Annual Report 1998

World Leader in Cups and Tubs

HUHTAMAKI

Huhtamaki is an international industrial company established in 1920 and based in Finland. Operating under the commercial identities of Polarcup and Sealright (food packaging) and Leaf (confectionery), Huhtamaki is present in 33 countries and its products are sold in nearly a hundred.

The parent company, Huhtamäki Oyj, has been listed on the Helsinki Exchanges since 1959. Its shares are widely held among international institutional investors.

Over the past two decades, Huhtamaki has conducted a major internationalisation and restructuring programme, involving over 140 company acquisitions, start-ups and disposals. Speciality food packaging now accounts for over 60% of the total sales and will be Huhtamaki's dominant line of activity in the future.

Contents

Annual General Meeting

The Annual General Shareholders' Meeting (AGM) of Huhtamäki Oyj will be held on Thursday, March 18, 1999 at 3:00 PM in the Marina Congress Centre, Katajanokanlaituri 6, Helsinki.

Beyond ordinary business, the AGM will address the Board's proposals to amend the company's Articles of Association, as outlined below:

- New Governance system, with the Supervisory Board abolished and the company governed by a Board of Directors annually elected by the AGM
- A possibility for shareholders to convert Series K shares into Series I shares
- Abolition of the nominal value of the share, and expression of the company's minimum and maximum share capital in EUR
- Relocation of the company's legal domicile from Turku to Espoo, Finland

Shareholders wishing to exercise their rights at the AGM must have their shares registered in their own name with the Finnish Central Securities Depository Ltd. no later than March 12. Participation should be notified to the company no later than 11:00 am on Wednesday, March 17, either by telephone (Huhtamäki Oyj, +358-9-6868 81) or in writing (Huhtamäki Oyj, Ms. Kaarina Vaartio, Länsituulentie 7, 02100 Espoo, Finland). A registered shareholder may, by March 17, 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 8, at Corporate Headquarters, Länsituulentie 7, 02100 Espoo, Finland. For further information contact Investor Relations, +358-9-6868 8361.

Dividend

The Board of Directors proposes an unchanged dividend of FIM 6.00 (EUR 1.01) per share for 1998. Dividend will be paid on March 30 to shares registered by March 23.

Financial calendar

Huhtamaki will release the following financial information for 1999 in Finnish and English:

1999:	June 9 - January-April Interim Report
	October 6 - January-August Interim Report
2000:	February 10 (to be confirmed) - Full-year Results
	Week 9 - Annual Report

As a rule, results will be released at or about 09:00 am Finnish time. Financial information will be stated in euros. Financial and media releases may be retrieved instantly from Huhtamaki's Internet website, www.huhtamaki.com.

Company trade reg. no 90.511.

FINANCIAL HIGHLIGHTS FOR 1998

Key Figures

Million	1998 FIM	1998 EUR	1997 FIM	1997 EUR	Change %
Net sales	7,290	1,226	6,387	1,074	+ 14
Operating earnings	500	84	519	87	- 4
Profit before exceptional items, appropriations and taxes	473	80	523	88	- 10
Net income	365	61	412	69	- 11
Earnings per share FIM/EUR	13.60	2.29	15.18	2.55	- 10
Dividend per share FIM/EUR	6.00 [1)]	1.01	6.00	1.01	-
Return on investment (ROI), %	10.6		12.9		- 18
Capital expenditure	486	82	459	77	+ 6
Personnel at year-end	11,024		9,974		+ 11

[1)] Board's proposal

Milestones

- Overall world leadership in chosen packaging segments
- A sustainable entry into the North American food packaging market
- A cohesive, customer-oriented company structure

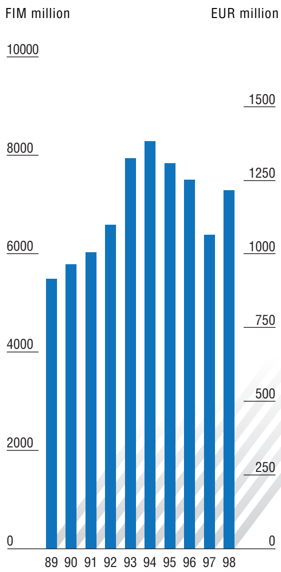
Highlights

+ Sealright, Tetra Cup acquisitions and smooth integration in the US
+ Access to environment-friendly EarthShell® food service packaging material
+ Polarcup's strength in Oceania
+ Leaf's resiliency in core North European markets
+ Corporate royalty income in steady growth

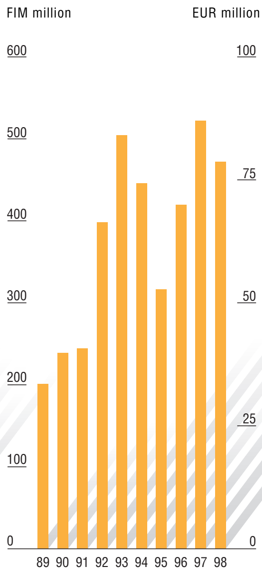
Disappointments

- Profit improvement intercepted by the Russian economic crisis
- A slowdown in packaging volume growth after summer
- Leaf's performance overshadowed by problem units

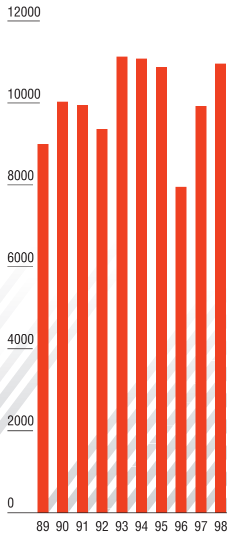
Net sales



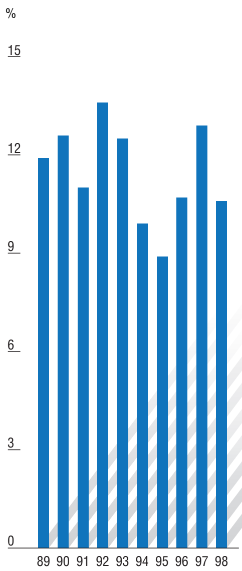
Profit before exceptional items



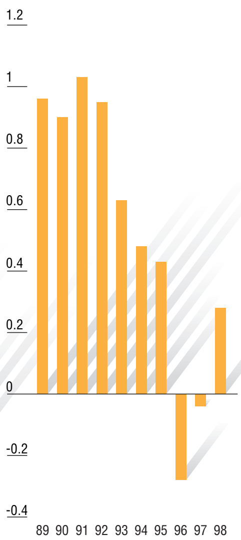
Personnel



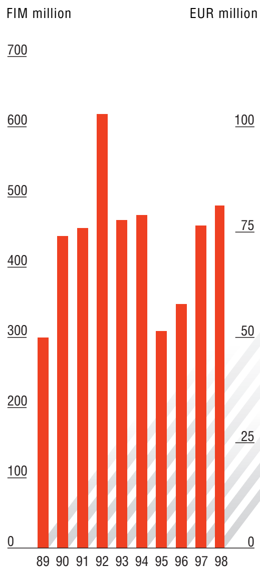
Return on investment (ROI)



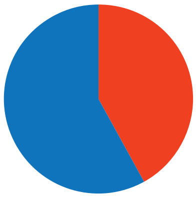
Net debt to equity



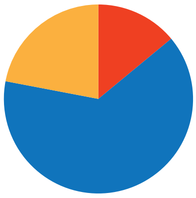
Gross capital expenditure



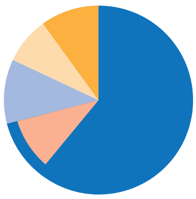
Net sales by business sector



Operating earnings by business sector



Net sales by region



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

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%.

At the outset, 1998 was to be another year of sales and profit growth for Huhtamaki. While busy integrating the companies acquired during 1997, we were also prepared to pursue new opportunities. The momentum had clearly shifted into packaging, while further restructuring within the confectionery division was in motion to improve profitability.

During the year, we made a strong entry into the North American packaging market, and established a bridgehead in Latin America as well.

Complementing steps taken in 1997, our acquisition of the US companies Sealright and Tetra Cup resulted in an overall **world leadership position in our core food packaging segments.**

On the whole, the year advanced according to plan until late August, when the economic crisis in Russia paralysed commerce in this important market. Hence, the risk indicated in our two previous Annual Reports did materialise, leading to a revision of the full-year profit outlook in early September. All told, the Russian crisis taxed our operating earnings by some FIM 70 million.

Simultaneously, our packaging customers across Europe reduced their orders sharply due to a weaker overall demand for their products. The resulting slowdown in operating earnings was only partly offset by good progress in Oceania and North America.

In confectionery, adverse market conditions, as well as the inertia always associated with a new direction, organisation and management, delayed the anticipated profit improvement through the year. While Leaf's top units were again reliable, their profit contribution was eroded by the Russian situation, two problem units, and the modest showing in many other markets.

Confectionery is Huhtamaki's original line of business and the early flagship of our internationalisation. However, Leaf's profitability has continued to decline, failing to respond to strategy changes, restructuring and increased marketing expenditure.

We must constantly review our corporate strategy, developing our business portfolio in a way that maximises long-term value generation for our shareholders. We have therefore contracted a major investment bank to explore the strategic alternatives for the confectionery division.

While the outcome of the process remains to be seen, the long-term objective is to further strengthen our packaging operations. We made our first major packaging acquisition in 1987. Since then, packaging sales have increased more than tenfold. Today, we are the largest company in the world in our chosen segments.

In 1999, we will again invest 8% of net sales to strengthen our existing operations to enhance our competitiveness.

We will leverage our fresh leadership position in ice cream packaging and follow our customers to new markets. In particular, we will promote the unique Sealright containers and packaging systems in new territories through the entire Polarcup organisation.

Our most exciting prospect in years is the new EarthShell® packaging material which we will manufacture and sell through a joint-venture arrangement across Europe, Asia (excluding Japan) and Oceania. Fully biodegradable and made of inexpensive natural raw materials, EarthShell may well represent a paradigm shift in disposable food service packaging. While the manufacturing process is under further development, we believe that production can be launched in Europe during the second half of the year 2000.

We will actively pursue new acquisition opportunities, strengthening for example our emerging trade packaging business and monitoring closely the Latin American arena.

However, what remains to be gained in Europe through traditional acquisitions is incremental. Therefore, we must probe beyond the horizon. New packaging segments, raw materials and manufacturing technologies is the likely direction, as long as there is no sacrifice of focus or performance. Financially, we are geared for substantial transactions.

Overall, 1999 will be a year of major strategic action for Huhtamaki. It is premature to project the company's exact profile at the end of the year. In any case, a dynamic, cost-competitive speciality packaging group will constitute its core. And, unless our main markets experience a sharp decline in aggregate demand, we should be able to return to an improving profit trend.

My thanks are due to our valued customers and other partners in business, to our shareholders and investors for their support, and to all Huhtamaki employees for their efforts and results. Putting last year's slowdown behind us, we have every intention to enter the new millennium with flying colours.

Timo Peltola

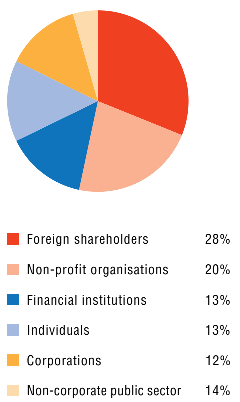
Share classes and share capital

The shares of Huhtamäki Oyj 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 1998 the share capital of Huhtamäki Oyj increased from FIM 596.1 million to FIM 598.1 million, reflecting share subscriptions under a previously approved management stock option scheme. The 3 million Series I shares repurchased in 1996, corresponding to 10.0% of the equity and 1.1% of the voting power, were transferred from the books of the Dutch finance company Huhtamaki Finance B.V. to a German subsidiary, Huhtamäki (Deutschland) GmbH in December. These shares have been eliminated from all calculations for per share data.

The 1999 Annual General Shareholders' Meeting will deal with the Board's proposal to abolish the nominal value and define the company's maximum and minimum share capital in euros. As well, the Board proposes to amend the company's Articles of Association in order to enable shareholders to convert Series K shares into Series I shares.

Shareholding in Huhtamaki at Dec 31, 1998



Major owners at Dec 31, 1998 [1)]

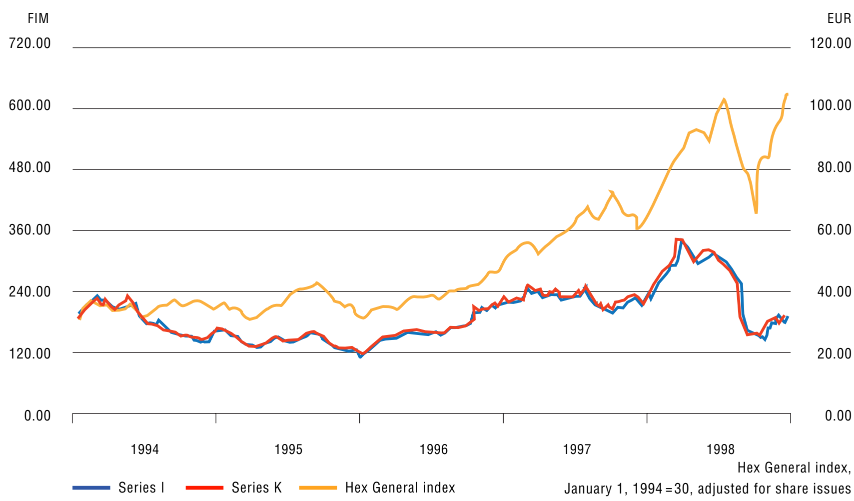
	Shares %	Votes %
1. Finnish Cultural Foundation	15.4	31.2
2. Pohjola Insurance Group	10.3	18.5
3. Huhtamäki (Deutschland) GmbH	10.0	1.1 [2)]
4. Tapiola Insurance Group	2.7	2.5
5. Sampo Insurance Group	2.6	3.6
6. Varma Sampo Mutual Pension Insurance Company	1.9	4.2
7. The Local Government Pensions Institutions	1.7	2.2
8. Merita Bank Ltd.	0.8	1.9
9. The University Foundation in Turku	0.8	1.7
10. Mutual Insurance Company Pension-Fennia	0.6	1.0
11. Pension Foundation Polaris	0.5	0.8
12. Merita Life Assurance Ltd.	0.4	0.3
13. Social Insurance Institution	0.3	0.7
14. Yrjö Jahnsson Foundation	0.3	0.0
15. Jenny and Antti Wihuri Foundation	0.3	0.3
16. Merita Fennia (Unit Trust)	0.3	0.0
17. Kaleva Mutual Insurance Company	0.3	0.0
18. Merita Optima (Unit Trust)	0.3	0.1
19. Alfred Berg Optimal Asset Management	0.2	0.3
20. Paulig Ltd.	0.2	0.5

[1)] Nominee registered shares 27.6% of shares and 4.6% of votes.
[2)] No voting rights at General Shareholders' Meetings.

Structure of share capital at Dec 31, 1998

	Number of shares	Shares %	Votes %
Series K	12,471,403	41.7	93.5
Series I	17,403,343	58.3	6.5
Total	29,874,746	100.0	100.0
Repurchased	3,000,000	10.0	-
Total outstanding	26,874,746	-	-

Share price development



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 Oyj has been publicly quoted on the Helsinki Exchanges since 1959. The K and I shares are quoted separately. The Series I shares are traded in London on the SEAQ International system, and on the unsponsored "Freiverkehr" lists at the Frankfurt and Munich bourses in Germany. From the beginning of 1999, stocks are quoted in euros on the Helsinki Exchanges.

