

# Interim Report January 1 – March 31, 2004



## “PROFIT IMPROVEMENT IN FIRST QUARTER”

For worldwide consumer packaging specialist Huhtamaki, the first quarter of 2004 progressed in line with expectations. Sales volumes were up by 5%, yet adverse currency translations (- 4%) and product mix changes (- 5%) led to a 4% decline in reported net sales. Reflecting, in part, the transfer of flexibles and films production between the continents, volume growth accelerated markedly in the Americas and slowed down in Europe, while healthy progress continued in Asia-Oceania-Africa.

At EUR 38 million, the operating profit was virtually unchanged from the first quarter of 2003. The profit before taxes improved by 8% and earnings per share by 9%, helped by a clear decline in financial expenses. The operating cash flow for the quarter was strong at EUR 52 million.

NOTE: As of January 1, 2004, Huhtamaki has adopted the new IFRS 3 standard, according to which goodwill is not amortized but impairment tested. All commentary in this report is based on comparable figures.

### Key figures

EUR million	Q1 2004	Change y-o-y, %
Net sales	496	-4 %
Operating profit	38	-2 %
Operating margin %	7,6	-
Profit before taxes	30	8 %
Net income	23	7 %
EPS, EUR	0,24	9 %
ROE, %	10,4	
ROI, %	8,6	

### Regional sales and volume development

EUR million	Q1 2004	Sales change, %	Volume change, %
Europe	282	-3 %	2 %
Americas	133	6 %	11 %
A-O-A	81	4 %	5 %
Total	496	1 %	5 %

Sales change reported at constant exchange rates and comparable sales.

### Outlook

The launch of four new factories will dampen profit growth in the second quarter, and plastic raw materials prices may create short-term pricing pressures. With the savings from recent restructuring measures materializing and newly won business gaining momentum in the second half, the full-year outlook for 2004 remains cautiously optimistic.

Espoo, Finland, April 22, 2004  
Huhtamaki Oyj  
Board of Directors



## Business review

In **Europe**, reported net sales declined by 6% to EUR 282 million in the first quarter. Sales volumes grew by 2%, but product mix and, to a lesser extent, price changes depressed the reported figure by 5%. The discontinuation of waste paper trading beyond own paper recycling activity had a further negative impact of 2%, and currency translations took another 1%. Volumes were affected by the transfer of EUR 30 million of business (annualized) to the Americas, by general market softness and by timing issues especially in Flexibles and Films. Foodservice grew on the back of sales to the quick service and catering segments. Consumer Goods remained subdued across the board.

The region's operating profit amounted to EUR 18 million in the first quarter (EUR 24 million). The operating margin was 6.4% against prior 8.0%. The decline is mainly attributable to changes in product mix. As well, the final portion of restructuring costs announced in late 2003 was expensed in the quarter. RONA was 9.3% against 9.9% at year-end 2003 and 11.4% for the first quarter of 2003.

In the **Americas**, net sales declined 6% to EUR 134 million in the quarter. Sales volumes increased by 11%, but currency translations depressed the reported figure by 13% and mix/price changes by another 5%. New businesses won in 2003 and the launch of local films and flexibles lines in North and South America boosted the

volumes. Growth was evident across all business segments.

The region's operating profit increased to EUR 6 million (+ 18%) in the quarter. Reduced liability associated to a change in the U.S. health insurance system contributed to the figure. The operating margin improved to 4.4% (3.5%). RONA was 3.5% against 3.3% (year-end) and 7.8% (prior).

**Asia, Oceania and Africa** reported net sales of EUR 81 million for the first quarter, up by 6%. Sales volumes increased by 5%, driven by dynamic growth in Asia and a cautious recovery in Oceania. Currency translations also had a positive impact (+ 1%).

The region's operating profit improved to EUR 6 million (+ 9%), helped by a strong performance in Asia and efficiency improvements in Oceania. The operating margin improved slightly, to 7.8% (7.6%). RONA was 7.4% against 7.3% (year-end) and 10.6% (prior).

## Financial review

**Operating Profit before corporate items** amounted to EUR 30 million (- 13%) in the first quarter. Group income and unallocated expense showed a net income of EUR 7 million. This figure reflects a higher allocation of corporate costs to operating units as well as the reversal of a provision related to a legal case closed with a favorable outcome.

**The Group Operating Profit** was unchanged at EUR 38

million in the first quarter, corresponding to an operating margin of 7.6% of net sales (7.4%).

