred tax arising from timing differences between the commercial and fiscal valuation of net income is calculated by applying the standard tax rate applicable at the balance sheet date or the tax rate at when the tax is going to be paid. Deferred tax debits are only carried forward if there is a reasonable expectation of realisation.

Untaxed reserves (FAS) have been divided into deferred tax and unrestricted equity in IAS and Group FAS balance sheets.

INVENTORIES
Inventories are stated at the lower of cost, replacement cost or net realisable value. Cost for purchased inventories represent historic purchase price determined on the "first in first out" (FIFO) basis.

Cost for produced finished goods and work in process represent the historic purchase price of materials, determined on a first in first out basis, plus direct labour and overheads and an appropriate portion of indirect overheads excluding selling and financial costs.

TANGIBLE ASSETS
Items of property, plant and equipment are stated at historical cost and are depreciated using the straight line method over their estimated useful lives. Freehold land is not depreciated. Land use rights are depreciated over the agreement period.

The periods of depreciation used are:
• buildings and other structures 20 - 25 years
• machinery and equipment 5 - 10 years
• other tangible assets 3 - 5 years

Leases of plant and equipment under which the Group assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

RESEARCH AND DEVELOPMENT
Reseach and development costs are charged as an expense in the income statement in the period in which they are incurred without exception.

CAPITALISED INTEREST
Significant interest costs are capitalised when they have been incurred on projects requiring more than one year to complete. All other interest costs are charged to income of the period in which they are incurred.

PROVISION FOR EMPLOYEE PENSION BENEFITS
The Group companies outside Finland have various pension plans in accordance with local conditions and practices. Contributions are based on periodic actuarial valuations and are charged against profits. The plans are covered.

Generally, the statutory retirement plans of Group companies in Finland have been arranged through pension insurance. Additional retirement plans have been taken care of by the Group's own pension fund, Huhtamäki Oy:n Eläkesäätiö s.r. Only those employees in Finland, whose employment commenced before July 1, 1979 and continues uninterruptedly until retirement, are entitled to voluntary retirement benefits in addition to the statutory retirement plan.

KEY EXCHANGE RATES

		1997		1996	
		Income statement	Balance sheet	Income statement	Balance sheet
Australia	AUD	3.8577	3.5490	3.5966	3.6980
France	FRF	0.8895	0.9046	0.8980	0.8862
Germany	DEM	2.9943	3.0275	3.0533	2.9880
Great Britain	GBP	8.5003	8.9920	7.1695	7.8690
Holland	NLG	2.6607	2.6861	2.7252	2.6624
Hong Kong	HKD	0.6705	0.6998	0.5938	0.6003
Italy	ITL	0.0030	0.0031	0.0030	0.0030
New Zealand	NZD	3.4367	3.1609	3.1585	3.2859
Poland	PLN	1.5850	1.5427	1.7067	1.6202
Russia	RUR	0.0009	0.0009	0.0009	0.0008
Spain	ESP	0.0355	0.0358	0.0363	0.0354
Sweden	SEK	0.6796	0.6863	0.6851	0.6748
United States	USD	5.1911	5.4207	4.5923	4.6439

1. PERSONNEL COSTS

FIM million	Group 1997	Group 1996	Huhtamäki Oy 1997	Huhtamäki Oy 1996
Wages, salaries and fringe benefits	1,158.0	1,300.2	200.4	192.4
Pension costs	75.8	97.6	35.1	31.1
Other personnel costs	381.6	439.7	81.6	72.4
Total	1,615.4	1,837.5	317.1	295.9

The above amounts are on an accrual basis. Remuneration paid by the parent company to the members of the Supervisory Board and Board of Directors as well as the President of Huhtamäki Oy (10 people) amounted to FIM 7.0 million; the corresponding remuneration paid by the Group as a whole was FIM 9.1 million (10 people). The members of the Board of Directors and the President of Huhtamäki Oy are entitled to retirement at the age of 60.

2. DEPRECIATION AND AMORTISATION

FIM million	Group 1997	Group 1996	Huhtamäki Oy 1997	Huhtamäki Oy 1996
Depreciation by function:				
Production	288.8	335.1	44.3	38.6
Sales and marketing	4.8	8.2	1.1	0.9
Administration	16.7	37.5	6.9	5.8
Other depreciation and amortisation	62.7	70.8	14.1	31.6
Total (FAS)	373.0	451.6	66.4	76.9
Depreciation by asset type:				
Buildings and structures	48.0	48.4	18.3	21.2
Machinery and equipment	276.6	341.3	43.5	37.6
Goodwill	36.5	55.0	-	-
Other intangible assets	15.6	11.7	8.0	22.2
Total depreciation (IAS)	376.7	456.4	69.8	81.0
Depreciation on revalued assets	-3.7	-4.8	-3.4	-4.1
Total depreciation (FAS)	373.0	451.6	66.4	76.9

3. FINANCIAL INCOME/EXPENSE

FIM million	Group 1997	Group 1996	Huhtamäki Oy 1997	Huhtamäki Oy 1996
Interest income	61.3	75.9	-	0.2
Intercompany interest income	-	-	22.0	34.1
Interest income from associated companies	-	-	-	-
Dividend income	2.1	1.4	3.6	4.5
Intercompany dividend income	-	-	-	7.7
Other financial income	22.4	4.4	24.3	2.0
Other intercompany financial income	-	-	-	2.5
Interest expense	-77.7	-157.6	-4.4	-6.3
Intercompany interest expense	-	-	-27.3	-27.3
Interest expense to associated companies	-	-	-	-
Other financial expense	-7.7	-27.7	-2.3	-2.2
Total (FAS)	0.4	-103.6	15.9	15.2
Other	-	-	-3.1	-3.6
Total (IAS)	0.4	-103.6	12.8	11.6

4. EXCEPTIONAL ITEMS

FIM million	Group 1997	Group 1996	Huhtamäki Oy 1997	Huhtamäki Oy 1996
Exceptional income	-	1,013.8	267.4	1,035.7
Exceptional expense	-	-393.3	-10.8	-176.7
Group contributions, net	-	-	11.2	-49.8
Total	-	620.5	267.8	809.2

Huhtamäki Oy's 1997 exceptional items include income and expenses arising from divestments and changes in corporate structure, which do not impact the result on the Group level.