Authorisations

In 1998, the Executive Board had no authorisation to increase the company's share capital. However, pursuant to management's stock option schemes adopted in 1993 and 1997, a maximum of 549,150 new Series I shares may be issued in 1999-2004, corresponding to an increase in share capital of up to FIM 10.98 million and representing 1.8% of share capital and 0.57% of voting power.

Share price quotations (FIM) and turnover (units) at Helsinki Exchanges

	Series K			Series I		
	lowest	highest	turnover	lowest	highest	turnover
1994	136.00	160.00	154,568	132.00	161.00	1,601,126
1995	103.00	171.00	948,165	105.00	170.00	7,529,733
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
1998						
I quarter	**215.00**	**295.00**	**311,421**	**218.00**	**305.00**	**1,796,067**
II quarter	**285.00**	**336.00**	**567,069**	**290.00**	**350.00**	**2,317,490**
III quarter	**155.00**	**306.00**	**107,288**	**157.00**	**314.00**	**2,102,919**
IV quarter	**145.00**	**194.00**	**255,167**	**146.50**	**194.00**	**3,739,409**

Share price quotations (EUR) and turnover (units) at Helsinki Exchanges

	Series K			Series I		
	lowest	highest	turnover	lowest	highest	turnover
1994	22.87	26.91	154,568	22.20	27.08	1,601,126
1995	17.32	28.76	948,165	17.66	28.59	7,529,733
1996						
I quarter	18.00	25.23	304,565	17.96	26.24	3,748,807
II quarter	23.71	26.91	277,512	24.56	27.58	2,094,015
III quarter	24.72	28.59	213,588	25.23	29.18	1,868,172
IV quarter	27.41	35.49	764,046	27.92	36.66	3,059,515
1997						
I quarter	35.49	41.71	1,202,205	35.66	42.43	3,128,218
II quarter	36.18	40.03	384,394	37.00	41.21	1,837,360
III quarter	32.80	40.53	147,735	33.13	41.88	1,869,069
IV quarter	31.96	37.51	272,089	32.12	39.19	1,534,220
1998						
I quarter	**36.16**	**49.62**	**311,421**	**36.66**	**51.30**	**1,796,067**
II quarter	**47.93**	**56.51**	**567,069**	**48.77**	**58.87**	**2,317,490**
III quarter	**26.07**	**51.47**	**107,288**	**26.41**	**52.81**	**2,102,919**
IV quarter	**24.39**	**32.63**	**255,167**	**24.64**	**32.63**	**3,739,409**

Symbols

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

Stock Analysis

During 1998, equity analysis on Huhtamaki has been provided by the following institutions:

ABN Amro, *London*
Alfred Berg, *Helsinki*
Aktia Securities, *Helsinki*
Aros-Flemings Securities, *Helsinki*
Carnegie International, *Helsinki*
Cheuvreux Nordic, *Helsinki*
Conventum Securities, *Helsinki*
Den Danske Bank, *Copenhagen*
Dresdner Kleinwort Benson Securities, *London*
Deutsche Morgan Grenfell, *London*
Enskilda Securities, *Helsinki*
Evli Securities, *Helsinki*
FIM Securities, *Helsinki*
FSB Securities, *Helsinki*
Handelsbanken Markets, *Helsinki*
Leonia Bank, *Helsinki*
H. Lundén Fondkommission, *Stockholm*
Mandatum Stockbrokers, *Helsinki*
Merita Bank, *Helsinki*
Merrill Lynch, *London*
Morgan Stanley Dean Witter, *London*
Opstock Securities,*Helsinki*
Paribas, *London*
Schroder Securities, *London*
Warburg Dillon Read, *Stockholm*

Investor Relations Contact

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Internet: www.huhtamaki.com

Shareholders

At the end of 1998, Huhtamäki Oyj had 16,168 registered shareholders. Shareholding outside Finland was slightly down at 27.6% when excluding the shares owned by the German subsidiary.

Members of the Supervisory Board and the Executive Board as well as their dependent family members owned a total of 46,916 shares at year-end, corresponding to 0.02% of the voting rights. The Board's full participation in the above mentioned incentive schemes would entitle them to a further 0.04% of the total votes in the company by 2004.

Trading developments

Supported by buoyant equity markets, Huhtamaki's share prices posted a strong increase early in 1998. The Series I share, which started the year at FIM 225 (EUR 37.84), reached an all-time high of FIM 350 (EUR 58.87) in early April. A bearish market sentiment then set in, sending virtually all equities on the Helsinki Exchanges to a downslide. By late August, the Series I share had declined to the tune of FIM 250 (EUR 42.05). The company's profit warning on September 9 was met by a nervous market, and a further decline took place, to FIM 146 (EUR 24.56) at the lowest point in October. Although volatile for the rest of the year, the Series I share nevertheless advanced to FIM 194 (EUR 32.63) by year-end. Hence, its year-on-year decline amounted to 14%. The corresponding opening, closing and change figures for the less traded Series K were FIM 218 (EUR 36.66), FIM 190 (EUR 31.96) and -13%. The strength of the telecommunications sector and a general rally towards year-end resulted in a year-on-year increase of the HEX index by 69%. The index for listed food companies decreased by 22%.

Trading in Huhtamaki shares was mostly thin, with higher volumes apparent around Interim Report dates and in August. Turnover in Helsinki was 9.9 million I-shares and 1.2 million K-shares, in total 4% of the shares outstanding.

Per share data

		1994	1995	1996	1997	1998
Earnings per share	FIM	12.21	7.73	10.46	15.18	**13.60** [1]
	EUR	2.05	1.30	1.76	2.55	**2.29** [1]
Dividend, nominal	FIM	4.00	4.00	4.50	6.00	**6.00** [2]
	EUR	0.67	0.67	0.76	1.01	**1.01** [2]
Dividend/earnings per share	%	32.8	51.7	43.0	39.5	**44.1** [2]
Dividend yield						
Series K	%	2.6	3.8	2.1	2.8	**3.2** [2]
Series I	%	2.5	3.8	2.1	2.7	**3.1** [2]
Shareholders' equity per share	FIM	126.94	124.85	139.26	152.38	**150.55**
	EUR	21.35	21.00	23.42	25.63	**25.32**
Share price adjusted for share issue at December 31						
Series K	FIM	156.00	104.00	211.00	219.00	**190.00**
	EUR	26.24	17.49	35.49	36.83	**31.96**
Series I	FIM	157.00	105.00	214.00	225.00	**194.00**
	EUR	26.41	17.66	35.99	37.84	**32.63**
Average number of shares adjusted for share issue		29,408,522	29,539,212	28,711,451	26,748,354	**26,835,736**
Number of shares adjusted for share issue at year-end		29,484,596	29,654,196	26,711,896	26,775,896	**26,874,746**
P/E ratio						
Series K		12.8	13.8	20.5	14.3	**13.7**
Series I		12.9	13.9	20.8	14.9	**14.1**
Market capitalisation at December 31	FIM million	4,616.6	3,101.2	5,678.9 [3]	5,903.9 [3]	**5,660.4** [3]
	EUR million	776.5	521.6	955.1 [3]	993.0 [3]	**952.0** [3]

[1] The dilutive effect of the bonds with warrants of 1993 and 1997 included: FIM 13.25.

[2] 1998: Board's proposal

[3] Exclusive of repurchased shares

General review

In 1998, Huhtamaki's consolidated net sales increased by 14% to FIM 7.3 billion and operating earnings declined by 4% to FIM 500 million. At FIM 13.60, earnings per share were down by 10% but nevertheless a fifth above the average for 1995-1997. The accounts have been prepared in accordance with Finnish Accounting Standards (FAS).

The outlook at the start of the year was quite optimistic, although the Asian economic climate had already deteriorated and Russia was recognised as a risk. Sales and earnings growth was to be expected from recent acquisitions, from continued market share gains in packaging and from the recovery of the confectionery business following a new strategic direction and restructuring.

The integration of new units proceeded smoothly and their sales and profit contribution was in line with expectations. The acquisition of the US packaging companies Sealright and Tetra Cup resulted in a world leadership position in the core packaging segments.

The packaging business reported volume growth until late August, when the Russian economic crisis and lower demand across Europe began to affect sales.

The confectionery business remained sluggish all year long. While the major units in Northern Europe continued their strong performance, low volumes persisted in the Russian trade prior to a complete halt in August. Recognised problem units, Gubor in Germany, Leaf Spain and Wuxi Leaf in China, failed to recover and sales in most other markets remained flat at best.

The Russian crisis alone was sufficient to intercept Huhtamaki's planned profit improvement. Sales and earnings in Asia also remained below expectations. The Board views these setbacks as temporary and regards the Group's presence in emerging markets as a strategic necessity. Measures have been taken, however, to adjust capacity and fixed costs to current market realities.

During the year, a more fundamental issue presented itself: the future of the Leaf confectionery business. Once 60% of the Group total, Leaf now represents 40% of sales and less than 15% of operating earnings. While its long-term prospects remain appealing, the Board has had to weigh Leaf's current weakness against the opportunities presented by the imminent consolidation and globalisation of the packaging segments where Huhtamaki already has a strong position.

Hence, the Board initiated a dialogue with the Supervisory Board on confectionery strategy. An international investment bank was subsequently invited to the project. While the outcome of the process is pending, the long-term objective for Huhtamaki is to concentrate on its speciality packaging operations.

Dividend proposal

The Board proposes an unchanged dividend of FIM 6.00 per share.

Acquisition-led sales growth

Huhtamaki's consolidated net sales in 1998 amounted to FIM 7,290 million, 14% more than in the previous year. The increase is entirely a reflection of acquisitions made during the past two years, as volume, price and foreign exchange rate changes had a slight negative effect on the total.

Packaging sales advanced by 31% to FIM 4,257 million. Acquisitions accounted for most of the increase, as comparable volume growth slowed down to 2% for the full year and a marginal price increase was more than offset by exchange rate effects. Sales within the Food Packaging Division amounted to FIM 2,030 million (including Sealright), while Food Service accounted for FIM 1,919 million and Trade Packaging for FIM 308 million. The seven-month sales of Sealright amounted to FIM 550 million.

Packaging sales in Europe were FIM 3,055 million, up by 17%, and represented 72% of the total. The corresponding figures for Asia and Oceania were FIM 652 million, up by 3% and 15% of the total. Growth was hampered by the Asian crisis and by cheaper local currencies across the region.

Confectionery sales declined by 3% to FIM 3,033 million. The Russian crisis and slower Christmas sales in Germany and the UK led to a volume decline of 3%. The net effect of higher prices and exchange rate changes was marginal. Leaf's sales in Europe amounted to FIM 2,984 million, down by 4%. Sales in Asia increased by 23% to FIM 49 million, still clearly below original projections.

Packaging accounted for 58% of the total sales and confectionery for 42%. The European Union's share of the sales was 71%, while the rest of Europe accounted for 11%, Asia and Oceania for 10% and the Americas for 8%. Sales in Finland totalled FIM 751 million, 10% of the total, and exports from Finland FIM 521 million.

The net sales of the parent company, Huhtamäki Oyj, were FIM 1,267 million, representing Leaf's and Polarcup's Finnish-based operations.

The Russian crisis and problem units impact profits

The consolidated operating earnings totalled FIM 500 million, 4% below the corresponding 1997 figure. In the first half of the year, strong packaging sales and increasing corporate royalty income compensated for the weakness of the confectionery businesses, and Huhtamaki's profit improvement continued into August. The Russian economic and financial crisis then led to a sharp deterioration of the outlook, as it entailed a shortfall of direct and indirect sales, as well as non-recurring effects such as credit and foreign exchange losses. At the same time, the demand for food packaging declined across Europe on the back of weaker sales by Polarcup's customers.

Profitability problems plagued two Leaf units in particular. The Gubor pralines manufacturer in Germany suffered from substantial returns of unsold products from trade, and the Chinese bubble gum unit Wuxi Leaf failed to revitalise its sales.

On the operating earnings level, the Russian crisis caused a shortfall of approx. FIM 70 million, with nearly half of this in non-recurring losses. Gubor and Wuxi Leaf collectively posted an operating loss of about FIM 50 million. Conversely, a relaxation in depreciation policy based on the true economic life of the Group's fixed assets, improved the operating earnings by approx. FIM 70 million. Recent acquisitions nevertheless boosted the absolute depreciation charge by approx. FIM 30 million above the 1997 figure.

Operating earnings from packaging increased by 25% to FIM 321 million or 7.5% of net sales. Sealright's profitability improved from 1997, and the company contributed FIM 41 million to operating earnings before goodwill depreciation in June-December. Operating earnings from confectionery remained 62% below the 1997 figure and were FIM 68 million or 2.2% of sales.

Royalty and other income from divested operations continued to increase on the back of improving sales of Leaf's brands in North America and a good start for the Mirena hormonal contraceptive in Germany and France. Netted against unallocated corporate expenses, which declined slightly, such income amounted to FIM 111 million against FIM 84 million in 1997.

The financial items swung from a net income in 1997 to a moderate net expenditure of FIM 31 million, reflecting new debt incurred due to acquisitions. The net contribution from associated companies was positive by FIM 4 million. Thus, the profit before exceptional items, appropriations and taxes declined by 10% to FIM 473 million.

Taxes decreased by 8% to FIM 108 million or 23% of the pre-tax profit. Hence, net income stood at FIM 365 million and earnings per share at FIM 13.60, 11% and, respectively, 10% below the corresponding 1997 figure.

The return on investment declined from 12.9% in 1997 to 10.6%, again exceeding the minimum target level (Finnish five-year Government bond rate + 5%).

Capital expenditure supported packaging expansion

Huhtamaki's gross capital expenditure amounted to FIM 486 million, 6% above the previous year's figure. Packaging investments, totalling FIM 350 million, consisted of numerous projects designed to increase capacity or improve cost-competitiveness. A new packaging plant was completed in Groenlo, The Netherlands. Confectionery investments amounted to FIM 113 million, with climate control and further automation in Finnish and Swedish pastilles units among the main projects.

Expenditure on research and development increased by 17% to FIM 37 million, of which FIM 23 million went to packaging and FIM 14 million to confectionery. Sealright boosted the former figure, while organisational changes led to a decline in the latter.

Annual General Meeting

The Annual General Shareholders' Meeting, held on April 2, approved the Board's dividend proposal of FIM 6.00 per share. The meeting also approved technical amendments to the company's Articles of Association. The company's official name is Huhtamäki Oyj.

Share capital and ownership

The Executive Board did not have authorisation to increase the company's share capital during the year. Pursuant to share conversions under the 1993 management stock option scheme, a total of 98,850 new Series I shares were issued at a price of FIM 191, raising the company's share capital from FIM 596.1 million to FIM 598.1 million.

At the end of the year, there were 12,471,403 Series K shares in issue, corresponding to 41.7% of the shares and 93.5% of votes. The respective figures for Series I shares were 17,403,343 shares, 58.3% and 6.5%. The 3,000,000 Series I shares owned by Huhtamaki Finance B.V. subsidiary were transferred to the ownership of the German subsidiary Huhtamäki (Deutschland) GmbH. Excluding these non-voting shares from calculations, the average number of shares outstanding amounted to 26,835,736 and the year-end figure stood at 26,874,746.

The company's ownership structure remained stable. Huhtamäki Oyj had 16,168 registered shareholders at year-end. Shareholding outside Finland declined slightly during the second half of the year and amounted to 27.6% at year-end.