Low interest rates, a lower debt level and some foreign exchange gains helped **net financial expenses** decline to EUR 8 million in the first quarter compared to EUR 11 million a year ago. Hence, the **profit before taxes** improved by 8% to EUR 30 million.

**Taxes** were EUR 6 million (+ 13%) and minority interest remained flat at EUR 1 million, resulting in a **net income** of EUR 23 million (+ 7%).

The average number of shares declined from 96.7 million to 96.2 million due to share repurchases in early 2003. **Earnings per share** improved by 9% to EUR 0.24 (EUR 0.22).

Calculated on a rolling 12-month basis, return on investment (**ROI**) was 8.6%, equal to the corresponding figure at year-end 2003 but 3.6 percentage points down from the first quarter of 2003. At 10.4%, return on equity (**ROE**) was marginally ahead of the year-end figure of 10.3% but 4.8 percentage points below the corresponding figure a year ago.

## Financial Position

**Cash flows from operating activities** amounted to a healthy EUR 52 million (EUR 0 million). **Free Cash Flow** was EUR 39 million in the first quarter (EUR -16 million).



**Net debt** continued to decline and was EUR 749 million at the end of March, down by 22 EUR million since the end of 2003 and by EUR 120 million a year ago. **Gearing** was 98% compared with 100% at year-end.

**Capital expenditure** for the first quarter amounted to EUR 14 million. The full-year capital expenditure will be under EUR 100 million, clearly below depreciation.

## Share Developments

### Share prices

January 2	EUR 9.40	<i>low</i>
March 9	EUR 10.76	<i>high</i>
March 31	EUR 10.55	

The year started off positively for the Huhtamäki share. The share price reached a 12-month high of EUR 10.76 on March 9 and closed at EUR 10.55 on March 31. The monthly trading volume made an all-time high of 9.1 million shares in March. The average daily turnover in the first quarter, at EUR 3.1 million, was clearly above the 2003 level of EUR 1.8 million. The foreign ownership increased from 24% at year-end to 26% at the end of March.

## Annual General Meeting

The Annual General Shareholders' Meeting (AGM) of Huhtamäki Oyj was held in Helsinki on March 22. The meeting approved the company's and consolidated accounts for 2003 and discharged the company's Board of Directors and the CEO of liability for the accounts. Dividend for 2003 was set at EUR 0.38 per share, as proposed by the

Board. The AGM granted the Board an authorization to decide on the conveyance of the company's own shares within one year from the Annual General Meeting.

The following persons were elected to the Board for a one-year term lasting until the next AGM: Ms. Eija Ailasmaa (new member), Mr. George V. Bayly, Mr. Robert van Gestel (new member), Mr. Paavo Hohti, Mr. Timo Peltola, Mr. Anthony J.B. Simon, Mr. Veli Sundbäck and Mr. Jukka Viinanen. The Board immediately elected Mr. Sundbäck as its Chairman and Mr. Hohti as Vice Chairman.

## Management

Following Mr. Timo Peltola's announcement that he wishes to step down after 16 years as the CEO, the Board has initiated a search for a successor. Mr. Peltola will continue in his position until the successor has been appointed. He will also continue as a Board member. The Board expects the CEO selection process to be completed before year-end.

## Personnel

Huhtamäki had 15,624 employees at the end of March, 352 less than a year earlier. The decline is attributable to recent restructuring measures.

## Changes to accounting principles

The IASB has issued a new standard IFRS 3 Business Combinations on March 31, 2004. Revisions were also made to IAS 36 Impairment of Assets and IAS 38 Intangible

Assets. These standards have been adopted as of January 1, 2004. In accordance with the new standard, goodwill and other intangible assets with an indefinite useful life are not amortized. Instead these assets are tested at least annually for impairment according to IAS 36. Consequently goodwill items are not amortized since December 31, 2003. No impairment losses have been recognized in the first quarter of 2004.