5. FIXED ASSETS

FIM million	Group 1997	Group 1996	Huhtamäki Oy 1997	Huhtamäki Oy 1996
Intangible rights				
Acquisition cost at beginning	187.8	128.4	4.7	4.5
Additions	-	72.6	0.9	0.2
Disposals	-6.1	-19.5	-	-
Changes in exchange rates	0.7	6.3	-	-
Acquisition cost at end	182.4	187.8	5.6	4.7
Accumulated amortisation	-23.6	-27.6	-1.9	-1.4
Intangible rights, net	158.8	160.2	3.7	3.3
Goodwill				
Acquisition cost at beginning	646.1	1,213.9	-	-
Additions	267.3	86.2	-	-
Disposals	-125.1	-730.0	-	-
Changes in exchange rates	18.5	76.0	-	-
Acquisition cost at end	806.8	646.1	-	-
Accumulated amortisation	-215.3	-308.4	-	-
Goodwill, net	591.5	337.7	-	-
Other capitalised expenditure				
Acquisition cost at beginning	73.9	113.9	174.5	174.1
Additions	33.3	9.3	186.0	1.0
Disposals	-	-53.4	-150.2	-0.6
Changes in exchange rates	1.9	4.1	-	-
Acquisition cost at end	109.1	73.9	210.3	174.5
Accumulated amortisation	-23.0	-30.6	-17.1	-161.1
Other capitalised expenditure, net	86.1	43.3	193.2	13.4
Land and land use rights				
Acquisition cost at beginning	115.8	120.8	17.9	17.9
Additions	38.7	18.6	-	-
Disposals	-4.4	-30.8	-3.0	-
Changes in exchange rates	3.3	7.2	-	-
Acquisition cost at end	153.4	115.8	14.9	17.9
Accumulated amortisation	-1.2	-	-	-
Land, net	152.2	115.8	14.9	17.9
Buildings and constructions				
Acquisition cost at beginning	1,160.7	1,537.6	575.5	552.4
Additions	172.9	128.3	22.5	23.1
Disposals	-93.3	-548.2	-72.4	-
Changes in exchange rates	16.9	43.0	-	-
Acquisition cost at end	1,257.2	1,160.7	525.6	575.5
Accumulated depreciation	-396.2	-388.0	-196.8	-203.8
Buildings and constructions, net (FAS)	861.0	772.7	328.8	371.7
Accumulated depreciation on revaluation	-95.5	-91.7	-87.2	-83.8
Buildings and constructions, net (IAS)	765.5	681.0	241.6	287.9
Machinery and equipment				
Acquisition cost at beginning	2,719.8	3,833.3	487.1	449.6
Additions	488.2	252.2	186.8	51.7
Disposals	-102.0	-1,525.6	-8.2	-14.2
Changes in exchange rates	76.8	159.9	-	-
Acquisition cost at end	3,182.8	2,719.8	665.7	487.1
Accumulated depreciation	-1,750.0	-1,547.2	-365.2	-254.5
Machinery and equipment, net	1,432.8	1,172.6	300.5	232.6
Other tangible assets				
Acquisition cost at beginning	168.0	276.3	15.4	14.0
Additions	32.2	25.0	0.1	1.4
Disposals	-19.7	-138.0	-11.2	-
Changes in exchange rates	3.8	4.7	-	-
Acquisition cost at end	184.3	168.0	4.3	15.4
Accumulated depreciation	-115.3	-106.5	-3.1	-14.1
Other tangible assets, net	69.0	61.5	1.2	1.3
Construction in progress and advance payments				
Acquisition cost at beginning	73.4	98.9	7.9	11.3
Additions	167.6	192.9	3.4	7.9
Transfers	-112.2	-222.1	-7.9	-11.3
Changes in exchange rates	1.9	3.7	-	-
Acquisition cost at end	130.7	73.4	3.4	7.9
Taxation value of fixed assets (Finland):				
Land	10.8	12.1	10.8	12.1
Buildings	111.6	142.1	111.6	142.1

6. INVESTMENTS IN SUBSIDIARIES

The list contains operative companies, holding companies and other subsidiaries with significant assets. A complete statutory list is enclosed in the official statutory accounts, which may be obtained from the company on request. Foreign subsidiaries' nominal value is expressed in local currency (1,000). Subsidiaries' book value is expressed in holding company's currency (1,000).

Huhtamäki Oy's shareholding in subsidiaries:

Name	Number of shares	Size of holding %		Nominal value		Book value	Group holding %
Huhtamaki Finance B.V.	1,079,972	100.0	NLG	1,079,972	FIM	2,709,199	100.0
Huhtamaki Portugal S.G.P.S. Lda	380	95.0	PTE	380	FIM	11,743	100.0
Huhtamäki Finance Oy	50	100.0	FIM	50,000	FIM	50,000	100.0
Huhtamäki Leaf Estonia Ltd	5,300	100.0	EEK	5,300	FIM	2,079	100.0
Huhtamaki Ukraine Ltd	99	100.0	UAH	248	FIM	1,589	100.0
Huhtamaki Vilnius UAB	1,829	100.0	LTL	440	FIM	1,038	100.0
Kaligan Cup B.V.	40	100.0	NLG	40	FIM	124,258	100.0
Leaf Iberia S.A.	861,000	100.0	ESP	4,735,500	FIM	51,070	100.0
Leaf (Schweiz) AG	100	100.0	CHF	100	FIM	5,543	100.0
Pacific World (Holdings) Ltd	56,721,057	100.0	HKD	5,672	FIM	337,061	100.0
Polarcup Hungary Kft.	1	100.0	HUF	51,060	FIM	1,640	100.0

Taxation value of the subsidiary shares amounted to FIM 3,315.9 milj.mk.