Share developments

The Huhtamaki shares experienced strong price movements during the year. The Series I share reached an all-time high of FIM 350 in April. The lowest price for the year, FIM 146, was quoted in October. At FIM 194, the closing price for the Series I shares remained 14% below the opening price of FIM 225 at the start of January. The HEX index gained 69% during the year, largely driven by the telecommunications sector. Heavier trading was evident only in conjunction with results and other corporate announcements. The less traded K shares performed similarly. The bulk of trading in Huhtamaki shares took place on the Helsinki Exchanges.

Balance sheet normalising

With a net debt position reappearing in the wake of acquisitions, Huhtamaki's balance sheet returned to a more customary composition. The tangible and intangible assets increased by FIM 1,212 million; interest-bearing liabilities increased by FIM 517 million to a total of FIM 1,371 million. Net debt at year-end was FIM 1,135 million and corresponded to net debt/equity ratio of 0.28.

Corporate structure and organisation

While 1997 represented a peak year in terms of the number of acquisitions, a similar volume of new business again resulted during the review year, although from fewer transactions.

In March, an agreement was reached for the acquisition of Sealright, a publicly quoted US manufacturer of paperboard containers and packaging systems for ice cream. Huhtamaki paid FIM 650 million for the shares of the company and assumed its debt of FIM 430 million. The transaction, despite its complicated structure, was completed by the beginning of July. The company has been consolidated from the start of June, however, when Huhtamaki assumed management responsibility.

The acquisition in April of Tetra Cup, a smaller US manufacturer of ice cream containers, completed Huhtamaki's entry into the North American packaging markets. The company has been consolidated from July and was immediately merged with Sealright.

In June, Huhtamaki acquired the European foam packaging operation of the US company Huntsman, with one factory in the UK and another in France.

These acquisitions had a total cost of FIM 1.3 billion, including assumed debt, and will augment Huhtamaki's sales by FIM 1.2 billion on an annual basis. As a result, they have raised the company to a world leadership position in its core packaging segments, strengthening in particular its offering of ice cream containers and trade packaging.

As a concrete step in improving the profitability of the confectionery business, Leaf's loss-making Spanish manufacturing unit was sold to a local venture capital grouping in September. The disposals of Gubor Schokoladen in Germany and Wuxi Leaf in China, both heavy loss-makers, were in progress at year-end.

Other structural developments included the closure of Leaf's regional office in Singapore, and the decision to shut down Leaf's Swiss sales company as well as the Lausanne branch of Huhtamaki Finance B.V. at year-end. The remaining 50% of the shares of Kaps S.A., a packaging joint-venture in Argentina, were acquired in December.

All headquarter functions were relocated to Tapiola, Espoo, where the parent company and Polarcup moved at the beginning of the year, and Leaf in early summer. Shared premises and support functions have resulted in tangible efficiencies.

The role of food packaging as Huhtamaki's dominant line of business was mirrored in the new corporate organisation effective on September 1. The packaging business will be developed under three divisions - Food Packaging, Food Service and Trade Packaging - each reporting to the Chief Executive Officer.

Executive appointments

Following the appointment of Mr Keijo Suila as the Chief Executive of Finnair PLC, Mr Kalle Tanhuanpää was appointed to succeed him as President of Leaf Group in January. Mr Tanhuanpää was also elected to the Executive Board in April. Mr Mark Staton, formerly General Manager of Polarcup UK, was appointed President of Sealright in June. Mr Matti Tikkakoski, formerly President of Polarcup Group, was appointed Executive Vice President and Chief Operating Officer for the packaging business from September 1. At the same time, the following Group Vice Presidents were appointed to head the new packaging divisions: Mr Dominique Kieffer (Food Packaging), Mr Kim Aganimov (Food Service) and Mr Hannu Kottonen (Trade Packaging). Mr Timo Salonen was appointed Senior Vice President, Finance.

Euro

Preparations were completed for the introduction of the euro as an accounting, intercompany and trading currency from the start of 1999. The transition took place smoothly. Huhtamaki will also report its interim and annual figures in euros. The countries adopting the euro ("Euroland") accounted for 54% of Huhtamaki's net sales and for 58% of assets in 1998.

Year 2000

Detailed analysis continued to identify the risks in information systems, manufacturing equipment and supplier relationships associated with the "millennium" problem. While redesigned systems and upgrades of computer software have removed the risk from virtually all main information systems applications, it is the responsibility of individual units to ascertain the compatibility of local applications by the end of the summer. The screening of the manufacturing processes and control circuitry for individual pieces of equipment will nevertheless continue for the whole of 1999.

Positive environmental developments

The year under review contained several environmental milestones for Huhtamaki.

Perhaps the single most important environmental step in decades is the new EarthShell biodegradable packaging material. In October, a preliminary agreement was reached between the EarthShell Corporation of USA and Huhtamaki for the establishment of a joint-venture to manufacture and sell EarthShell food service packaging products in Europe, Asia (except Japan) and Oceania.

A total of FIM 21 million was spent as capital expenditure on process improvements entirely or partly due to environmental considerations. The projects included

- Conversions from solvent based to water based printing inks
- Conversions from wax coated to double polyethylene coated paper cups
- Energy saving transformers and low-pressure blowers
- Increased recycling of confectionery process scrap
- Conversions to returnable transport cages versus cardboard boxes
- Process noise and dust reduction, increased hygiene, metal detectors and other safety-enhancing measures.

Additionally, the FIM 30 million relocation of Polarcup's Dutch facility from a century-old complex in the middle of a residential neighbourhood in Groenlo, to a new plant/warehouse complex, represents a major environmental improvement.

Polarcup gained ISO 14000 certification for its operations in Northern Ireland.

In Finland, a project was launched, aiming at ISO 14000 compliance in 1999. This is a pilot project preparing ground for the adoption of similar environmental management systems in other major units.

Also in Finland, Polarcup invited the City of Helsinki and other key partners along the supply chain to create a collection, waste sorting and recycling system for disposable food and beverage containers used in conjunction with outdoor mass events.

A senior packaging executive, Mr Juha Korppi-Tommola, was appointed to co-ordinate Polarcup's environmental progress.

Management development

Huhtamaki's internal management development programme was continued at high intensity, with special seminars arranged in Asia and USA. In all, 183 managers and specialists attended the programme during the year, logging in 653 training days. A total of 15 high-level external speakers were contracted for the events.

European Consultative Forum

In keeping with the European Union's directive on co-determination, Huhtamaki established the European Consultative Forum (ECF) as an information and discussion platform for the elected representatives of employees from the EU area. The Forum's first, unofficial meeting was held in Espoo in November, concentrating on procedural matters.

Personnel

At year-end, Huhtamaki had 11,024 employees, 1,049 more than at the end of 1997. Of these, 1,770 were employed in Finland, 1,716 in the UK, 1,209 in USA, 966 in Germany, 735 in Italy, 715 in Poland, 679 in Australia and 3,234 in 26 other countries. There were 7,225 employees within the EU. Of the total, 6,951 were employed in the packaging units and 4,018 in confectionery. The annual average number of employees was 10,967, compared to 9,551 in 1997.

The parent company employed 1,767 persons at year-end. The corresponding figure for 1997 was 1,811. The respective annual averages were 1,843 in 1998 and 1,717 in 1997.

The outlook for 1999

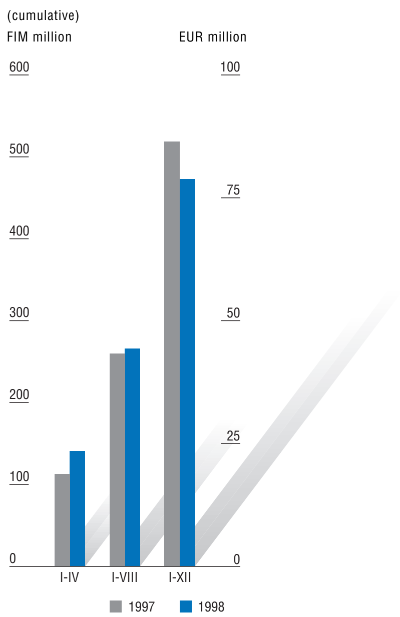
Major strategic decisions are likely in 1999. The business plans of existing units assume a recovery in packaging and confectionery volumes. The full-year contribution from acquired units will boost sales by another FIM 500 million (EUR 84 million). A profit improvement is anticipated, in part due to the imminent disposal or closure of loss-making confectionery units.

"Euroland" and Scandinavia constitute Huhtamaki's most important markets. A cost-containment programme has been devised in order to ensure competitiveness in the event of a further decline in packaging demand in Western Europe. In Russia, the packaging business has returned close to previous volumes, while the outlook for confectionery exports and indirect exports of food packaging is less reassuring.

The North American packaging business will benefit from the return of normal conditions in the ice cream market. The newly started Latin American operations are too small to present a major risk. In Asia, ongoing restructuring will address capacity and profitability issues. Confectionery sales will pick up in India, while a new distribution arrangement in China and an important partnership in Japan will strengthen Leaf's presence.

Further, complementary acquisitions are likely in packaging. A total of FIM 500 million (EUR 84 million) has been budgeted for capital expenditure in existing units. The EarthShell project will take concrete forms, requiring human resources as well as initial investment funding.

Profit before exceptional items by tertial



Net sales by business sector

FIM million	1994	%	1995	%	1996	%	1997	%	**1998**	**%**
Confectionery	4,612.9	55.7	4,307.3	55.0	4,289.0	57.1	3,135.9	49.1	**3,032.8**	**41.6**
Packaging	2,446.6	29.5	2,484.1	31.7	2,551.3	34.0	3,251.8	50.9	**4,257.4**	**58.4**
Other[1]	1,225.3	14.8	1,044.2	13.3	665.2	8.9	-0.3	-	**-**	**-**
Total	8,284.8	100.0	7,835.6	100.0	7,505.5	100.0	6,387.4	100.0	**7,290.2**	**100.0**

Operating earnings by business sector

FIM million	1994	%	1995	%	1996	%	1997	%	**1998**	**%**
Confectionery	257.5	5.6	253.4	5.9	228.7	5.3	179.5	5.7	**68.1**	**2.2**
Packaging	130.6	5.3	161.2	6.5	214.2	8.4	255.8	7.9	**321.4**	**7.5**
Other[1]	185.0	15.1	55.6	5.3	90.5	13.6	83.6	-	**110.6**	**-**
Total	573.1	6.9	470.2	6.0	533.4	7.1	518.9	8.1	**500.1**	**6.9**

[1] Unallocated costs and income; revenue from divested units (excluding Confectionery North America Division)

INCOME STATEMENT

FIM million	GROUP				HUHTAMÄKI OYJ			
	1998	**%**	1997	%	**1998**	**%**	1997	%
Net sales	**7,290.2**	**100.0**	6,387.4	100.0	**1,264.2**	**100.0**	1,243.9	100.0
Cost of goods sold	**5,045.0**		4,398.0		**845.6**		845.8	
Gross profit	**2,245.2**	**30.8**	1,989.4	31.1	**418.6**	**33.1**	398.1	32.0
Sales and marketing	**432.1**		384.7		**117.4**		76.9	
Advertising and promotion	**435.3**		409.5		**86.6**		74.5	
Administration costs	**474.2**		358.1		**124.6**		94.5	
Other operating expenses	**612.6**		533.2		**66.3**		48.5	
Other operating income	**-209.1**		-215.0		**-167.4**		-79.0	
	1,745.1		1,470.5		**227.5**		215.4	
Operating earnings (1,2)	**500.1**	**6.9**	518.9	8.1	**191.1**	**15.1**	182.7	14.7
Net financial income/expense (3)	**-30.6**		+0.4		**-23.6**		+15.9	
Gain/loss on equity of associated companies	**+3.9**		+3.9		**-**		-	
Profit before exceptional items, appropriations and taxes	**473.4**	**6.5**	523.2	8.2	**167.5**	**13.2**	198.6	16.0
Exceptional income (4)	**-**		-		**87.7**		278.6	
Exceptional expense (4)	**-**		-		**-49.5**		-10.8	
Profit before appropriations and taxes	**473.4**	**6.5**	523.2	8.2	**205.7**	**16.3**	466.4	37.5
Depreciation difference, (-) increase, (+) decrease	**-**		-37.4		**-9.4**		-52.1	
Change in voluntary reserves, (17) (-) increase, (+) decrease	**-**		+43.6		**-**		+60,6	
Taxes (5)	**-108.3**		-117.2		**-51.8**		-55.6	
Net income	**365.1**	**5.0**	412.2	6.5	**144.5**	**11.4**	419.3	33.7

BALANCE SHEET

FIM million	GROUP				HUHTAMÄKI OYJ			
	1998	**%**	1997	%	**1998**	**%**	1997	%
ASSETS								
FIXED ASSETS								
Intangible assets (6)								
Intangible rights	**143.0**		158.8		**15.4**		3.7	
Goodwill	**1,250.2**		591.4		**-**		-	
Other capitalised expenditure	**75.6**		86.1		**150.2**		193.2	
	1,468.8	**19.0**	836.3	11.8	**165.6**	**3.2**	196.9	3.6
Tangible assets (6)								
Land	**165.8**		152.2		**12.3**		14.9	
Buildings and constructions	**958.9**		861.0		**284.8**		328.8	
Machinery and equipment	**1,858.2**		1,432.8		**305.1**		300.5	
Other tangible assets	**89.8**		69.0		**7.8**		1.2	
Construction in progress and advance payments	**152.3**		130.7		**14.1**		3.3	
	3,225.0	**41.6**	2,645.7	37.3	**624.1**	**11.9**	648.7	11.9
Investments								
Shares and holdings (7,8)	**30.5**		129.4		**3,968.2**		3,339.2	
Loans receivable	**18.6**		86.2		**9.6**		13.5	
	49.1	**0.6**	215.6	3.0	**3,977.8**	**75.9**	3,352.7	61.6
CURRENT ASSETS								
Inventories								
Raw and packaging material	**335.7**		289.0		**43.0**		45.3	
Work-in-process	**113.9**		98.3		**11.9**		12.2	
Finished goods	**553.4**		493.4		**92.9**		96.9	
Advance payments	**1.4**		0.4		**-**		-	
	1,004.4	**13.0**	881.1	12.5	**147.8**	**2.8**	154.4	2.9
Receivables (9)								
Long-term								
Loans receivable	**-**		-		**19.6**		4.9	
Deferred tax asset (18)	**139.9**		-		**0.8**		-	
Other long-term receivables	**90.4**		18.1		**0.6**		-	
	230.3	**3.0**	18.1	0.3	**21.0**	**0.4**	4.9	0.1
Short-term								
Trade receivables	**1,335.2**		1,299.5		**175.7**		161.7	
Loans receivable	**51.0**		292.2		**14.7**		830.3	
Accrued income (19)	**211.3**		253.0		**90.8**		80.3	
Other short-term receivables	**2.4**		0.3		**0.3**		1.5	
	1,599.9	**20.6**	1,845.0	26.0	**281.5**	**5.4**	1,073.8	19.8
Marketable securities	**20.1**	**0.3**	523.1	7.4	**-**	**-**	-	-
Cash and bank	**145.8**	**1.9**	121.4	1.7	**18.6**	**0.4**	7.3	0.1
	7,743.4	**100.0**	7,086.3	100.0	**5,236.4**	**100.0**	5,438.7	100.0