## Income statement

EUR million	Q1	Q1	Change	2003
	2004	2003	%	
Net sales	496.3	518.8	-4.3%	2,108.3
Operating profit before depreciations	63.5	64.1	-0.9%	239.7
Operating profit	37.5	38.3	-2.1%	136.6
-% of Net Sales	7.6%	7.4%	-	6.5%
EBIT	37.5	28.2	33.0%	96.6
-% of Net Sales	7.6%	5.4%	-	4.6%
Net financial items	-8.1	-11.2	27.7%	-42.7
Income of associated companies	0.1	0.1	0.0%	0.8
Profit before taxes	29.5	17.1	72.5%	54.8
Taxes	-6.0	-5.3	-13.2%	-15.8
Minority interest	-0.5	-0.5	0,0%	-2.7
Net income	22.9	11.3	102.6%	36.3
Earnings per share (EUR)	0.24	0.12	100.0%	0.38
Earning per share (EUR) - Diluted	0.24	0.12	100.0%	0.38
Earnings per share before amortization (EUR)	0.24	0.22	9.1%	0.79
Earnings per share before amortization (EUR) - Diluted	0.24	0.22	9.1%	0.79

## Regions

### Net Sales

EUR million	Q1	Q1	Change	2003
	2004	2003	%	
Europe	281.7	299.6	-6.0%	1,185.4
Americas	133.5	142.7	-6.4%	599.6
Asia, Oceania, Africa	81.1	76.5	6.0%	323.3
Total	496.3	518.8	-4.3%	2,108.3

Intersegment sales is not significant.

### Operating profit

EUR million	Q1	Q1	Change	2003
	2004	2003	%	
Europe	17.9	23.9	-25.1%	81.8
% of net sales	6.4%	8.0%	-	6.9%
Americas	5.9	5.0	18.0%	20.2
% of net sales	4.4%	3.5%	-	3.4%
Asia, Oceania, Africa	6.3	5.8	8.6%	20.4
% of net sales	7.8%	7.6%	-	6.3%
Operating profit before corporate items	30.1	34.7	-13.3%	122.4
% of net sales	6.1 %	6.7 %	-	5.8%
Corporate net	7.4	3.6	105.6%	14.2
Total	37.5	38.3	-2.1%	136.6
% of net sales	7.6%	7.4%	-	6.5%

**EBIT**

	Q1	Q1	Change	
EUR million	2004	2003	%	2003
Europe	17.9	19.7	-9.1%	64.8
% of net sales	6.4%	6.6%	-	5.5%
Americas	5.9	0.6	883.3%	3.3
% of net sales	4.4%	0.4%	-	0.6%
Asia, Oceania, Africa	6.3	4.3	46.5%	14.3
% of net sales	7.8%	5.6%	-	4.4%
Corporate net	7.4	3.6	105.6%	14.2
Total	37.5	28.2	33.0%	96.6
% of net sales	7.6%	5.4%	-	4.6%

**NET ASSETS and RONA % (12 m. roll.)**

	Mar 31	Mar 31	Change	Dec
EUR million	2004	2003	%	2003
Europe	791.5	842.4	-6.0%	808.5
RONA-%	9.3%	11.4%	-	9.9%
Americas	591.3	661.0	-10.5%	571.4
RONA-%	3.5%	7.8%	-	3.3%
Asia, Oceania, Africa	284.0	283.9	0.0%	275.9
RONA-%	7.4%	10.6%	-	7.3%

**Business Segments****Net Sales**

	Q1	Q1	Change	
EUR million	2004	2003	%	2003
Consumer Goods	345.1	364.2	-5.2%	1,406.2
Food Service	151.2	154.6	-2.2%	702.1
Total	496.3	518.8	-4.3%	2,108.3

Intersegment sales is not significant.

**Operating Profit**

	Q1	Q1	Change	
EUR million	2004	2003	%	2003
Consumer Goods	21.1	26.5	-20.4%	79.5
% of net sales	6.1%	7.3%	-	5.7%
Food Service	9.0	8.2	9.8%	42.9
% of net sales	6.0%	5.3%	-	6.1%
Operating profit before corporate items	30.1	34.7	-13.3%	122.4
% of net sales	6.1%	6.7%	-	5.8%
Corporate net	7.4	3.6	105.6%	14.2
Total	37.5	38.3	-2.1%	136.6
% of net sales	7.6%	7.4%	-	6.5%

**EBIT**

	Q1	Q1	Change	
EUR million	2004	2003	%	2003
Consumer Goods	21.1	19.5	8.2%	51.5
% of net sales	6.1%	5.4%	-	3.7%
Food Service	9.0	5.1	76.5%	30.9
% of net sales	6.0%	3.3%	-	4.4%
Corporate net	7.4	3.6	105.6%	14.2
Total	37.5	28.2	33.0%	96.6
% of net sales	7.6%	5.4%	-	4.6%