Subsidiary shares owned by Huhtamaki Finance B.V.:

Huhtamaki (Australia) Pty. Ltd	43,052,750	100.0	AUD	43,053	NLG	130,870	100.0
Huhtamäki (Deutschland) GmbH	1	100.0	DEM	15,050	NLG	172,845	100.0
Huhtamaki (New Zealand) Ltd	12,223,400	100.0	NZD	12,223,400	NLG	11,934	100.0
Huhtamaki A/S	10,000	100.0	DKK	10,000	NLG	34,040	100.0
Huhtamaki Holdings France S.A.R.L	283,220	100.0	FRF	28,322	NLG	10,086	100.0
Huhtamaki Ltd	41,928	100.0	GBP	41,928	NLG	139,239	100.0
Huhtamaki Norway A/S	950	100.0	NOK	950	NLG	249	100.0
Huhtamaki Sweden AB	171,000	100.0	SEK	17,100	NLG	9,669	100.0
Leaf Belgium S.A.	3,056	100.0	BEF	5,000	NLG	7,142	100.0
Leaf Holland B.V.	50,000	100.0	NLG	5,000	NLG	5,000	100.0
Leaf Ireland Ltd	3,720,957	100.0	IEP	3,721	NLG	10,331	100.0
Leaf Italia S.r.l.	1	100.0	ITL	200,000,000	NLG	133,329	100.0
Leaf Poland Sp. z o.o.	53,537	100.0	PLN	45,259	NLG	29,235	100.0
Monoservizio Bibo S.p.A	15,000,000	63.5	ITL	15,000,000	NLG	29,130	63.5
Polarcup Poland Sp. z o.o.	52,731	100.0	PLN	14,488	NLG	38,054	100.0
Polarcup S.A.	230,000	100.0	ESP	1,150,000	NLG	40,772	100.0
Polarcup S.r.l.	13,420,000	100.0	ITL	13,420,000	NLG	15,206	100.0
Polarcup Singapore Pte. Ltd	28,000,000	100.0	SGD	28,000	NLG	26,393	100.0
Sweetheart B.V.	200	100.0	NLG	100	NLG	2,092	100.0
Wuxi Leaf Confectionery Co. Ltd	1	100.0	USD	6,783	NLG	14,471	100.0

Subsidiary shares owned by Monoservizio Bibo S.p.A:

Bibo France S.A.	500	97.8	FRF	250	ITL	1,835,434	62.1
Bibo Iberica S.A.	2,000	85.0	ESP	20,000	ITL	203,475	53.9
Bibo Nordic AB	22,600	75.0	SEK	2,260	ITL	437,883	47.6
MB Sud S.r.l.	400,000	100.0	ITL	400,000	ITL	822,679	63.5
Monouso S.r.l.	20,000	100.0	ITL	20,000	ITL	340,000	63.5

Subsidiary shares owned by Huhtamaki A/S:

Leaf Danmark A/S	35,000	100.0	DKK	35,000	DKK	118,629	100.0
Polarcup Danmark A/S	3,000	100.0	DKK	3,000	DKK	112	100.0

Subsidiary shares owned by Huhtamaki (Australia) Pty. Ltd:

Polarcup (Australia) Ltd	9,241,700	100.0	AUD	9,241	AUD	16,320	100.0

Subsidiary shares owned by Huhtamaki (New Zealand) Ltd:

Polarcup (NZ) Ltd	195,700	100.0	NZD	391	NZD	28,493	100.0

Subsidiary shares owned by Huhtamaki Holdings France S.A.R.L.:

Plastyl S.A.	1,600	100.0	FRF	1,200	FRF	438	100.0
Polarcup France S.A.	50,000	100.0	FRF	5,000	FRF	2,792	100.0
Procédés Modernes d´Impression S.A.	168	94.0	FRF	16,800	FRF	26,942	100.0

Name	Number of shares	Size of holding %		Nominal value		Book value	Group holding %
Subsidiary shares owned by Huhtamaki Ltd:							
Leaf (U.K.) Ltd	3,800,100	100.0	GBP	3,800	GBP	3,800	100.0
Leaf United Kingdom Ltd	11,250,000	100.0	GBP	11,250	GBP	12,696	100.0
Polarcup Ltd	1,000,004	100.0	GBP	1,000	GBP	15,514	100.0
Subsidiary shares owned by Huhtamaki Norway A/S:							
Leaf Norge A/S	30,000	100.0	NOK	3,000	NOK	11,334	100.0
Polarcup A/S	950	100.0	NOK	950	NOK	1,000	100.0
Subsidiary shares owned by Huhtamaki Portugal S.G.P.S.:							
Plastono - Embalagens, S.A.	149,960	100.0	PTE	149,960	PTE	384,963	100.0
Subsidiary shares owned by Huhtamaki Sweden AB:							
Leaf Sverige AB	692,000	100.0	SEK	34,600	SEK	259,473	100.0
Polarcup AB	1,500	100.0	SEK	1,500	SEK	16,895	100.0
Subsidiary shares owned by Huhtamäki (Deutschland) GmbH:							
Gubor Schokoladen GmbH	1	100.0	DEM	8,600	DEM	8,600	100.0
Gubor Schokoladenfabrik GmbH	1	100.0	DEM	29,900	DEM	35,900	100.0
Leaf GmbH	1	100.0	DEM	10,050	DEM	10,286	100.0
Polarcup GmbH	1	100.0	DEM	17,100	DEM	99,268	100.0
Subsidiary shares owned by Pacific World (Holdings) Ltd:							
Pacific World Packaging (International) Ltd	183,000	100.0	HKD	183	HKD	77,232	100.0
Subsidiary shares owned by Sweetheart B.V.:							
Polarcup Benelux B.V.	1,260	100.0	NLG	1,260	NLG	36,573	100.0