FIM million	GROUP				HUHTAMÄKI OYJ			
	1998	**%**	1997	%	**1998**	**%**	1997	%
LIABILITIES AND EQUITY								
Shareholders' equity (13,14)								
Share capital	**598.1**		596.1		**598.1**		596.1	
Premium fund	**17.4**		0.5		**17.4**		0.5	
Reserve fund	**1,105.3**		1,107.4		**1,613.5**		1,613.6	
Revaluation fund	**-**		15.0		**-**		15.0	
Consolidation difference	**-135.6**		114.3		**-**		-	
Retained earnings - transferred from untaxed reserves	**216.6**		209.9		**-**		-	
Retained earnings available for distribution	**1,879.2**		1,624.7		**1,446.1**		1,232.3	
Net income for the period	**365.1**		412.2		**144.5**		419.3	
	4,046.1	**52.3**	4,080.1	57.6	**3.819.6**	**72.9**	3,876.8	71.3
Minority interest	**18.9**	**0.2**	24.5	0.3	**-**		-	
Untaxed reserves					**301.1**	**5.8**	291.5	5.3
Valuation items							53.1	1.0
Liabilities								
Long-term								
Loans from financial institutions (10)	**426.3**		317.2		**-**		-	
Pension loans (10)	**34.6**		69.4		**34.6**		69.4	
Deferred tax liability (18)	**396.5**		193.2		**-**		-	
Other long-term liabilities (11)	**278.2**		226.8		**1.1**		485.2	
	1,135.6	**14.7**	806.6	11.4	**35.7**	**0.7**	554.6	10.2
Short-term								
Loans from financial institutions (10)	**910.3**		467.7		**-**		0.4	
Trade payables (12)	**656.6**		634.4		**87.0**		75.3	
Accrued expenses (12, 20)	**975.9**		1,073.0		**102.7**		149.7	
Other short-term liabilities (12)	**-**		-		**890.3**		437.3	
	2,542.8	**32.8**	2,175.1	30.7	**1,080.0**	**20.6**	662.7	12.2
	7,743.4	**100.0**	7,086.3	100.0	**5,236.4**	**100.0**	5,438.7	100.0
Total retained earnings available for distribution					**1,590.6**			

CASH FLOW STATEMENT

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	**1998**	1997
Operations				
Net income	**365.1**	412.2	**144.5**	419.3
Depreciation and amortisation	**400.3**	373.0	**72.1**	66.5
Provisions	**9.0**	-41.5	**9.4**	-3.8
Deferred tax	**-37.8**	13.6	**-0.8**	-52.9
Gain/loss on equity of associated companies	**-3.9**	-3.9		
Dividends from associated companies	**3.6**	2.9		
Gain/loss on sales of long-term assets	**-1.4**	-6.0	**0.1**	14.4
Other, net	**-14.5**	-	**-15.1**	-17.3
	720.4	750.3	**210.2**	426.2
Net change in working capital	**-66.8**	-347.4	**-39.1**	-10.0
Total from operations	**653.6**	402.9	**171.1**	416.2
Investing				
Purchase of tangible assets	**-485.6**	-458.8	**-68.0**	-148.3
Disposal of long-term assets	**53.9**	48.2	**2.5**	69.3
Divestiture of net assets in subsidiaries	**12.8**	-	**13.0**	-
Acquisition of net assets in subsidiaries	**-862.3**	-543.7	**-747.2**	-504.9
Investment in associated companies	**-**	-	**-**	-
Other, net	**-1.9**	-4.1	**8.8**	-182.8
Total investing	**-1,283.1**	-958.4	**-790.9**	-766.7
Financing				
Net increase/decrease of long-term loans/receivables	**-205.0**	-177.5	**-530.3**	-41.4
Net increase/decrease of short-term loans/receivables	**479.3**	847.3	**1,321.0**	517.1
Dividends paid	**-160.7**	-120.2	**-178.7**	-133.7
Proceeds from share issues	**19.0**	5.6	**18.9**	5.6
Other, net	**18.5**	4.4	**0.2**	-
Total financing	**151.1**	559.6	**631.1**	347.6
Cash and marketable securities at the beginning of the year	**644.4**	640.3	**7.3**	10.2
Cash and marketable securities at the end of the year	**166.0**	644.4	**18.6**	7.3
Net change	**-478.4**	4.1	**11.3**	-2.9

INCOME STATEMENT (EUR)

EUR million	GROUP				HUHTAMÄKI OYJ			
	1998	%	1997	%	1998	%	1997	%
Net sales	**1,226.1**	**100.0**	1,074.3	100.0	**212.6**	**100.0**	209.2	100.0
Cost of goods sold	**848.5**		739.7		**142.2**		142.3	
Gross profit	**377.6**	**30.8**	334.6	31.1	**70.4**	**33.1**	66.9	32.0
Sales and marketing	**72.7**		64.7		**19.7**		12.9	
Advertising and promotion	**73.2**		68.9		**14.6**		12.5	
Administration costs	**79.8**		60.2		**21.0**		15.9	
Other operating expenses	**103.0**		89.7		**11.2**		8.2	
Other operating income	**-35.2**		-36.2		**-28.2**		-13.3	
	293.5		247.3		**38.3**		36.2	
Operating earnings (1,2)	**84.1**	**6.9**	87.3	8.1	**32.1**	**15.1**	30.7	14.7
Net financial income/expense (3)	**-5.2**		+0.1		**-3.9**		+2.7	
Gain/loss on equity of associated companies	**+0.7**		+0.6		**-**		-	
Profit before exceptional items, appropriations and taxes	**79.6**	**6.5**	88.0	8.2	**28.2**	**13.2**	33.4	16.0
Exceptional income (4)	**-**		-		**14.7**		46.8	
Exceptional expense (4)	**-**		-		**-8.3**		-1.8	
Profit before appropriations and taxes	**79.6**	**6.5**	88.0	8.2	**34.6**	**16.3**	78.4	37.5
Depreciation difference, (-) increase, (+) decrease	**-**		-6.3		**-1.6**		-8.8	
Change in voluntary reserves, (17) (-) increase, (+) decrease	**-**		+7.3		**-**		+10.2	
Taxes (5)	**-18.2**		-19.7		**-8.7**		-9.3	
Net income	**61.4**	**5.0**	69.3	6.5	**24.3**	**11.4**	70.5	33.7

BALANCE SHEET (EUR)

EUR million	GROUP 1998	%	1997	%	HUHTAMÄKI OYJ 1998	%	1997	%
ASSETS								
FIXED ASSETS								
Intangible assets (6)								
Intangible rights	**24.0**		26.7		**2.6**		0.6	
Goodwill	**210.3**		99.5		**-**		-	
Other capitalised expenditure	**12.7**		14.5		**25.3**		32.5	
	247.0	**19.0**	140.7	11.8	**27.9**	**3.2**	33.1	3.6
Tangible assets (6)								
Land	**27.9**		25.6		**2.1**		2.5	
Buildings and constructions	**161.3**		144.8		**47.9**		55.3	
Machinery and equipment	**312.5**		241.0		**51.3**		50.5	
Other tangible assets	**15.1**		11.6		**1.3**		0.2	
Construction in progress and advance payments	**25.6**		22.0		**2.4**		0.6	
	542.4	**41.6**	445.0	37.3	**105.0**	**11.9**	109.1	11.9
Other fixed assets								
Shares and holdings (7, 8)	**5.1**		21.8		**667.4**		561.6	
Loans receivable	**3.2**		14.5		**1.6**		2.3	
	8.3	**0.6**	36.3	3.0	**669.0**	**75.9**	563.9	61.6
CURRENT ASSETS								
Inventories								
Raw and packaging material	**56.5**		48.6		**7.2**		7.6	
Work-in-process	**19.2**		16.5		**2.0**		2.0	
Finished goods	**93.0**		83.0		**15.7**		16.4	
Advance payments	**0.2**		0.1		**-**		-	
	168.9	**13.0**	148.2	12.5	**24.9**	**2.8**	26.0	2.9
Receivables (9)								
Long-term								
Loans receivable	**-**		-		**3.3**		0.8	
Deferred tax asset (18)	**23.5**		-		**0.1**		-	
Other long-term receivables	**15.2**		3.0		**0.1**		-	
	38.7	**3.0**	3.0	0.3	**3.5**	**0.4**	0.8	0.1
Short-term								
Trade receivables	**224.6**		218.6		**29.5**		27.2	
Loans receivable	**8.6**		49.2		**2.5**		139.6	
Accrued income (19)	**35.5**		42.6		**15.3**		13.5	
Other short-term receivables	**0.4**		0.0		**0.1**		0.3	
	269.1	**20.6**	310.4	26.0	**47.4**	**5.4**	180.6	19.8
Marketable securities	**3.4**	**0.3**	88.0	7.4	**-**	**-**	-	-
Cash and bank	**24.5**	**1.9**	20.4	1.7	**3.0**	**0.4**	1.2	0.1
	1,302.3	**100.0**	1,192.0	100.0	**880.7**	**100.0**	914.7	100.0

EUR million	GROUP				HUHTAMÄKI OYJ			
	1998	**%**	1997	%	**1998**	**%**	1997	%
LIABILITIES AND EQUITY								
Shareholders' equity (13, 14)								
Share capital	**100.6**		100.3		**100.6**		100.3	
Premium fund	**2.9**		0.1		**2.9**		0.1	
Reserve fund	**185.9**		186.3		**271.4**		271.4	
Revaluation fund	**-**		2.5		**-**		2.5	
Consolidation difference	**-22.8**		19.2		**-**		-	
Retained earnings - transferred from untaxed reserves	**36.4**		35.3		**-**		-	
Retained earnings available for distribution	**316.1**		273.3		**243.2**		207.2	
Net income for the period	**61.4**		69.3		**24.3**		70.5	
	680.5	**52.3**	686.3	57.6	**642.4**	**72.9**	652.0	71.3
Minority interest	**3.2**	**0.2**	4.1	0.3	**-**	**-**	-	-
Untaxed reserves					**50.7**	**5.8**	49.0	5.3
Valuation items							8.9	1.0
Liabilities								
Long-term								
Loans from financial institutions (10)	**71.7**		53.4		**-**		-	
Pension loans (10)	**5.8**		11.7		**5.8**		11.7	
Deferred tax liability (18)	**66.7**		32.5		**-**		-	
Other long-term liabilities (11)	**46.8**		38.1		**0.2**		81.6	
	191.0	**14.7**	135.7	11.4	**6.0**	**0.7**	93.3	10.2
Short-term								
Loans from financial institutions (10)	**153.1**		78.7		**-**		0.1	
Trade payables (12)	**110.4**		106.7		**14.6**		12.7	
Accrued expenses (12, 20)	**164.1**		180.5		**17.3**		25.2	
Other short-term liabilities (12)	**-**		-		**149.7**		73.5	
	427.6	**32.8**	365.9	30.7	**181.6**	**20.6**	111.5	12.2
	1,302.3	**100.0**	1,192.0	100.0	**880.7**	**100.0**	914.7	100.0
Total retained earnings available for distribution					**267.5**			

CASH FLOW STATEMENT (EUR)

EUR million	GROUP 1998	GROUP 1997	HUHTAMÄKI OYJ 1998	HUHTAMÄKI OYJ 1997
Operations				
Net income	61.4	69.3	24.3	70.5
Depreciation and amortisation	67.3	62.7	12.1	11.2
Provisions	1.5	-6.9	1.6	-0.6
Deferred tax	-6.3	2.3	-0.1	-8.9
Gain/loss on equity of associated companies	-0.7	-0.7	-	-
Dividends from associated companies	0.6	0.5	-	-
Gain/loss on sales of long-term assets	-0.2	-1.0	0.0	2.4
Other, net	-2.4	-	-2.5	-2.9
	121.2	126.2	35.4	71.7
Net change in working capital	-11.2	-58.4	-6.6	-1.7
Total from operations	110.0	67.8	28.8	70.0
Investing				
Purchase of tangible assets	-81.7	-77.2	11.4	-24.9
Disposal of long-term assets	9.1	8.1	0.4	11.7
Divestiture of net assets in subsidiaries	2.2	-	2.2	-
Acquisition of net assets in subsidiaries	-145.2	-91.4	-125.7	-85.0
Investment in associated companies	-	-	-	-
Other, net	-0.3	-0.7	1.5	-30.8
Total investing	-215.9	-161.2	-133.0	-129.0
Financing				
Net increase/decrease of long-term loans/receivables	-34.5	-29.9	-89.2	-7.0
Net increase/decrease of short-term loans/receivables	80.6	142.5	222.2	87.0
Dividends paid	-27.0	-20.2	-30.0	-22.4
Proceeds from share issues	3.2	0.9	3.1	0.9
Other, net	3.1	0.8	0.0	-
Total financing	25.4	94.1	106.1	58.5
Cash and marketable securities at the beginning of the year	108.4	107.7	1.2	1.7
Cash and marketable securities at the end of the year	27.9	108.4	3.1	1.2
Net change	-80.5	0.7	1.9	-0.5

ACCOUNTING PRINCIPLES

Accounting principles

The financial statements of Huhtamäki Oyj and its subsidiaries have been prepared according to Finnish Accounting Standards (FAS). 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, unless otherwise 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 hyperinflatioary 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 7.

Investments in associated companies are carried in parent company's balance sheet in accordance with the valuation policy applied to long-term investments noted above and in Group's balance sheet under equity method. Jointly owned companies are accounted for 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 8.

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. Shareholders' equity of foreign subsidiaries has been hedged with foreign currency loans.

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 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.

In the consolidated balance sheet untaxed reserves have been divided into equity and deferred tax as well as movements thereon into movements in deferred tax and profit for the financial year.

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 (years):

• buildings and other structures	20 - 40	(20 - 25)
• machinery and equipment	5 - 15	(5 - 10)
• other tangible assets	3 - 5	(3 - 5)

Above figures stated in paranthesis refer to periods of depreciation used previously.

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 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 has 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

		1998		1997	
		Income statement	**Balance sheet**	Income statement	Balance sheet
Euro	EUR	**5.9457**	**5.9457**	5.9457	5.9457
Australia	AUD	**3.3668**	**3.1300**	3.8577	3.5490
France	FRF	**0.9062**	**0.9064**	0.8895	0.9046
Germany	DEM	**3.0380**	**3.0400**	2.9943	3.0275
Great Britain	GBP	**8.8493**	**8.4280**	8.5003	8.9920
Hong Kong	HKD	**0.6898**	**0.6564**	0.6705	0.6998
Italy	ITL	**0.0031**	**0.0031**	0.0030	0.0031
Netherlands	NLG	**2.6952**	**2.6981**	2.6607	2.6861
New Zealand	NZD	**2.8712**	**2.6900**	3.4367	3.1609
Poland	PLN	**1.5304**	**1.4539**	1.5850	1.5427
Russia	RUR	**0.6799**	**0.2360**	0.0009	0.0009
Spain	ESP	**0.0358**	**0.0357**	0.0355	0.0358
Sweden	SEK	**0.6725**	**0.6267**	0.6796	0.6863
United States	USD	**5.3441**	**5.0960**	5.1911	5.4207

1. Personnel costs

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	1998	1997
Wages and salaries	1,336.0	1,158.0	212.1	200.4
Pension costs	84.5	75.8	33.6	35.1
Other personnel costs	442.3	381.6	91.5	81.6
Total	1,862.8	1,615.4	337.2	317.1

The above amounts are on an accrual basis. Wages and salaries in 1997 include fringe benefits. Remuneration paid by the parent company to the members of the Supervisory Board and Board of Directors as well as the President of Huhtamäki Oyj (10 people) amounted to FIM 6.4 million. The amount corresponds with the remuneration paid by the Group as a whole. The members of the Executive Board and CEO of Huhtamäki Oyj are entitled to retirement at the age of 60.