## Balance sheet

EUR million	Mar 31		Mar 31		Dec 31	
	2004	%	2003	%	2003	%
<b>ASSETS</b>						
<b>Non-current assets</b>						
Intangible assets	592.7	24.3%	635.8	25.5%	587.2	25.1%
Tangible assets	877.1	35.9%	898.8	36.0%	869.7	37.2%
Investments	3.5	0.1%	5.9	0.2%	3.3	0.1%
Interest bearing receivables	24.7	1.0%	30.1	1.2%	24.5	1.1%
Deferred tax assets	87.5	3.6%	88.4	3.5%	85.8	3.7%
Other non-current assets	78.5	3.2%	89.9	3.6%	81.3	3.5%
	1,664.0	68.1%	1,748.8	70.0%	1,651.8	70.7%
<b>Current assets</b>						
Inventory	297.5	12.2%	306.3	12.3%	268.0	11.4%
Interest bearing receivables	6.4	0.3%	7.7	0.3%	6.4	0.3%
Trade and other current receivables	406.1	16.6%	424.7	17.0%	384.2	16.5%
Cash and Cash equivalents	69.6	2.8%	10.3	0.4%	24.7	1.1%
	779.6	31.9%	749.1	30.0%	683.3	29.3%
<b>Total Assets</b>	2,443.6	100.0%	2,497.9	100.0%	2,335.1	100.0%
<b>EQUITY AND LIABILITIES</b>						
Shareholders' equity	751.5	30.7%	756.6	30.3%	755.2	32.4%
Minority interest	16.5	0.7%	14.9	0.6%	14.8	0.6%
	768.0	31.4%	771.5	30.9%	770.0	33.0%
<b>Non-current liabilities</b>						
Interest bearing liabilities	417.8	17.1%	402.4	16.1%	337.2	14.5%
Deferred tax liabilities	112.6	4.6%	117.6	4.7%	112.7	4.8%
Provisions	90.6	3.7%	102.5	4.1%	83.4	3.6%
Other non-current liabilities	146.3	6.0%	151.8	6.1%	149.7	6.4%
	767.3	31.4%	774.3	31.0%	683.0	29.3%
<b>Current Liabilities</b>						
Interest bearing liabilities	432.2	17.7%	515.3	20.6%	489.4	21.0%
Provisions	12.1	0.5%	10.7	0.4%	14.5	0.6%
Other current liabilities	464.0	19.0%	426.1	17.1%	378.2	16.1%
	908.3	37.2%	952.1	38.1%	882.1	37.7%
<b>Total Liabilities and Equity</b>	2,443.6	100.0%	2,497.9	100.0%	2,335.1	100.0%
	<b>Mar 31</b>	<b>Change</b>	<b>Mar 31</b>		<b>Dec 31</b>	<b>Change</b>
	<b>2004</b>	<b>%</b>	<b>2003</b>		<b>2003</b>	<b>%</b>
Net debt	749.3	13.8%	869.5	-	770.8	2.8%
Net debt to equity (Gearing)	0.98	-	1.13	-	1.0	-

## Cash Flow Statement

EUR Millions	Q1 2004	Q1 2003	2003
<b>Net income</b>	<b>22.9</b>	<b>11.3</b>	<b>36.3</b>
Adjustments	38.9	51.5	192.7
Change in inventory	-22.5	-23.3	1.6
Change in non-interest bear. receivables	-0.9	-41.2	-8.7
Change in non-interest bearing payables	27.6	20.2	25.4
Dividends received	0.1	0.1	1.4
Interest received	1.0	0.7	5.4
Interest paid	-11.4	-10.5	-45.4
Other financial expense and income	0.0	-0.5	-3.9
Paid taxes	-3.1	-8.2	-16.2
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>52.4</b>	<b>0.2</b>	<b>188.6</b>
Capital expenditure	-14.1	-16.8	-117.7
Proceeds from selling other investments	0.0	-0.1	1.5
Proceeds from selling tangible assets	0.4	0.4	10.5
Change in long-term deposits	-0.1	0.1	5.6
Change in short-term deposits	0.1	1.1	2.4
<b>CASH FLOWS FROM INVESTING</b>	<b>-13.8</b>	<b>-15.4</b>	<b>-97.7</b>
Proceeds from long-term borrowings	108.0	25.5	211.6
Repayment of long-term borrowings	-28.6	-48.8	-296.3
Proceeds from short-term borrowings	371.7	469.6	1,563.5
Repayment of short-term borrowings	-444.9	-425.7	-1,513.4
Dividends paid	-	-	-36.5
Share repurchases	-	-14.8	-14.8
<b>CASH FLOWS FROM FINANCING</b>	<b>6.1</b>	<b>5.8</b>	<b>-85.9</b>
<b>CHANGE IN LIQUID ASSETS</b>	<b>44.8</b>	<b>-9.4</b>	<b>5.0</b>
Liquid assets period start	24.5	19.7	19.7
Liquid assets period end	69.3	10.3	24.7