7. INVESTMENTS IN ASSOCIATED AND OTHER COMPANIES

FIM 1,000	Number of shares	Size of holding %		Nominal value		Book value	Group holding %
Owned by Huhtamäki Oy:							
Associated companies:							
Arabian Paper Products Co.	1,600	40.0	SAR	1,600	FIM	2,689	40.0
Leaf East Asia Pte. Ltd	4,000,000	50.0	USD	6,722	FIM	4,723	50.0
Leaf Parrys Ltd	4,000,000	50.0	INR	40,000	FIM	5,796	50.0
Other:							
Hex Oy	24,400	0.2		200	FIM	150	
Repligen Corporation	30,514	0.2	USD	-	FIM	1,610	
OKR Liikkeeseenlaskijat Osuuskunta	8	1.7		160	FIM	160	
Owned by the Group:							
Associated Companies:							
Kaps S.A.	12,000	50.0	ARS	12	ITL	160	50.0
Güven Plastik Sanayi A.S.	225,000	50.0	TRL	225,000,000	NLG	20,204	50.0
Other:							
Merita Oyj	1,409,022	0.2		14,090		27,028	
Vakuutus Oy Pohjola	117,664	0.3		588		8,686	

The taxation value of shares in non-Group companies held within the parent company was FIM 19.5 million, and the value of those held within the Group as a whole was FIM 64.2 million.

8. RECEIVABLES

FIM million	Group		Huhtamäki Oy	
	1997	1996	1997	1996
Current				
Trade receivables	1,297.9	1,000.0	109.9	112.1
Intercompany trade receivables	-	-	51.8	24.6
Trade receivables from associated companies	1.7	-	-	-
Loan receivables	292.3	1,665.5	-	-
Intercompany loan receivables	-	-	830.3	1,256.7
Other receivables	253.2	172.2	58.7	49.7
Other intercompany receivables	-	-	23.1	5.1
	1,845.1	2,837.7	1,073.8	1,448.2
Long-term				
Loan receivables	86.2	103.4	0.4	0.5
Intercompany loan receivables	-	-	18.0	24.9
Other long-term receivables	18.1	-	-	-
	104.3	103.4	18.4	25.4
Total receivables	1,949.4	2,941.1	1,092.2	1,473.6

9. LOANS

FIM million	Group		Huhtamäki Oy	
	1997	1996	1997	1996
Current				
Bank loans - current portion	12.8	469.1	0.2	-
Other loans - current portion	3.9	3.3	0.2	-
Obligations under finance leases - current portion	2.0	-	-	-
Short-term loans	449.0	369.4	28.2	28.0
Intercompany loans	-	-	409.1	216.5
	467.7	841.8	437.7	244.5
Long-term				
Bank loans	311.7	376.9	-	-
Pension loans	69.4	119.8	69.4	119.8
Intercompany loans	-	-	483.7	479.5
Other long-term loans	0.5	6.6	1.5	1.4
Obligations under finance leases	5.0	-	-	-
	386.6	503.3	554.6	600.7
Changes in long-term loans and repayments				
Bank loans				
Jan. 1, 1997	846.0		-	
Increases	48.6		0.2	
Decreases	568.8		-	
Changes in exchange rates	-1.3		-	
	324.5		0.2	
Repayments 1998	12.8		0.2	
Dec 31, 1997	311.7		-	
Pension loans Dec 31, 1997				
From pension foundations	69.4		69.4	
Repayments				
1998	18.7		0.4	
1999	235.3		483.7	
2000	10.5		-	
2001	8.8		-	
2002	7.8		-	
2003-	124.2		70.9	

10. OTHER LONG-TERM LIABILITIES AND PROVISIONS

FIM million	Group		Huhtamäki Oy	
	1997	1996	1997	1996
Deferred taxes	193.2	183.3	81.6	84.0
Other	226.8	199.6	0.4	-
Total (IAS)	420.0	382.9	82.0	84.0
Deferred taxes on untaxed reserves	-81.6	-84.0	-81.6	-84.0
Intercompany loans	-	-	483.7	479.5
Other	-	-	1.1	1.4
Total (FAS)	338.4	298.9	485.2	480.9

11. PAYABLES

FIM million	Group		Huhtamäki Oy	
	1997	1996	1997	1996
Trade payables	634.4	525.3	61.1	65.1
Intercompany payables	-	-	14.2	9.6
Taxes payable	165.9	199.9	-	46.6
Other payables and accrued expenses	907.1	931.1	149.7	206.0
	1,707.4	1,656.3	225.0	327.3

12. SHARE CAPITAL OF THE PARENT COMPANY

	Number of shares	FIM
Series K, total	12,499,558	249,991,160.00
Redeemed without a reduction in share capital	28,155	-
Outstanding Dec 31, 1997	12,471,403	-
Series I		
Jan 1, 1997	17,240,493	344,809,860.00
Increase due to warrants	64,000	1,280,000.00
Outstanding Dec 31, 1997	17,304,493	346,089,860.00
Total	29,804,051	596,081,020.00
Total outstanding Dec 31, 1997	29,775,896	-

The nominal value of each share, including the redeemed ones, is FIM 20.00.

The loan with warrants issued in 1993 will entitle a maximum subscription to 198,000 series I shares in 1998, 1999 and 2000. The loan with warrants issued in 1997 will entitle a maximum subscription to 450,000 series I shares in the years 2000-2004. A total of 648,000 series I shares may be subscribed to based on the loans with warrants, which represent a share capital increase of FIM 12,960,000.