2. Depreciation and amortisation

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	1998	1997
Depreciation by function:				
Production	287.8	288.8	38.8	44.3
Sales and marketing	5.3	4.8	1.7	1.1
Administration	22.8	16.7	5.8	6.9
Other	84.4	62.7	25.8	14.1
Total depreciation	400.3	373.0	72.1	66.4
Depreciation by asset type:				
Buildings and structures	39.2	44.3	7.2	14.9
Machinery and equipment	282.8	276.6	42.4	43.5
Goodwill	58.9	36.5	-	-
Other intangible assets	19.4	15.6	22.5	8.0
Total depreciation	400.3	373.0	72.1	66.4

3. Financial income/expense

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	1998	1997
Interest income	32.0	61.3	0.2	-
Intercompany interest income	-	-	14.5	22.0
Interest income from associated companies	-	-	-	-
Dividend income	1.3	2.1	0.2	0.7
Intercompany dividend income	-	-	-	-
Dividend income from associated companies	-	-	3.7	2.9
Other financial income	33.3	22.4	5.0	24.3
Other intercompany financial income	-	-	-	-
Interest expense	-94.2	-77.7	-3.5	-4.4
Intercompany interest expense	-	-	-42.2	-27.3
Interest expense to associated companies	-	-	-	-
Other financial expense	-3.0	-7.7	-1.6	-2.3
Total	-30.6	0.4	-23.7	15.9

4. Exceptional items

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	1998	1997
Exceptional income	-	-	51.7	267.4
Exceptional expense	-	-	-49.5	-10.8
Group contributions, net	-	-	36.0	11.2
Total	-	-	38.2	267.8

Huhtamäki Oyj's exceptional items include income and expenses arising from changes in corporate structure and intercompany financing arrangements, which do not impact the result on the Group level.

5. Taxes

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	1998	1997
Ordinary taxes	-104.6	-119.6	-52.7	-55.6
Deferred taxes	-3.7	2.4	0.8	-
Total	-108.3	-117.2	-51.9	-55.6

6. Fixed assets

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	**1998**	1997
Intangible rights				
Acquisition cost at beginning	**182.4**	187.8	**5.6**	4.7
Additions	**4.8**	-	**22.7**	0.9
Disposals	**-2.2**	-6.1	**-**	-
Changes in exchange rates	**-9.4**	0.7	**-**	-
Acquisition cost at end	**175.6**	182.4	**28.3**	5.6
Accumulated amortisation	**-32.6**	-23.6	**-12.9**	-1.9
Intangible rights, net	**143.0**	158.8	**15.4**	3.7
Goodwill				
Acquisition cost at beginning	**806.8**	646.1	**-**	-
Additions	**771.0**	267.3	**-**	-
Disposals	**-41.1**	-125.1	**-**	-
Changes in exchange rates	**-65.7**	18.5	**-**	-
Acquisition cost at end	**1,471.0**	806.8	**-**	-
Accumulated amortisation	**-220.8**	-215.3	**-**	-
Goodwill, net	**1,250.2**	591.5	**-**	-
Other capitalised expenditure				
Acquisition cost at beginning	**109.1**	73.9	**210.3**	174.5
Additions	**3.0**	33.3	**4.4**	186.0
Disposals	**-0.7**	-	**-39.1**	-150.2
Changes in exchange rates	**-8.3**	1.9	**-**	-
Acquisition cost at end	**103.1**	109.1	**175.6**	210.3
Accumulated amortisation	**-27.5**	-23.0	**-25.4**	-17.1
Other capitalised expenditure, net	**75.6**	86.1	**150.2**	193.2
Land and land use rights				
Acquisition cost at beginning	**153.4**	115.8	**14.9**	17.9
Additions	**31.0**	38.7	**-**	-
Disposals	**-8.5**	-4.4	**-2.6**	-3.0
Changes in exchange rates	**-8.0**	3.3	**-**	-
Acquisition cost at end	**167.9**	153.4	**12.3**	14.9
Accumulated amortisation	**-2.1**	-1.2	**-**	-
Land and land use rights, net	**165.8**	152.2	**12.3**	14.9
Buildings and constructions				
Acquisition cost at beginning	**1,257.2**	1,160.7	**525.6**	575.5
Additions	**185.1**	172.9	**5.0**	22.5
Disposals	**-22.7**	-93.3	**-59.3**	-72.4
Changes in exchange rates	**-51.8**	16.9	**-**	-
Acquisition cost at end	**1,367.8**	1,257.2	**471.3**	525.6
Accumulated depreciation	**-408.9**	-396.2	**-186.5**	-196.8
Buildings and constructions, net	**958.9**	861.0	**284.8**	328.8
Machinery and equipment				
Acquisition cost at beginning	**3,182.8**	2,719.8	**665.7**	487.1
Additions	**815.9**	488.2	**49.1**	186.8
Disposals	**-138.8**	-102.0	**-71.6**	-8.2
Changes in exchange rates	**-152.2**	76.8	**-**	-
Acquisition cost at end	**3,707.7**	3,182.8	**643.2**	665.7
Accumulated depreciation	**-1,849.5**	-1,750.0	**-338.2**	-365.2
Machinery and equipment, net	**1,858.2**	1,432.8	**305.0**	300.5
Other tangible assets				
Acquisition cost at beginning	**184.3**	168.0	**4.3**	15.4
Additions	**45.5**	32.2	**11.3**	0.1
Disposals	**-9.4**	-19.7	**-**	-11.2
Changes in exchange rates	**-5.2**	3.8	**-**	-
Acquisition cost at end	**215.2**	184.3	**15.6**	4.3
Accumulated depreciation	**-125.4**	-115.3	**-7.8**	-3.1
Other tangible assets, net	**89.8**	69.0	**7.8**	1.2

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	**1998**	1997
Construction in progress and advance payments				
Acquisition cost at beginning	**130.7**	73.4	**3.4**	7.9
Additions	**319.3**	167.6	**21.5**	3.4
Disposals	**-269.5**	-112.2	**-10.8**	-7.9
Changes in exchange rates	**-28.2**	1.9	**-**	-
Acquisition cost at end	**152.3**	130.7	**14.1**	3.4

7. Investments in subsidiaries

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

Name	Number of shares	Size of holding %		Nominal value		Book value	Group holding %
Huhtamäki Oyj's shareholding in subsidiaries:							
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 Estonia Ltd	5,300	100.0	EEK	5,300	FIM	2,079	100.0
Huhtamaki Ukraine Ltd	99	99.0	UAH	248	FIM	2,711	100.0
Kaligan Cup B.V.	40	100.0	NLG	40	FIM	124,258	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	270,425	100.0
Polarcup Argentina S.A.	12,000	100.0	ARS	12	FIM	4,010	100.0
Polarcup Hungary Kft.	1	100.0	HUF	51,060	FIM	2,015	100.0
Sealright Co., Inc.	11,082,564	100.0	USD	11,083	FIM	683,509	100.0
UAB Huhtamaki Lietuva	1,829	100.0	LTL	440	FIM	1,859	100.0
Subsidiary shares owned by Huhtamaki Finance B.V.:							
Huhtamaki (Australia) Pty. Ltd	43,052,750	100.0	AUD	43,053	NLG	107,162	100.0
Huhtamäki (Deutschland) GmbH	1	100.0	DEM	15,050	NLG	774,893	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	17,025	100.0
Huhtamaki Ltd	41,928	100.0	GBP	41,928	NLG	171,845	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	9,668	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	32,091	100.0
Monoservizio Bibo S.p.A	15,000,000	69.8	ITL	15,000,000	NLG	31,025	69.8
Polarcup Benelux B.V.	1,260	100.0	NLG	1,260	NLG	36,472	100.0
Polarcup Poland Sp. z o.o.	52,731	100.0	PLN	14,488	NLG	43,768	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	15,205	100.0
Polarcup Singapore Pte. Ltd	28,000,000	100.0	SGD	28,000	NLG	26,392	100.0
Wuxi Leaf Confectionery Co. Ltd	1	100.0	USD	6,783	NLG	30,616	100.0

Name	Number of shares	Size of holding %		Nominal value		Book value	Group holding %
Subsidiary shares owned by Monoservizio Bibo S.p.A:							
Bibo France S.A.	500	97.8	FRF	250	ITL	1,868,127	68.2
Bibo Iberica S.A.	2,000	92.5	ESP	20,000	ITL	203,475	64.5
Bibo Nordic AB	22,600	75.0	SEK	2,260	ITL	437,883	77.4
Subsidiary shares owned by Huhtamaki (Australia) Pty. Ltd:							
Polarcup (Australia) Ltd	9,241,702	100.0	AUD	9,241	AUD	16,320	100.0
Subsidiary shares owned by Huhtamaki (New Zealand) Ltd:							
Polarcup (NZ) Ltd	195,700	97.5	NZD	391	NZD	28,493	100.0
Subsidiary shares owned by Huhtamaki Holdings France S.A.R.L:							
Polarcup Containers S.A.	2,500	100.0	FRF	250	FRF	12,279	100.0
Polarcup France S.A.	50,000	100.0	FRF	5,000	FRF	2,792	100.0
Procédés Modernes d´Impression S.A.	2,632	94.0	FRF	263	FRF	26,942	100.0
Plastyl S.A.	1,600	100.0	FRF	1,200	FRF	438	100.0
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	11,000,004	100.0	GBP	11,000	GBP	25,513	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. Lda:							
Polarcup - Embalagens S.A.	169,923	100.0	PTE	169.923	PTE	384,963	100.0
Subsidiary shares owned by Huhtamaki Sweden AB:							
Leaf Sverige AB	692,000	100.0	SEK	34,600	SEK	259,472	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 Polarcup Ltd:							
Polarcup Containers Ltd	4,162,879	100.0	GBP	4,163	GBP	19,656	100.0

8. Investments in associated and other companies

Foreign subsidiaries' nominal values are expressed in local currency (1,000), while book values are in holding company's currency (1,000).

Name	Number of shares	Size of holding %		Nominal value		Book value	Group holding %
Owned by Huhtamäki Oyj:							
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	6,395	50.0
Other:							
Hex Oy	24,400	0.2	FIM	200	FIM	150	
Repligen Corporation	30,514	0.2	USD	-	FIM	1,610	
OKR Liikkeeseenlaskijat Osuuskunta	8	1.7	FIM	160	FIM	160	
Owned by the Group:							
Associated companies:							
Güven Plastik Sanayi A.S.	825,000	50.0	TRL	825,000,000	NLG	22,850	50.0
Other:							
Merita Pankki Oyj	300,000	0.0	FIM	3,000	FIM	5,755	
Vakuutus Oyj Pohjola	117,664	0.3	FIM	588	FIM	8,686	

9. Receivables

FIM million	GROUP 1998	GROUP 1997	HUHTAMÄKI OYJ 1998	HUHTAMÄKI OYJ 1997
Current				
Trade receivables	**1,335.0**	1,297.9	**114.0**	109.9
Intercompany trade receivables	**-**	-	**61.7**	51.8
Trade receivables from associated companies	**0.2**	1.7	**-**	-
Loan receivables	**51.0**	292.3	**0.2**	-
Intercompany loan receivables	**-**	-	**14.5**	830.3
Other receivables	**213.7**	253.2	**54.9**	58.7
Other intercompany receivables	**-**	-	**36.2**	23.1
	1,599.9	1,845.1	**281.5**	1,073.8
Long-term				
Loan receivables	**-**	-	**-**	0.4
Intercompany loan receivables	**-**	-	**19.6**	4.5
Other long-term receivables	**90.4**	18.1	**0.6**	-
Deferred tax asset	**139.9**	-	**0.8**	-
	230.3	18.1	**21.0**	4.9
Total receivables	**1,830.2**	1,863.2	**302.5**	1,078.7

10. Loans

FIM million	GROUP 1998	GROUP 1997	HUHTAMÄKI OYJ 1998	HUHTAMÄKI OYJ 1997
Current				
Bank loans - current portion	**154.2**	12.8	**-**	0.2
Other loans - current portion	**1.2**	3.9	**0.3**	0.2
Obligations under finance leases - current portion	**2.0**	2.0	**-**	-
Short-term loans	**752.9**	449.0	**24.5**	28.2
Intercompany loans	**-**	-	**849.7**	409.1
Loans from associated companies	**-**	-	**-**	-
	910.3	467.7	**874.5**	437.7

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	**1998**	1997
Long-term				
Bank loans	**421.5**	311.7	**-**	-
Pension loans	**34.6**	69.4	**34.6**	69.4
Intercompany loans	**-**	-	**-**	483.7
Other long-term loans	**2.3**	0.5	**1.1**	1.5
Obligations under finance leases	**2.5**	5.0	**-**	-
	460.9	386.6	**35.7**	554.6
Changes in long-term loans and repayments				
Bank loans				
1 Jan. 1998	**324.5**		**0.2**	
Additions	**455.5**		**-**	
Decreases	**-180.7**		**-0.2**	
Changes in exchange rates	**-24.1**		**-**	
	575.2		**-**	
Repayments 1999	**-153.7**		**-**	
31 Dec. 1998	**421.5**		**-**	
Pension loans 31 Dec. 1998				
From pension foundation	**34.6**		**34.6**	
Other	**-**		**-**	
Repayments				
1999	**157.4**		**0.3**	
2000	**21.9**		**0.3**	
2001	**20.2**		**0.3**	
2002	**19.0**		**-**	
2003	**107.2**		**-**	
2004 -	**292.6**		**35.1**	

11. Other long-term liabilities

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	**1998**	1997
Pension loans	**172.4**	157.4	**-**	-
Intercompany loans	**-**	-	**-**	483.7
Other	**105.8**	69.4	**1.1**	1.5
	278.2	226.8	**1.1**	485.2

12. Payables

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	**1998**	1997
Trade payables	**656.5**	634.4	**75.2**	61.1
Intercompany trade payables	**-**	-	**11.8**	14.2
Taxes payable	**126.7**	165.9	**-**	-
Other payables and accrued expenses	**849.2**	907.1	**118.5**	149.7
	1,632.4	1,707.4	**205.5**	225.0

13. 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 31 Dec. 1998	12,471,403	-
Series I		
1 Jan. 1998	17,304,493	346,089,860.00
Increase due to warrants	98,850	1,977,000.00
Outstanding 31 Dec. 1998	17,403,343	348,066,860.00
Total	29,902,901	598,058,020.00
Total outstanding 31 Dec. 1998	29,874,746	-

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 subscribtion to 99,150 series I shares in 1999 and 2000. The loan with warrants issued in 1997 will entitle a maximum subscription to 450,000 series I in the years 2000-2004. A total of 549,150 series I shares may be subscribed to based on the loans with warrants, which represent a share capital increase of FIM 10,983,000 mk.

Members of Supervisory Board and the Board of Directors owned on 31 Dec. 1998 a total of 45,613 shares in Huhtamäki Oyj. These shares represent 0.02 % of the voting rights.