## Changes in shareholders' equity

	Share Capital	Share issue premium	Treasury Shares	Translation Diff.	Fair Value and other reserves	Retained earnings	Total equity	Minority interest	Total equity and minority interest
<b>EUR million</b>									
TOTAL EQUITY AT 1.1.2003	344.2	85.4	-34.1	-70.3	-11.6	491.9	805.5	14.9	820.4
Repurchase of Shares			-12.4				-12.4		-12.4
Translation differences				-10.0			-10.0	-0.5	-10.5
Cashflow Hedges					-0.6		-0.6		-0.6
Available-for-Sale investments					-0.1		-0.1		-0.1
Dividend						-36.5	-36.5		-36.5
Net Income for the period						11.3	11.3	0.5	11.8
Other changes					-0.5	-0.1	-0.6		-0.6
BALANCE AT 31.03.2003	344.2	85.4	-46.5	-80.3	-12.8	466.6	756.6	14.9	771.5
<b>EUR million</b>									
BALANCE AT 31.12.2003	344.2	85.4	-46.5	-110.3	-7.7	490.1	755.2	14.8	770.0
Translation differences				10.4			10.4	1.2	11.6
Cashflow Hedges					-1.3		-1.3		-1.3
Dividend						-36.5	-36.5		-36.5
Net Income for the period						22.9	22.9	0.5	23.4
Other changes					0.6	0.2	0.8		0.8
BALANCE AT 31.03.2004	344.2	85.4	-46.5	-99.9	-8.4	476.7	751.5	16.5	768.0

## Other key information

	Q1 2004	Q1 2003	Change %	2003
<b>EUR million</b>				
Equity per share (EUR)	7.80	7.87	-0.9%	7.85
ROE before amortization, %	10.4	15.2	-	10.3
ROI before amortization, %	8.6	11.9	-	8.6
Capital expenditure	14.1	16.8	-16.1%	117.7
Personnel	15,624	15,976	-2.2%	15,508
Profit before minority interest and taxes (12m roll)	67.2	131.2	-48.8%	54.8
Depreciation	24.9	25.1	-0.7%	99.5
Amortization of other intangible assets	1.1	10.8	-89.8%	43.7
Free Cash Flow *	38.7	-16.4	-	82.9

\* Cash Flows from Operating Activities + Capital expenditure + Proceeds from selling other investments + Proceeds from selling tangible assets



Contingent liabilities	Mar 31		Mar 31		Dec 31	
	2004		2003		2003	
EUR million	Group	Parent	Group	Parent	Group	Parent
Mortgages	17.5	16.7	16.5	15.0	15.6	14.7
Guarantee obligations						
For subsidiaries	-	121.2	-	798.2	-	490.1
For others	8.9	8.9	1.1	1.1	8.7	8.7
Lease payments	62.7	0.7	61.4	0.5	63.0	0.7

#### Nominal Values of Derivative Instruments

EUR million	Mar 31	Mar 31	Dec 31
	2004	2003	2003
	Group	Group	Group
Currency forwards, transaction risk hedges	31	46	44
Currency forwards, translation risk hedges	55	34	53
Currency swaps, financing hedges	110	114	81
Forward rate agreements and futures contracts, gross	0	129	112
Forward rate agreements and futures contracts, net	0	11	48
Interest rate swaps	356	401	380

The following EUR rates have been applied to GBP, INR, AUD and USD

		Q1/04	Q1/03
Income statement, average:	GBP 1 =	1.464	1.493
	INR 1 =	0.018	0.020
	AUD 1 =	0.609	0.553
	USD 1 =	0.807	0.932
		Q1/04	Q1/03
Balance sheet, month end:	GBP 1 =	1.502	1.450
	INR 1 =	0.019	0.019
	AUD 1 =	0.623	0.553
	USD 1 =	0.818	0.918



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