Members of the Supervisory Board and the Board of Directors owned on Dec 31, 1997 a total of 47,414 shares in Huhtamäki Oy. These shares represent 0.02 % of the voting rights.

13. CHANGES IN EQUITY

FIM million	Group	Huhtamäki Oy
IAS		
Share capital		
Balance at beginning	594.8	594.8
Increase in 1997	1.3	1.3
Balance at end	596.1	596.1
Premium fund		
Balance at beginning	-	-
Increase in 1997	0.5	0.5
Balance at end	0.5	0.5
Reserve fund		
Balance at beginning	1,609.7	1,609.7
Increase in 1997	3.9	3.9
Balance at end	1,613.6	1,613.6
Revaluation fund		
Balance at beginning	15.0	15.0
Balance at end	15.0	15.0
Repurchase of own shares	-506.1	-
Consolidation difference		
Balance at beginning	62.8	-
Adjustment on translation of foreign subsidiaries	+51.4	-
Balance at end	114.2	-
Retained earnings		
Balance Jan 1, 1997	1,847.4	1,502.2
Change in exchange rates	+23.8	-
Dividends paid	-133.7	-133.7
Dividends paid for own shares	+11.5	-
Net profit of the period	402.3	410.1
Balance Dec 31, 1997	2,151.3	1,778.6

FIM million	Group	Huhtamäki Oy
FAS		
Restricted equity:		
Share capital Jan 1, 1997	594.8	594.8
Increase in 1997	1.3	1.3
Share capital Dec 31, 1997	596.1	596.1
Premium fund Jan 1, 1997	-	-
Increase in 1997	0.5	0.5
Premium fund Dec 31, 1997	0.5	0.5
Reserve fund Jan 1, 1997	1,108.0	1,609.7
Increase in 1997	3.9	3.9
Exchange difference of repurchased shares	-4.5	-
Reserve fund Dec 31, 1997	1,107.4	1,613.6
Revaluation fund Jan 1, 1997	15.0	15.0
Revaluation fund Dec 31, 1997	15.0	15.0
Consolidation difference Jan 1, 1997	62.8	-
Change 1997	+51.4	-
Consolidation difference Dec 31, 1997	114.2	-
Total restricted equity	1,833.2	2,225.2
Non-restricted equity:		
Retained earnings Jan 1, 1997	1,723.1	1,366.0
Changes in exchange rates	+23.8	-
Dividends 1997	-133.7	-133.7
Dividends on repurchased shares	+11.5	-
Net income 1997	412.2	419.3
Retained earnings Dec 31, 1997	2,036.9	1,651.6
Transfers from untaxed reserves:		
Jan 1, 1997	216.1	-
Change in 1997	-6.2	-
Dec 31, 1997	209.9	-
Total non-restricted equity	2,246.8	1,651.6

14. COMMITMENTS AND CONTINGENCIES

FIM million	Group	Huhtamäki Oy
Operating lease payments:		
1998	41.7	2.8
1999 and thereafter	136.8	3.1
Total	178.5	5.9
Capital expenditure commitments:		
1998	45.1	1.2
1999 and thereafter	-	-
Total	45.1	1.2
Liabilities for pension commitments (Finland):		
Total liability of pension foundation	117.1	117.1
Mortgages:		
For own debt	92.6	45.3
Guarantee obligations:		
For subsidiaries	-	707.2
For associated companies	2.9	2.9

15. FINANCIAL RISK MANAGEMENT AND OUTSTANDING OFF-BALANCE SHEET INSTRUMENTS

MANAGEMENT OF FINANCIAL RISK

Currency risk

Huhtamaki's expected 12-month net commercial position, i.e. transaction exposure was FIM 745 million, with approx. 24% of the amount hedged with forward contracts or options as of the balance sheet date. In intercompany cross-border business DEM is mainly used in Europe and USD in other regions. The biggest exposure is in FIM, mainly due to exports from Finland.

Translation exposure relates to changes in currency-denominated balance sheet values. Business units do not carry material exposures, because they are financed in their base currency. FIM and NLG liquidity can be used in other currencies, in which case currency swaps are used to eliminate the currency exposure. The most important exposure stems from the equities and especially the current and future retained earnings of the business units. Long-term loans are used in equity hedging. Equity hedging decisions are done by a Finance Committee led by the CEO.

Interest rate risk

The liquid assets of the company at year-end amounted to FIM 1 billion, with an average maturity of 2-3 months.

Huhtamaki's finance company, Huhtamaki Finance, hedges its interest rate risk either on a money market instrument or forward rate agreement basis. The company actively uses forward rate agreements in managing short-term interest rate exposures mainly in FIM and NLG. Use of interest rate derivatives is controlled by limits set by the Finance Committee.

Counterpart risk

Huhtamaki Finance can only place funds at banks with which it has credit facilities. The company may invest in state bonds, treasury bills and in commercial papers of selected Finnish corporate issuers and non-Finnish borrowers with a solid investment grade rating. The company has also an equity portfolio and places some liquidity in stock funds.

Counterpart risk arising from derivatives is limited by concluding transactions with only financially strong banks.

Finance Committee approves all counterpart limits.

OUTSTANDING OFF-BALANCE SHEET INSTRUMENTS

FIM million	1997	1996
Currency forwards, transaction risk hedges	372	228
Currency swaps, financing hedges	860	777
Currency options	100	30
Forward rate agreements, gross	10,868	14,159
Forward rate agreements, net	500	635
Interest rate swaps	30	90
Interest rate options	121	120

All off-balance sheet instruments except for interest rate swaps and options are marked to market as per balance sheet date. Unrealised gains and losses are booked as accrual to the result for the period. For interest rate swaps and options the net interest amount to be paid or received at next fixing is accrued until balance sheet date.