14. Changes in equity

FIM million	GROUP	HUHTAMÄKI OYJ
Restricted equity:		
Share capital 1 Jan. 1998	596.1	596.1
Increase in 1998	2.0	2.0
Share capital 31 Dec.1998	598.1	598.1
Premium fund 1 Jan. 1998	0.5	0.5
Increase in 1998	16.9	16.9
Premium fund 31 Dec. 1998	17.4	17.4
Reserve fund 1 Jan. 1998	1,107.4	1,613.6
Increase in 1998	-	-
Exchange difference of repurchased shares	-2.1	-
Reserve fund 31 Dec. 1998	1,105.3	1,613.6
Revaluation fund 1 Jan. 1998	15.0	15.0
Reversal of revaluation	-15.0	-15.0
Revaluation fund 31 Dec. 1998	-	-
Consolidation difference 1 Jan. 1998	114.3	-
Change in 1998	-249.9	-
Consolidation difference 31 Dec. 1998	-135.6	-
Total restricted equity	1,585.2	2,229.1
Non-restricted equity:		
Retained earnings 1 Jan. 1998	2,036.9	1,651.6
Changes in exchange rates	29.5	-
Reversal of revaluation	-26.7	-26.7
Dividends 1998	-178.7	-178.7
Dividends on repurchased shares	18.1	-
Net income for the period	365.1	144.4
Retained earnings 31 Dec. 1998	2,244.2	1,590.6
Transfers from untaxed reserves		
1 Jan. 1998	209.9	-
Change in 1998	6.8	-
31 Dec. 1998	216.7	-
Total non-restricted equity	2,460.9	1,590.6

15. Commitments and contingencies

FIM million	GROUP	HUHTAMÄKI OYJ
Operating lease payments:		
1999	61.6	4.0
2000 and thereafter	180.7	2.8
Total	242.3	6.8
Capital expenditure commitments:		
1999	76.0	0.7
2000 and thereafter	-	-
Total	76.0	0.7
Liabilities for pension commitments (Finland):		
Total liability of pension foundation	116.4	116.4
Mortgages:		
For own debt	67.6	34.8
Guarantee obligations:		
For subsidiaries	3.6	1,338.8
For associated companies	-	1.2
For others	2.3	1.7

16. 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 680 million, with approx. 25 % of the net amount hedged with forward contracts as of the balance sheet date. The biggest exposures derive from USD receivables vs. EUR, and EUR payables vs. GBP, PLN and DKK.

In intercompany cross-border trade EUR is used since 1.1.1999 in Europe whereas USD is used in other regions.

Translation exposure derives from changes in foreign currency-denominated balance sheet values. Business units do not carry material translation exposures because they are financed in their base currency. The biggest translation exposure stems from the share capital and especially the current and future retained earnings of the business units. Equity hedging decisions are done by the Finance Committee chaired by the CEO.

Interest rate risk

The company's interest bearing net debt at the year end was FIM 1.1 billion. The main borrowing requirements are in USD, GBP and EUR.

The management of interest rate risk is centralised to the company's treasury. Forward rate agreements, interest rate swaps and options are used to manage interest rate exposures. Use of the interest rate derivatives is controlled by limits set by the Finance Committee.

Liquidity and Counterpart risk

The company attempts to keep sufficient liquidity reserves and unused long-term committed credit facilities to assure financing in all situations. During spring 1998 Huhtamaki's finance company, Huhtamäki Finance Oy, signed four (4) bilateral 5-year committed credit facilities totalling USD 145 million.

Huhtamäki Finance Oy can only place liquidity at banks with which it has credit facilities. The company may invest in government bonds, treasury bills and commercial papers of borrowers with a solid investment grade rating and selected Finnish corporate issuers. Counterpart risk arising from derivatives is limited by concluding transactions with only financially strong banks. The Finance Committee approves all counterpart limits.

OUTSTANDING OFF-BALANCE SHEET INSTRUMENTS:

FIM million	1998	1997
Currency forwards, transaction risk hedges	254	372
Currency swaps, financing hedges	1,056	860
Currency options	-	100
Forward rate agreements, gross	188	10,868
Forward rate agreements, net	63	500
Interest rate swaps	-	30
Interest rate options	122	121

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.

17. Changes in voluntary reserves

FIM million	GROUP		HUHTAMÄKI OYJ	
	1998	1997	1998	1997
(-) increase, (+) decrease				
Other voluntary reserves	-	+60.6	-	+60.6
Deferred tax impact	-	-17.0	-	-17.0
Total	-	+43.6	-	+43.6

18. Deferred tax asset/liability

FIM million	GROUP		HUHTAMÄKI OYJ	
	Deferred tax liability	Deferred tax asset	Deferred tax liability	Deferred tax asset
On untaxed reserves	84.3	-	-	-
Due to consolidation	-	19.0	-	-
Due to timing differences	312.2	120.9	-	0.8
Total	396.5	139.9	-	0.8

19. Accrued income

Accrued income includes items such as rebates of raw material purchases, accrued interest and other accrued operating income.

20. Accrued expenses

Accrued expenses include items such as accrued wages and salaries, VAT, discounts, marketing expenses and accrued income taxes.

SPECIFICATION OF DIFFERENCES IN NET INCOME AND EQUITY ACCORDING TO IAS AND FAS

FIM million	GROUP	
	1998	1997
Net income IAS	361.4	402.3
Depreciation of revalued assets	3.7	3.7
Change in voluntary reserves		43.6
Depreciation difference		-37.4
Net income FAS	365.1	412.2
Total shareholders' equity IAS	3,946.9	3,984.6
Accumulated depreciation of revalued assets	99.2	95.5
Total shareholders' equity FAS	4,046.1	4,080.1

PROPOSAL OF THE EXECUTIVE BOARD

On 31 December 1998, Group non-restricted equity amounted to FIM 2,224,228,092.50.

On 31 December 1998, Huhtamäki Oyj's non-restricted equity was FIM 1,590,619,432.96, of which the net income for the financial period was FIM 144,452,062.31.

The Board proposes distribution of the earnings as follows:

- to the shareholders 30.0 % of the nominal value of a share or FIM 6.00 a share	179,248,476.00
- to be left in the non-restricted equity	1,411,370,956.96
	1,590,619,432.96

The Board proposes that the payment of dividends be commenced on 30 March 1999. For shareholders who have not transferred their shares to the book-entry securities system by 23 March 1999, the dividends will be paid after the transfer of the shares to the book-entry securities system.

Espoo, 10 February 1999

Timo Peltola — Eero Aho

Matti Tikkakoski — Kalle Tanhuanpää

AUDITORS' REPORT

To the shareholders of Huhtamäki Oyj

We have audited the accounting records, the financial statement as well as the administration for the year ended 31 December 1998. 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 the Finnish Generally Accepted Auditing Standards. The 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 non-restricted equity 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.

Espoo, 10 February 1999

Thor Nyroos, APA — Eero Suomela, APA

EURO

Finland is one of the original participants to the second phase of the European Monetary Union. With over 60% of its sales and assets within "Euroland" in 1997, Huhtamaki started preparing for the euro in 1996, aiming at an early and smooth transition.

On January 1, 1999 Huhtamaki introduced the euro as its reporting currency.
Henceforth:
1 All financial statements, beginning with the January-April Interim Report, will be stated in EUR;
2 EUR replaces FIM in management reporting;
3 The parent company, Huhtamäki Oyj, its Treasury operations and the first business units report in EUR;
4 DEM is replaced by EUR as the intercompany currency in Europe.

Huhtamaki's business units have designed their individual changeover schedules. Towards customers, suppliers and authorities, we respect the "no compulsion, no prohibition" principle but encourage them to an early and widespread use of the euro in commerce.

The overall consequences of the single European currency will be positive for Huhtamaki. Transaction and hedging costs will be significantly reduced. However, the euro will increase pricing transparency and price pressures in both packaging and confectionery. Especially in the latter area, it is important to accommodate the product offering to the emerging European "price point" structure.

Euro pricing is likely to accelerate cross-border trade and electronic commerce. Polarcup aims to develop its Internet presence towards an electronic product catalogue and restricted-access ordering system.

YEAR 2000

Recognising that the so-called millennium problem is not only an information technology (IT) issue but a business issue as well, Huhtamaki launched its Year 2000 programme in 1997. The objective of the programme is to enable and ensure a high level of output and service to customers and other business partners before, during and after the transition to the new millennium. The programme consists of the following major steps:

Information
Information about the background, scope and potential impacts of the millennium issue was gathered, analysed and communicated to operating units at an early stage to increase general awareness.
Status: Done

Organisation
A Year 2000 Task Force was established at corporate level. A senior manager was assigned overall responsibility for the project. Task Forces have been established within each business unit, with a named senior manager responsible for the local Year 2000 project.
Status: Done

Identification of problem areas
An inventory has been made, covering all elements, applications and equipment potentially affected.
Status: Done

Risk and impact analysis
The risks for decreased, lost or incorrect functionality in critical areas have been assessed and translated into potential business risks and their implications. This has been undertaken by different Task Forces, and has involved external expertise as necessary.
Status: Done

Action plans and priorities
On the basis of results from the risk and impact analysis, priorities have been established for the areas to be addressed. Activity plans and schedules have been developed for each business unit. Top priority was given to business critical applications, extensive and time-consuming implementation projects and areas of high uncertainty.
Status: Done

Renovation and/or replacement of non-compliant applications
The vast majority of Huhtamaki business units are using standard applications for business data processing. An upgrade of the existing application is the most frequently used method, but completely new applications have also been introduced.
Status: Ongoing, to be completed in June 1999

Testing
Tests to ensure the compliance of corrective actions are taking place both on-site and off-site.
Status: Ongoing, to be completed in August 1999

Contingency plans
To reduce risks, contingency plans are being developed for emergency measures in the event of problems.
Status: Ongoing, to be completed in August 1999

Internal communications
Regular progress reports are required and issued both locally and on corporate level.
Status: Ongoing

External communication
Analysis of the Year 2000 compliance of critical business partners is taking place and alternate partners/suppliers considered to further reduce the risks caused by external factors.
Status: Ongoing, to be completed in June 1999

Each business unit is locally responsible for the successful completion of its compliance programme.
A major part of the costs can be regarded as normal IT expenditure, as the renovation cycle for IT hardware and software has shortened considerably.

HUHTAMAKI 1994-1998

FIM million		1994	1995	1996	1997	**1998**
Net sales		8,284.8	7,835.6	7,505.5	6,387.4	**7,290.2**
Increase in net sales	%	4.4	-5.4	-4.2	-14.9	**14.1**
Net sales outside Finland		7,194.2	6,664.1	6,420.9	5,648.8	**6,539.0**
Operating profit before depreciation		1,038.1	916.7	985.0	891.9	**900.3**
Operating profit before depreciation/net sales	%	12.5	11.7	13.1	14.0	**12.3**
Operating earnings		573.1	470.2	533.4	518.9	**500.1**
Operating earnings/net sales	%	6.9	6.0	7.1	8.1	**6.9**
Profit before exceptional items, appropriations and taxes		447.0	317.2	420.5	523.2	**473.4**
Profit before exceptional items, appropriations and taxes/net sales	%	5.4	4.0	5.6	8.2	**6.5**
Profit before appropriations and taxes		421.9	273.6	1,041.1	523.2	**473.4**
Profit before appropriations and taxes/net sales	%	5.1	3.5	13.9	8.2	**6.5**
Net income		317.9	191.1	553.0	412.2	**365.1**
Shareholders' equity		3,742.7	3,702.3	3,719.8	4,080.1	**4,046.1**
Return on investment	%	9.9	8.9	10.7	12.9	**10.6**
Return on shareholders' equity	%	9.8	6.2	8.0	10.4	**8.8**
Solidity	%	48.7	47.3	52.4	57.9	**52.5**
Net debt to equity		0.48	0.43	-0.28	-0.04	**0.28**
Current ratio		1.35	1.37	1.68	1.55	**1.09**
Times interest earned		8.24	6.81	12.06	..	**14.47**
Capital expenditure		473.8	308.7	347.6	458.8	**485.6**
Capital expenditure/net sales	%	5.7	3.9	4.6	7.2	**6.7**
Research & development		213.6	224.7	160.5	31.8	**37.1**
Research & development/net sales	%	2.6	2.9	2.1	0.5	**0.5**
Number of shareholders (December 31)		21,010	19,966	17,888	16,566	**16,168**
Personnel (December 31)		11,145	10,930	8,000	9,974	**11,024**

HUHTAMAKI 1994-1998 (EUR)

EUR million		1994	1995	1996	1997	**1998**
Net sales		1,393.4	1,317.9	1,262.3	1,074.3	**1,226.1**
Increase in net sales	%	4.4	-5.4	-4.2	-14.9	**14.1**
Net sales outside Finland		1,210.0	1,120.8	1,079.9	950.1	**1,099.8**
Operating profit before depreciation		174.6	154.2	165.7	150.0	**151.4**
Operating profit before depreciation/net sales	%	12.5	11.7	13.1	14.0	**12.3**
Operating earnings		96.4	79.1	89.7	87.3	**84.1**
Operating earnings/net sales	%	6.9	6.0	7.1	8.1	**6.9**
Profit before exceptional items, appropriations and taxes		75.2	53.3	70.7	88.0	**79.6**
Profit before exceptional items, appropriations and taxes/net sales	%	5.4	4.0	5.6	8.2	**6.5**
Profit before appropriations and taxes		71.0	46.0	175.1	88.0	**79.6**
Profit before appropriations and taxes/net sales	%	5.1	3.5	13.9	8.2	**6.5**
Net income		53.5	32.1	93.0	69.3	**61.4**
Shareholders' equity		629.5	622.7	625.6	686.2	**680.5**
Return on investment	%	9.9	8.9	10.7	12.9	**10.6**
Return on shareholders' equity	%	9.8	6.2	8.0	10.4	**8.8**
Solidity	%	48.7	47.3	52.4	57.9	**52.5**
Net debt to equity		0.48	0.43	-0.28	-0.04	**0.28**
Current ratio		1.35	1.37	1.68	1.55	**1.09**
Times interest earned		8.24	6.81	12.06	..	**14.47**
Capital expenditure		79.7	51.9	58.5	77.2	**81.7**
Capital expenditure/net sales	%	5.7	3.9	4.6	7.2	**6.7**
Research & development		35.9	37.8	27.0	5.3	**6.2**
Research & development/net sales	%	2.6	2.9	2.1	0.5	**0.5**
Number of shareholders (December 31)		21,010	19,966	17,888	16,566	**16,168**
Personnel (December 31)		11,145	10,930	8,000	9,974	**11,024**

Sales doubled in three years
World Leader
in Cups and Tubs

1998 brought extensive changes to Huhtamaki's speciality packaging business. The acquisition of Sealright in the USA added another well-known industry name next to Polarcup's. Together, they already comprise the world's largest and most geographically widespread enterprise in their core segments. Over time, the two organisations will operate increasingly as one, yet retain their separate market identities.

A regional sales unit in Chile and a small manufacturing unit in Argentina constitute Polarcup's bridgehead in Latin America. Acquisition opportunities in the region are under study.

Internally, the packaging business was reorganised into a matrix, with the Food Packaging, Food Service and Trade Packaging divisions responsible for their own business concepts, marketing, key customer relationships and product development. A traditional geographical structure remains responsible for local business and profitability, while cost-competitiveness and optimal resource allocation are ensured through a centralised Operations function. Polarcup's Group Headquarters relocated from Amstelveen, The Netherlands, to Espoo, Finland.

POLARCUP

SEALRIGHT

A succession of factors affected the demand for food and food service packaging during 1998. The Asian depression was a reality at the outset, yet the extent of weakness in other emerging markets, especially Russia, came as a surprise, causing an excess supply situation across Europe. A cold and rainy summer in much of Northern Europe contributed to the volume drop. In the United States, ice cream manufacturers came under pressure as the prices for butterfat, a key raw material, more than doubled in a short span of time.

The only relatively unaffected market area was Oceania, but the region's good sales and earnings development was partly offset by the weakness of the local currencies. Overall, Polarcup's volume growth slowed down significantly during the final third of the year, resulting in a comparable year-on-year increase of 2%. Sealright's volume growth accelerated towards year-end, as the ice cream market recovered and new customers were won.

The final months of the year were marked by intense price competition in Western Europe. The prices for plastic raw materials brought some relief, whereby a satisfactory level of profitability could be maintained.

Europe

The *Finnish* unit's sales were slightly affected by indirect exposure to Russia. Volume shortfalls were evident in margarine and spreads tubs. Nevertheless, the unit maintained its solid profitability. Sales in *Estonia* and *Latvia* advanced well. After years of growth, the *Swedish* unit's sales stagnated, while the *Norwegian* sales company again achieved its targets.

The *UK* operation, Polarcup's largest with five manufacturing units and 1,100 employees, saw its sales slow down from September, in part due to adverse weather. The former Huntsman foam containers unit was integrated without difficulty.

The *Benelux* unit based in Groenlo, The Netherlands, relocated to a new, state-of-the-art plant. Although on schedule and budget, the relocation caused production bottlenecks, a decline in customer service levels and a temporary surge in manufacturing costs.

In *France*, the newly acquired Tulipia operation in Dourdan was smoothly integrated into Polarcup and exceeded its targets. Overall progress in France was also satisfactory with growth evident across the board. In *Italy*, the existing Polarcup operation also displayed moderate growth, but the newly acquired Bibo consumer products unit suffered from price pressures in its domestic commodity business.

The *Spanish* operation again asserted itself as a major player in what remains one of Europe's most fragmented markets. The small *Portuguese* unit, by contrast, suffered from a lack of sales drive.

The *German* unit managed to turn its performance around, returning to profitability amidst heavy competition, a declining price level and flat volumes. The Russian economic crisis was felt in Germany as well as in *Poland*, where emphasis was shifted from growth to cost containment amidst a climate of slower growth and intense competition. Sales in *Hungary* were solid, while in *the Ukraine* and *Lithuania* business picked up tangibly with Polarcup's local organisations well established after the start-up phase.

In *Russia*, Polarcup's capacity tripled with the successive completion of several plastic thermoforming lines serving both food service and food packaging customers. Sales doubled until the outbreak of the economic crisis in August. After two months of hesitation and low volumes, sales recovered to a healthy level but a small operating loss could not be avoided.

FIM million	1998	1997	Change %
Net sales	4,257	3,251	31
Europe	3,055	2,620	17
Asia and Oceania	652	631	3
Americas	550	..	..
Operating earnings	321	255	25
Net assets	3,414	2,142	59
Return on net assets %	9.4	11.9	- 21

From cone jackets to 20 litre containers: the world's most comprehensive range of ice cream packaging

In *Turkey*, the Güven joint-venture posted improving earnings on stable sales.

Asia

Sales across East Asia remained on average 20% below targeted levels due to the region's economic difficulties. Compared to 1997, Polarcup nevertheless managed to improve its operating earnings by a clear margin. Beyond generally weak demand, the loss of significant volumes from a major fast food customer led to lower sales for the two largest units, *Hong Kong* and *Singapore*. The *Chinese* units reported growth, with the larger Tianjin operation rapidly rising into a leading market position. Higher sales were evident in *Malaysia* and *Taiwan* as well.

Towards the end of the year, a decision was made to phase out manufacturing at the Singapore plant by mid-1999, leaving the unit as a sales and distribution centre. Its production capacity will be divided between Hong Kong and Malaysia, with some paper cup machines spared for other markets.

Oceania

The successful integration of two former competitors, Polarcup and Pacific World Packaging, was evident already in 1997. The year under review brought further confirmation of synergies and a sound business base now complemented by Sealright's new ice cream containers business. Both the *Australian* and *New Zealand* units posted higher sales, but profitability at the latter unit was affected by heavy competition and a change in product mix. In Australia, both the plastic and paper converting units enjoyed solid market shares.

Americas

Sealright, a well-known industry name since 1917, was consolidated from the beginning of June. Its Kansas City, Los Angeles and Fulton (NY) units were joined by the former Tetra Cup unit in Pleasant Prairie (WI) in July. With this configuration, Sealright commands a dominant share of the *US* market for premium take-home ice cream containers and over-the-counter ice cream packaging.

During the peak summer season, Sealright's sales reflected the abnormal situation in the ice cream market created by adverse weather and a surge in the prices for butterfat, a key ingredient. The situation improved later in the year with a small year-on-

PACKAGING DIVISIONS

Food Packaging
- Ice cream
- Dairy
- Edible fats

Food Service
- Quick Service Restaurants and Beverage
- Vending
- Catering
- Consumer

Trade Packaging
- Retail
- Industry





year increase in comparable sales as the result.

Sealright's paperboard containers and container forming and filling equipment present a major opportunity outside their traditional North American markets. In September, an ice cream packaging conference in California brought together the Sealright and Polarcup experts for the first time.

In South America, Polarcup established a regional presence through its sales office in *Chile* and a small, now wholly-owned manufacturing unit in *Argentina*. Both European and US-made products were delivered. Acquisition opportunities were actively studied in several countries.

Investments

Polarcup's and Sealright's capital expenditure amounted to FIM 352 million, 8% of net sales. The new factory in The Netherlands was completed and manufacturing capacity in Russia tripled. Printing technology was upgraded in several locations, including Sealright's new lithographic line in Fulton.

Outlook for 1999

The year 1999 will be one of action and new opportunities for Huhtamaki's packaging business. The main challenge is to maintain and improve market shares in Europe without sacrificing profitability in the prevailing competitive environment.

The newly created divisions will play a key role in maximising growth through new business and product development, close relationships with key international customers and a well-structured, branded product offering supported by intensified marketing efforts.

At the same time, the centralised Operations function will carry out a cost-cutting and rationalisation programme, optimising the deployment of productive assets.

While year-on-year growth in Western Europe may remain moderate, a rebound is expected after the very slow final third of 1998. In Russia, demand has returned to almost pre-crisis levels. With the closure of the Singaporean plant, the Asian operations will benefit from downsizing. Growth is expected to continue in China. The outlook in Oceania remains solid.

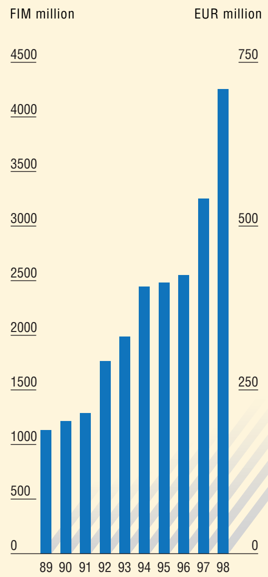
Sealright is optimistic about its growth prospects, both in ice cream packaging and other product areas. Some price increases have been secured. Initial orders for Sealright packaging and equipment outside North America have been secured.

The Latin American business anticipates growth opportunities regardless of the region's economic stance. A deterioration of the economic climate may facilitate the search for suitable acquisitions.

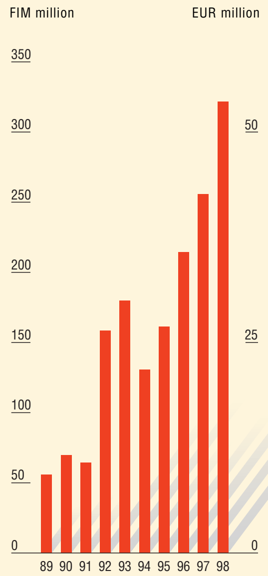
Acquisitions are likely in Europe as well, especially in order to strengthen the new Trade Packaging division.

A joint-venture will be established to manufacture and sell food service disposables from the new EarthShell® packaging material. The first plant is likely to launch production towards the end of the year 2000.

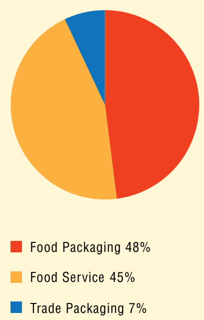
Net sales



Operating earnings



Net sales by division



Adding Value and Health Benefits to Sugar Confectionery

In 1998, the Leaf Group continued its transformation from an all-round confectionery house into a focused manufacturer of pastilles and other high value added products, with strong market positions across Europe. Leaf's Group Headquarters relocated from Amstelveen, The Netherlands, to Espoo, Finland.

Fundamental development work was undertaken by the Strategic Marketing Group on Leaf's two core international brands, Läkerol pastilles and Chewits fruit toffees, to be followed by an ambitious launch programme over the next few years. Läkerol will be further developed under three sub-brands: Läkerol Classic, Läkerol 3Effect/Mynthon and Läkerol Plus, along an increasing scale of functional properties.

Both external and internal factors impeded Leaf's progress, leading to a disappointing full-year result. The Russian crisis proved the most critical setback. Following the imminent divestment of two problem units, Leaf will display a strong recovery in profitability.

CONFECTIONERY

The European confectionery arena became progressively more congested during 1998 as manufacturers facing difficulties in Russia and Asia had to redirect their capacity to established markets.

Leaf's European sales declined by 4%, mainly due to the Russian setback but also reflecting a weak Christmas season in Germany and the UK. Sales in Asia increased by 23% but fell short of original projections.

The Top 10 brands accounted for 47% of the total sales, slightly less than in 1997. The Läkerol brand advanced moderately despite the Russian crisis, which affected the Chewits and Hellas brands severely. The unsettled market conditions were reflected in unusually strong volume swings for individual brands, with chocolate as a whole clearly down.

Europe

Manufacturing operations in Scandinavia were back to normal after severe production problems in 1997.

In *Finland*, a volume shortfall was evident given low Russian exports, while domestic sales and exports to other countries were buoyant. Top market shares were again achieved in pastilles and chewing gum. The Läkerol Plus xylitol-sweetened pastilles were launched in Finland towards year-end.

In *Sweden*, Leaf's leading brands, Läkerol and Bilar, successfully defended their positions against intensified competition. The Läkerol Plus brand established itself rapidly after the launch early in the year contributing to a 22% growth for this subbrand. Läkerol Classic stagnated mid-year, but higher sales were evident again towards year-end.

The *Norwegian* sales unit narrowed down its product offering but nevertheless achieved higher sales than in 1997 due to the strong growth of Läkerol. In *Denmark*, total sales were down given a reduced candy assortment and a slight decline in the SorBits sugarfree chewing gum.

In the *UK*, the Elizabeth Shaw range of premium chocolates was refocused, with market share gains evident for the popular Mint Crisp brand. Christmas sales remained less vigorous than in the previous year, however, due to heavy competition and a hesitant retail sector. In sugar confectionery, Leaf suffered from turbulence among "long channel" distributors, with lower sales of Chewits and Jolly Rancher as the result. The *Irish* unit enjoyed a good demand for its children's bubble gum, especially in France, but its seasonal sales of Mr. Freeze ice lollies were affected by the poor summer weather.

In Continental Europe, sales fell short of targets with the exception of *Italy*, where both the Sperlari seasonal Christmas specialities and yearround products were in good demand. The Italian unit also improved its profitability for the sixth consecutive year. In *Germany*, sales of sugar confectionery declined due to a narrowed-down, more focused product offering. The Gubor chocolate pralines business did well with its current range against a heavily competed and depressed market, but was severely affected by the returns of unsold super premium products launched in late 1997.

FIM million	1998	1997	Change %
Net sales	3,033	3,136	-3
Europe	2,984	3,096	-4
Asia and Oceania	49	40	23
Operating earnings	68	179	-62
Net assets	1,884	1,843	2
Return on net assets %	3.6	9.7	- 63

Clear leader in pastilles in Northern Europe

PRODUCT PORTFOLIO

International Key Brands

Läkerol
- Läkerol Classic
- Läkerol PLUS
- Läkerol 3Effect/Mynthon

Chewits

Local/Regional Champions

Lakrisal
Sisu
SuperMint

XyliFresh
Sportlife
Jenkki
SorBits

Galatine
Landryny
Lauantai
Bilar

LO Go
Elisabeth Shaw
Tupla
Gubor
Sperlari

In *The Netherlands*, Sportlife sugarfree chewing gum lost some market share amidst heavy competition but nevertheless maintained its sovereign market leadership. The XyliFresh gum brand continued its strong growth, contributing to an almost 20% increase in the brand's total sales. Sales in *Belgium* and *Switzerland* were stable. In the latter country, Leaf's sales office was closed at year-end pursuant to a distribution agreement with the country's leading snacks and tobacco distributor Cruspi S.A.

The *Spanish* unit, which never occupied a central role in Leaf's strategy, was sold in September to a local venture capital group.

Sales in *Russia* were soft from the beginning of the year and stopped entirely in August. Only a modest recovery took place during the remainder of the year. Leaf's Läkerol 3Effect/Mynthon, Chewits and Hellas brands nevertheless remained among the top sellers in their respective categories.

The Russian crisis sent repercussions across other CIS countries and Eastern Europe in general. For example, volumes in *Belarus* and the *Baltic* countries stagnated, however sales in the Caucasus region gained momentum.

In *Poland*, the integration of the newly acquired sugar confectionery business was completed early in the year and a distribution agreement with the leading local snacks company, Star Foods, gave Leaf's entire product range a strong presence in the country's fragmented retail sector. Good progress was evident in other CEE countries, with Läkerol 3Effect/Mynthon and Chewits as the spearhead brands.

Asia

Leaf's Asian ventures were reorganised. As the regional distribution agreement with Leaf's joint-venture partner EAC had led to disappointing results, efforts were concentrated to *China*, where a sales office was established in Shanghai. The regional office in *Singapore* was closed. Sales of Läkerol 3Effect advanced well in China, while the Wuxi Leaf bubble gum manufacturing unit was unable to revitalise its sales in a market saturated by local low-price competition. Hence,

the bubble gum production was phased out towards year-end to stem losses and the unit posted for sale.

In *India*, the Leaf Parrys manufacturing joint-venture suffered from inconsistent raw materials and start-up problems, which delayed the full-scale introduction of locally made Chewits varieties until late in the year. The first Indian-made Läkerol 3Effect products were also shipped towards year-end.

Investments

The main part of Leaf's capital expenditure, FIM 113 million, was related to climate control and increased automation in the Finnish and Swedish pastilles manufacturing units.

Outlook for 1999

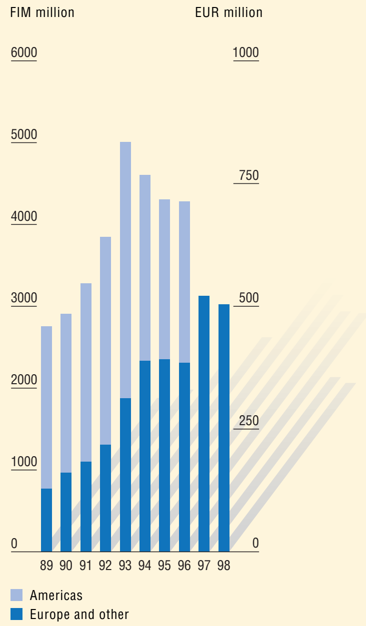
In 1999, the Leaf Group will focus on generating organic growth as well as streamlining its operations structure and product portfolio. A strong recovery in profitability will be evident as soon as the loss-making units, Gubor and Wuxi Leaf, are divested.

Leaf's marketing expenditure will increase in a focused manner. The finalised international brand strategies for both Läkerol and Chewits will be implemented through a series of market launches and increased support to existing trade. The "local champion" brands will receive all the attention and support needed to stay and gain in the race.