16. CHANGES IN VOLUNTARY RESERVES (FAS)

FIM million	Group		Huhtamäki Oy	
	1997	1996	1997	1996
(-) increase, (+) decrease Other voluntary reserves	+60.6	+81.6	+60.6	+5.9
Deferred tax impact	-17.0	-22.8	-17.0	-1.6
	+43.6	+58.8	+43.6	+4.3

17. SPECIFICATION OF ADJUSTMENTS TO NET INCOME

FIM million	Group		Huhtamäki Oy	
	1997	1996	1997	1996
Net income for the period (FAS)	412.2	553.0	419.3	695.4
Depreciation difference	37.4	-68.4	52.0	5.2
Change in voluntary reserves	-43.6	-58.8	-60.6	-5.9
Depreciation on revaluation	-3.7	-4.8	-3.4	-4.1
Gain/loss on equity of associated companies	-	-	3.5	2.5
Other	-	-	-0.7	10.7
Net income for the period (IAS)	402.3	421.0	410.1	703.8

18. SPECIFICATION OF ADJUSTMENT TO SHAREHOLDERS' EQUITY

FIM million	Group		Huhtamäki Oy	
	1997	1996	1997	1996
Shareholders' equity (FAS)	4,080.1	3,719.8	3,876.8	3,585.5
Reclassification from untaxed reserves	-	-	209.9	216.1
Accumulated depreciation on revaluation	-95.5	-91.7	-87.2	-83.8
Cumulative gain/loss on equity of associated companies	-	-	19.1	15.6
Other	-	-	-14.8	-11.7
Shareholders' equity (IAS)	3,984.6	3,628.1	4,003.8	3,721.7

FINNISH ACCOUNTING STANDARDS (FAS)

For the accounting period beginning on January 1, 1998 Huhtamaki Group will incorporate the recent changes in the Finnish Accounting Standards, which are effective for periods starting after December 31, 1997.

The following are the principal items resulting in differences in the Group and the parent company financial statements prepared in accordance with Finnish Accounting Standards and International Accounting Standards.

1. Depreciation on revalued tangible assets
Depreciation on revaluation of buildings is not allowed according to FAS. In Huhtamaki's financial statements according to IAS, such revaluations are depreciated over a period of 25 years.

2. Untaxed reserves and taxation
The difference between accelerated depreciation and straight line depreciation has been divided between unrestricted equity and deferred tax in the IAS and the Group FAS statements.

3. Associated companies
The Group's IAS and FAS financial statements include associated companies applying the equity method, whereas the equity method is applied in the parent company's IAS financial statements only.

PROPOSAL OF THE EXECUTIVE BOARD

On December 31, 1997, Group non-restricted equity amounted to FIM 2,246,807,038.00.
On December 31, 1997, Huhtamäki Oy's non-restricted equity was FIM 1,651,562,734.65, of which amount the net income for the financial period was FIM 419,281,548.03.

The Board proposes distribution of the earnings as follows:

- to the shareholders 30.0% of the nominal value of share or FIM 6.00 a share	178,655,376.00
- to be left in the non-restricted equity	1,472,907,358.65
	1,651,562,734.65

The Board proposes that the payment of dividends be commenced on April 16, 1998. For shareholders, who have not transferred their shares to the book-entry securities system by April 7, 1998, the dividends will be paid after transfer of the shares to the book-entry securities system.

Helsinki, February 9, 1998

Timo Peltola   Keijo Suila
Eero Aho   Matti Tikkakoski

AUDITORS' REPORT

To the shareholders of Huhtamäki Oy

We have audited the accounting records, the financial statements, as well as the administration for the year ended December 31, 1997. The financial statements, which include the report of the Executive Board, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Executive Board and the Chief Executive. Based on our audit we express an opinion on these financial statements and the company's administration.

We have conducted our audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. The purpose of our audit of the administration has been to examine that the Supervisory Board, Executive Board and the Chief Executive have complied with the rules of the Finnish Companies' Act.

In our opinion, the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company result of operations as well as of the financial position. The financial statements can be adopted and the members of the Supervisory Board, the Executive Board and the Chief Executive of the parent company can be discharged from liability for the period audited by us. The proposal made by the Executive Board on how to deal with regarding the retained earnings is in compliance with the Finnish Companies' Act.

We have acquainted ourselves with the interim reports made public by the company during the year. It is our understanding that the interim financial statements have been prepared in accordance with the rules and regulations governing the preparation of such statements in Finland.

Helsinki, February 9, 1998

Thor Nyroos   Eero Suomela
APA   APA

HUHTAMAKI 1993-1997

FIM million		1993	1994	1995	1996	1997
Net sales		7,935.2	8,284.8	7,835.6	7,505.5	6,387.4
Increase in net sales	%	20.6	4.4	-5.4	-4.2	-14.9
Net sales outside Finland		6,836.6	7,194.2	6,664.1	6,420.9	5,648.8
Operating profit before depreciation (FAS)		1,067.7	1,038.1	916.7	985.0	891.9
Operating profit before depreciation/net sales (FAS)	%	13.5	12.5	11.7	13.1	14.0
Operating earnings		649.3	567.7	465.2	528.6	515.2
Operating earnings/net sales	%	8.2	6.9	5.9	7.0	8.1
Profit after financial items		505.5	441.6	312.2	415.7	519.5
Profit after financial items/net sales	%	6.4	5.3	4.0	5.5	8.1
Profit before appropriations and taxes (FAS)		567.7	421.9	273.6	1,041.1	523.2
Profit before appropriations and taxes/net sales	%	7.2	5.1	3.5	13.9	8.2
Net income		347.7	332.6	179.8	421.0	402.3
Shareholders' equity		3,651.0	3,660.7	3,615.3	3,628.0	3,984.6
Return on investment	%	12.5	10.0	8.9	10.8	13.1
Return on shareholders' equity	%	12.0	9.9	6.3	8.1	10.6
Solidity	%	41.4	48.2	46.7	51.8	57.3
Net debt to equity		0.63	0.49	0.44	-0.29	-0.04
Current ratio		1.63	1.35	1.37	1.68	1.55
Times interest earned		7.64	8.24	6.81	12.06	..
Capital expenditure		467.2	473.8	308.7	347.6	458.8
Capital expenditure/net sales	%	5.9	5.7	3.9	4.6	7.2
Research & development		193.7	213.6	224.7	160.5	31.8
Research & development/net sales	%	2.4	2.6	2.9	2.1	0.5
Number of shareholders (December 31)		20,424	21,010	19,966	17,888	16,566
Personnel (December 31)		11,190	11,145	10,930	8,000	9,974

Note: Figures according to IAS, unless otherwise indicated.