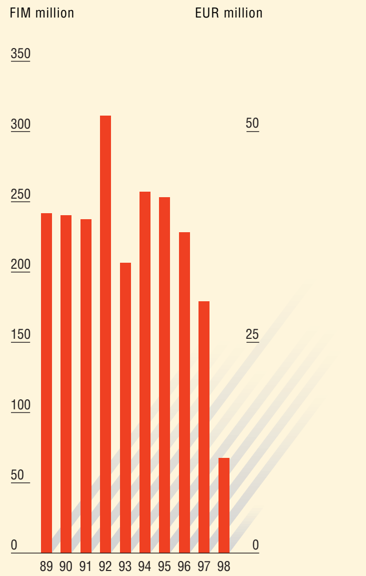
Recognising the importance of distribution and in-store promotions, Leaf is actively seeking cost-effective improvements in these areas, e.g. through partnerships. The UK, Russia and some smaller markets are key targets in this respect. An important new partnership, based on Leaf's specialist know-how, will come to fruition in Japan.

Leaf's main challenge in 1999 and beyond is one of "critical mass" in view of the ongoing consolidation of industry and trade. The current review of Leaf's strategic alternatives is likely to result in a sustainable position for the company and its brands as a member of a larger, dedicated sugar confectionery entity.

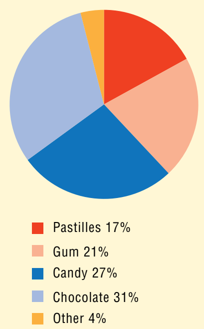
Net sales



Operating earnings



Net sales by product groups



Paavo Hohti

Iiro Viinanen

Urpo Kangas

Mikael Lilius

Heikki Marttinen

Pertti Voutilainen

AUDITORS

Thor Nyroos, APA
Eero Suomela, APA

Deputies
Pertti Keskinen, APA
Esa Kailiala, APA

SUPERVISORY BOARD

Chairman

PAAVO HOHTI
b. 1944
Phil. Dr.
Secretary General
Finnish Cultural Foundation
Term expires 2000
Huhtamaki shares: -

Vice Chairman

IIRO VIINANEN
b. 1944
MSc (Eng.)
President and CEO, Pohjola Group
Term expires 1999
Huhtamaki shares: -

Members

URPO KANGAS
b. 1951
MSc (Laws)
Prof. Dr. in Private Law,
Helsinki University
Chairman of the Association for
the Finnish Cultural Foundation
Term expires 2001
Huhtamaki shares: -

MIKAEL LILIUS
b. 1949
MSc (Econ.)
President and CEO, Gambro AB
Term expires 2001
Huhtamaki shares: 3,600

HEIKKI MARTTINEN
b. 1946
MSc (Econ.)
President and CEO, Fortum Oyj
Member of the Board for
the Finnish Cultural Foundation
Term expires 1999
Huhtamaki shares: -

PERTTI VOUTILAINEN
b. 1940
MSc (Eng.), MSc (Econ.)
President, Merita Bank Plc
Executive Vice President,
MeritaNordbanken Plc
Term expires 1999
Huhtamaki shares: -

EXECUTIVE BOARD

Chairman of the Executive Board

TIMO PELTOLA

b. 1946,
Dr. (Hc), BSc (Econ.)
BSc (Econ.), CEO since 1989
Joined Huhtamaki in 1971
Trustee Positions:
Member of the Board of Directors,
MeritaNordbanken Group
Supervisory Board Member,
The Finnish Cultural Foundation
Supervisory Board Member,
Ilmarinen Pension Insurance Company
Huhtamaki shares: I 22,500, K -
Share options: 1993 15,000
1997 25,000

Vice Chairman

EERO AHO

b. 1939, Msc (Laws)
Executive Vice President since 1989
Joined Huhtamaki in 1970
Will retire in autumn 1999
Huhtamaki shares: I 11,253, K 260
Share options: 1993 12,000
1997 12,000

Members

MATTI TIKKAKOSKI

b. 1953
MSc (Econ.)
Executive Vice President since 1998
Chief Operating Officer,
packaging operations
Joined Huhtamaki in 1980
Huhtamaki shares: I 5,700, K -
Share options: 1993 5,000
1997 12,000

KALLE TANHUANPÄÄ

b. 1952, BSc (Econ.)
President of Leaf Group since 1998
Joined Huhtamaki in 1976
Huhtamaki shares: I 2,300, K -
Share options: 1993 5,000
1997 12,000

Eero Aho

Timo Peltola

Matti Tikkakoski

Kalle Tanhuanpää

Huhtamaki has been a publicly listed company for close to 40 years. During this time, its statutes have provided for a governance structure common in Continental Europe and Scandinavia.

The **General Shareholders' Meeting** is the highest constitutional body. The main tasks of the Annual General Shareholders' Meeting (AGM) include approval of the annual accounts and dividend, the election of the members of the Supervisory Board, decisions on an increase or decrease in the company's share capital as well as amendments to the company's Articles of Association.

The **Supervisory Board** has few explicit powers and responsibilities beyond its supervisory function. It elects the Board of Directors and appoints its Chairman as well as the Chief Executive Officer (CEO).

Each Supervisory Board member is elected by the AGM for a three-year term. The election cycle is staggered over three years to ensure continuity. Nominations are put forth by principal shareholders. No company executives serve in the Supervisory Board.

The **Board of Directors** ("Executive Board"), with a minimum of four and a maximum of six members, is legally responsible for the company's conduct and finances. As a rule, the majority of Directors have been full-time company executives.

Reform of 1996

The first reform of the governance system was undertaken in 1996. The Supervisory Board was retained, but its size was radically reduced from sixteen to currently six individuals, and it assumed a strategic and decision-making role previously vested on the Board of Directors. A bimonthly meetings schedule was adopted and the members receive a comprehensive information package on a monthly basis.

Proposal abolishes Supervisory Board

A further reform of the governance system is on the agenda for the AGM in March 1999. In essence, the Supervisory Board will be replaced by a Board of Directors elected by the AGM for one year at the time. It will have all the powers and responsibilities stipulated by the Finnish Companies Act and will bear legal responsibility for the company's business. The new Board would have a minimum of 6 and a maximum of 9 members, non-executive or executive as the AGM deems appropriate. The new Board of Directors is expected to convene six times per year.

An **Executive Board** appointed by the Board of Directors will be responsible for the implementation of corporate strategy, day-to-day operations and financial controls. It will consist of senior executives and the CEO as its chairman.

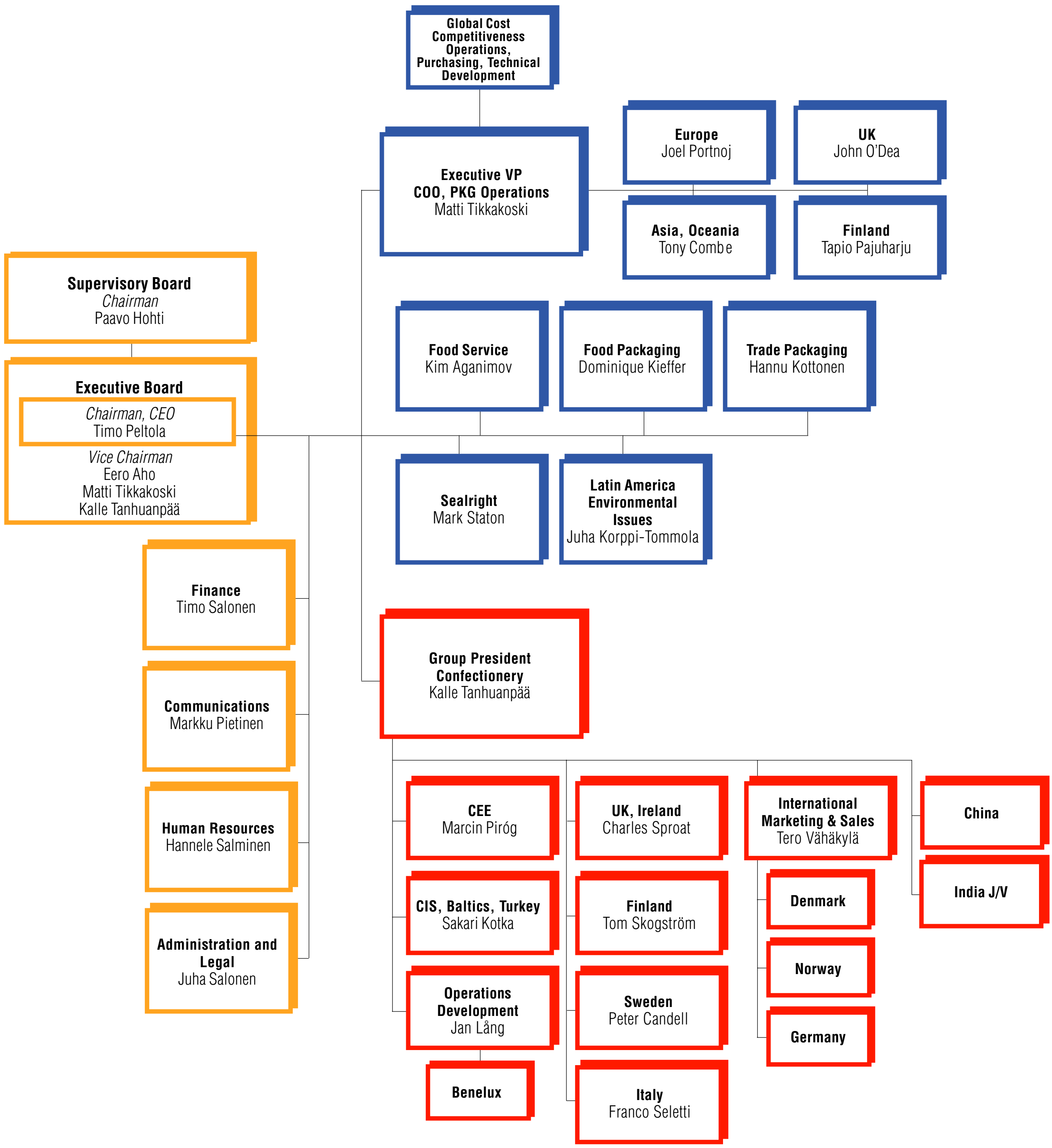
Remuneration

In 1998, the annual fees of the Supervisory Board members were determined by the AGM as follows: Chairman FIM 108,000 and other members FIM 72,000 each. Additionally, the company reimburses travel and other incidental expenses related to the function.

The CEO and other Executive Board members were paid an aggregate sum of FIM 5.9 million including the annual bonus, paid on the achievement of corporate and individual targets in 1997. For 1998, no bonus was payable for corporate performance. No extra fees are paid for Executive Board membership or for statutory Board memberships in subsidiaries.

The Executive Board members held a total of 98,000 stock options under schemes adopted in 1993 and 1997. These schemes extend to some 70 executives and managers across the company and its subsidiaries.

Supervisory Board members are not eligible for stock option plans. Under the new governance system, this will apply to non-executive Directors.


Global Cost Competitiveness Operations, Purchasing, Technical Development
Executive VP COO, PKG Operations Matti Tikkakoski
Europe Joel Portnoj
UK John O'Dea
Asia, Oceania Tony Combe
Finland Tapio Pajuharju
Supervisory Board Chairman Paavo Hohti
Executive Board
Chairman, CEO Timo Peltola
Vice Chairman Eero Aho Matti Tikkakoski Kalle Tanhuanpää
Food Service Kim Aganimov
Food Packaging Dominique Kieffer
Trade Packaging Hannu Kottonen
Sealright Mark Staton
Latin America Environmental Issues Juha Korppi-Tommola
Finance Timo Salonen
Communications Markku Pietinen
Human Resources Hannele Salminen
Administration and Legal Juha Salonen
Group President Confectionery Kalle Tanhuanpää
CEE Marcin Piróg
UK, Ireland Charles Sproat
International Marketing & Sales Tero Vähäkylä
China
India J/V
CIS, Baltics, Turkey Sakari Kotka
Finland Tom Skogström
Denmark
Norway
Germany
Operations Development Jan Lång
Sweden Peter Candell
Benelux
Italy Franco Seletti

Stock Exchange announcements in chronological order

January

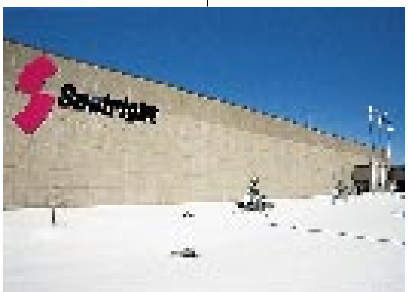
No announcements

February

2 Mr Kalle Tanhuanpää appointed to become President of Leaf Group
10 Results for 1997

March

3 Acquisition of US food packaging company Sealright
12 Proposal to AGM on amendments to the articles of associations



April

2 AGM decisions: dividend and amendments to the articles of associations
3 Acquisition of US ice cream packaging manufacturer Tetra Cup

May

15 Mark Staton appointed President of Sealright

June

2 Acquisition of Huntsman's European foam packaging business
9 January-April Interim Report

July

1 Acquisition of Sealright completed
3 Acquisition of Tetra Cup completed

August

21 New corporate organisation adopted
26 Divestment of Leaf's Spanish manufacturing unit

September

9 Weaker short-term profit outlook due to Russian crisis
21 Divestment of Leaf's Spanish manufacturing unit completed

October

8 January-August Interim Report
26 Huhtamaki and EarthShell to launch international partnership to market new, environmentally responsible food service and packaging products

November

No announcements

December

11 Huhtamaki treasure shares owned by Huhtamaki Finance B.V. transferred to the ownership of Huhtamäki (Deutschland) GmbH
30 Financial calendar for 1999

HUHTAMAKI CORPORATE OFFICES

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DEFINITIONS FOR KEY INDICATORS

$$\text{Earnings per share} = \frac{\begin{array}{l}\text{Profit before exceptional items, appropriations and taxes}\\ \text{- minority interest - taxes}\end{array}}{\text{Average issue-adjusted number of shares}}$$

$$\text{Dividend yield} = \frac{\text{100 x issue-adjusted dividend}}{\text{Issue-adjusted share price at Dec 31}}$$

$$\text{Shareholders' equity per share} = \frac{\begin{array}{l}\text{Equity + untaxed reserves - deferred tax and minority interest}\\ \text{in untaxed reserves}\end{array}}{\text{Issue-adjusted number of shares at Dec 31}}$$

$$\text{P/E ratio} = \frac{\text{Issue-adjusted share price at Dec 31}}{\text{Earnings per share}}$$

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

$$\text{Return on investment} = \frac{\begin{array}{l}\text{100 x (Profit before exceptional items, appropriations and}\\ \text{taxes + interest expenses + other financial expenses)}\end{array}}{\text{Balance sheet total - interest-free liabilities (average)}}$$

$$\text{Return on net assets} = \frac{\text{100 x operating earnings}}{\text{Net operating assets (average)}}$$

$$\text{Return on shareholders'equity} = \frac{\begin{array}{l}\text{100 x (Profit before exceptional items,}\\ \text{appropriations and taxes - taxes)}\end{array}}{\begin{array}{l}\text{Equity + minority interest + untaxed reserves}\\ \text{- deferred tax in untaxed reserves (average)}\end{array}}$$

$$\text{Net debt to equity} = \frac{\text{Interest bearing net debt}}{\text{Equity + untaxed reserves - deferred tax in untaxed reserves}}$$

$$\text{Solidity} = \frac{\begin{array}{l}\text{100 x (equity + minority interest + untaxed reserves}\\ \text{- deferred tax in untaxed reserves}\end{array}}{\text{Balance sheet total - advances received}}$$

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Times interest earned} = \frac{\text{Operating earnings + depreciation and amortisation}}{\text{Net interest expenses}}$$

Repurchased shares have been excluded from calculations of key indicators.

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