MAIN COUNTRIES OF OPERATION

Country	Net sales FIM million	Personnel	Main operating companies
Finland	1,244	1,814	Huhtamäki Oy Leaf Finland Polarcup Finland
Germany	1,026	1,070	Gubor Schokoladen GmbH Leaf GmbH Polarcup GmbH
United Kingdom	999	1,607	Leaf United Kingdom Ltd Polarcup Ltd
Italy	734	716	Leaf Italia S.r.l. Polarcup Italy S.r.l. Monoservizio Bibo S.p.A.
The Netherlands	540	653	Leaf Holland B.V. Polarcup Benelux B.V.
Sweden	484	474	Leaf Sverige AB Polarcup AB
Australia	367	675	Polarcup (Australia) Ltd
Poland	235	712	Leaf Poland Sp. z o.o. Polarcup Poland Sp. z o.o.

DEFINITIONS OF KEY INDICATORS

Earnings per share	=	$\dfrac{\text{Profit after financial items - minority interest - ordinary taxes}}{\text{Average issue-adjusted number of shares}}$
Calculated earnings per share	=	$\dfrac{\text{Profit after financial items - minority interest - ordinary taxes - calculated tax liability related to changes in reserves}}{\text{Average issue-adjusted number of shares}}$
Dividend yield	=	$\dfrac{\text{100 x issue-adjusted dividend}}{\text{Issue-adjusted share price at Dec 31}}$
Shareholders’ equity per share	=	$\dfrac{\text{Equity}}{\text{Issue-adjusted number of shares at Dec 31}}$
Calculated shareholders’ equity per share	=	$\dfrac{\text{Equity + untaxed reserves - tax liability latent in untaxed reserves}}{\text{Issue-adjusted number of shares at Dec 31}}$
P/E ratio	=	$\dfrac{\text{Issue-adjusted share price at Dec 31}}{\text{Earnings per share}}$
Market capitalisation	=	The number of shares issued in the different share series at Dec 31 multiplied by the corresponding share prices on the stock exchange
Return on investment	=	$\dfrac{\text{100 x (profit after financial items + interest expenses + other financial expenses)}}{\text{Balance sheet total - interest-free liabilities (average)}}$
Return on net assets	=	$\dfrac{\text{100 x operating earnings}}{\text{Net operating assets (average)}}$
Return on shareholders' equity	=	$\dfrac{\text{100 x (profit after financial items - ordinary taxes)}}{\text{Equity + minority interest (average)}}$
Net debt to equity	=	$\dfrac{\text{Interest bearing net debt}}{\text{Equity}}$
Solidity	=	$\dfrac{\text{100 x (equity + minority interest)}}{\text{Balance sheet total - advances received}}$
Current ratio	=	$\dfrac{\text{Current assets}}{\text{Current liabilities}}$
Times interest earned	=	$\dfrac{\text{Operating earnings + depreciation and amortisation}}{\text{Net interest expenses}}$

Repurchased shares have been excluded from calculations of key indicators.

NEWS IN 1997

Stock Exchange announcements in chronological order

JANUARY

No announcements

FEBRUARY

11	Results for 1996
	Acquisition of Pacific World Packaging Group (PWP)

MARCH

17	Proposal to AGM on stock option plan for 90 managers
20	Sale of ophthalmic unit to Santen completed

APRIL

01	PWP acquisition completed
09	AGM decisions: dividend and stock option plan
10	Acquisition of full control of Wuxi Leaf j/v
22	Dividend paid

MAY

05	Huhtamaki Website www.huhtamaki.com launched

JUNE

10	January-April Interim Report

JULY

No announcements

AUGUST

25	Huhtamaki to concentrate headquarters functions to Finland
29	Acquisition of 50% of Turkish food packaging company Güven Plastik

SEPTEMBER

29	Plans to acquire Polish sugar confectionery manufacturer Syrena

OCTOBER

06	Acquisition of Italian packaging company Monoservizio Bibo (MB)
09	January-August Interim Report
20	Acquisition of UK packaging unit from Wace Group

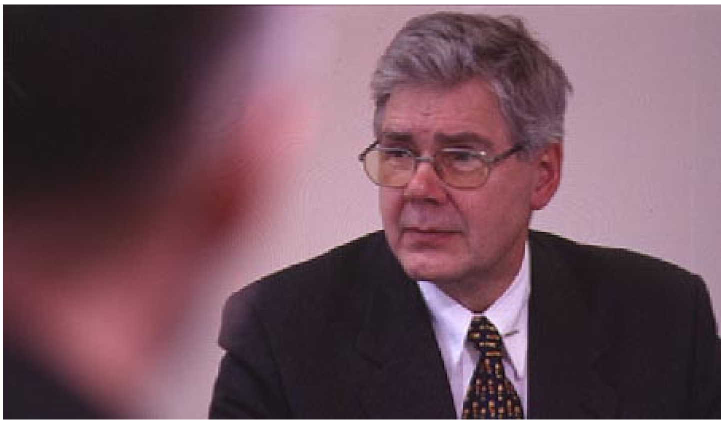
NOVEMBER

28	MB acquisition completed

DECEMBER

02	Syrena acquisition completed
	Güven acquisition completed
19	Acquisition of French packaging company Tulipia
23	Financial calendar for 1997
30	Tulipia acquisition completed

ADMINISTRATION AND AUDITORS


Paavo Hohti


Iiro Viinanen


Urpo Kangas


Mikael Lilius


Pertti Voutilainen

SUPERVISORY BOARD

CHAIRMAN
Paavo Hohti, Secretary General
Finnish Cultural Foundation
(Term expires 2000)

VICE CHAIRMAN
Iiro Viinanen, President
Pohjola Group
(Term expires 1999)

MEMBERS
Urpo Kangas, Professor
Member of the Board of Trustees
Finnish Cultural Foundation
(Term expires 1998)

Mikael Lilius, President
Incentive AB
(Term expires 1998)

Matti Liukkonen, Chief Advisor,
European Comission
Chairman of the Association for
the Finnish Cultural Foundation
(Term expires 1999)
Not present during photography

Pertti Voutilainen, President
Merita Bank Ltd
(Term expires 1999)

EXECUTIVE BOARD

CHAIRMAN
Timo Peltola,
CEO

VICE CHAIRMAN
Keijo Suila,
Executive Vice President

MEMBERS
Eero Aho,
Executive Vice President

Matti Tikkakoski

EXECUTIVE BOARD MEMBERS

Timo Peltola

Keijo Suila

Eero Aho

Matti Tikkakoski

AUDITORS

Thor Nyroos, APA
Eero Suomela, APA

DEPUTIES
Pertti Keskinen, APA
Esa Kailiala, APA

Timo Peltola
CEO since 1989, and Chairman of the Executive Board since 1993. A graduate of the Turku School of Economics, he joined Huhtamaki in 1971 after two years with Finnish Unilever and held marketing positions in Jalostaja and a Danish Subsidiary until appointed President of Polarcup in 1981. Was elected to the Board in 1984 and appointed Executive Vice President two years later. Born in 1946.

Keijo Suila
Executive Vice President since 1992 and Vice Chairman of the Executive Board since 1996. A graduate of the Helsinki School of Economics, he joined Finnish Unilever in 1968 and served as Vice President, Marketing, before becoming Executive Vice President of Oy Sinebrychoff Ab in 1981. He joined Huhtamaki in 1985 to become President of Leaf Europe. In 1988 he was appointed President of Leaf Group and in 1989 Board member. Will resign during 1998 to become CEO of Finnair Oyj. Born in 1945.

Eero Aho
Executive Vice President since 1989. A law graduate of the University of Helsinki, he started his career with the Finnish Cultural Foundation. Joined Huhtamaki in 1970 as Counsel and Secretary to the Executive Board. Was elected to the Board in 1979 and in 1980 became Corporate Vice President for Finance and Administration. Since 1995 responsible for Corporate Development. Born in 1939.

Matti Tikkakoski
President of Polarcup Group since 1995. A graduate of the Helsinki School of Economics, he joined Huhtamaki in 1980 and in 1985 became President, Polarcup Singapore. Has headed Polarcup's Asia-Pacific Division and Northern Europe Division. In 1994-1995 served as Senior Vice President, Asia and in 1995 was elected to the Executive Board. Born in 1953.

ORGANISATION 1.3. 1998

Supervisory Board
Chairman
PAAVO HOHTI

Executive Board

Chief Executive Officer
Chairman
TIMO PELTOLA

Executive VP
EERO AHO

Executive VP; Vice Chairman
KEIJO SUILA

President, Polarcup
MATTI TIKKAKOSKI

LEAF

Group President
Kalle Tanhuanpää

Sales Units

- **North Europe** – Tero Vähäkylä
- **Central Europe** – André Veerman
- **Central Eastern Europe** – Sakari Kotka, Marcin Pirog
- **Russia/CIS** – Tapio Riihinen
- **Asia Pacific & Middle East** – Martin Pearce

Central Functions

- **Key Brand Management** – Jukka Nikkinen
- **Control** – Timo Salonen
- **R&D/QC/QA** – Hannu Hanhijärvi
- **Operations** – Jan Lång
  - **Production Units**

Staff

Finance
Hannu Kottonen

Human Recources
Hannele Salminen

Communications
Markku Pietinen

Group President
Matti Tikkakoski

POLARCUP

Toimitusjohtaja
Matti Tikkakoski

Tuotanto

- **Beverage** – Mark Staton
- **Catering** – Kim Aganimov
- **Consumer** – Anssi Münz
- **Food Packaging** – Dominique Kieffer
- **Trade Packaging** – (N/N)

Central Functions

- **Technical operations** – Bob Harris
- **Control** – Krister Björkqvist

Geographical Areas

- **Western Europe** – Joel Portnoj
- **Eastern Europe & Middle East** – Kim Aganimov
- **Australasia** – Tony Combe
- **Asia** – Stephen Sun
- **South America** – Juha Korppi-Tommola

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- www.leaf.fi/jenkki
- www.tupla.com

www.leaf.se

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NEW CORPORATE HEAD OFFICE

Towards year-end 1997, Huhtamaki rented and refurbished an office building in Tapiola, the commercial centre of Espoo, Finland. This municipality with 200,000 inhabitants forms the western part of the Helsinki metropolitan area.

The need for additional space arose from a decision to concentrate all central functions to one location. The previous premises in Helsinki did not offer the extra space needed for some 30 employees about to relocate from Amstelveen, Holland, where Leaf and Polarcup have had their headquarters for the past few years.

Huhtamäki Oy, Huhtamäki Finance Oy and Polarcup Group occupied the new premises at the start of 1998. A good part of Leaf Group's staff has also settled in, with the rest following by mid-year. Shared support functions include finance, legal, administration, human resources, communications and information systems.

When fully staffed, the new Corporate Head Office will house some 65 employees of different nationalities.

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