



ANNUAL REPORT 1997



SANTASALO-JOT

FINANCIAL INFORMATION IN 1998

Santasalo-JOT Ltd published its preliminary statement for the financial year 1 January - 31 December 1997 on Tuesday, 27 January 1998.

Santasalo-JOT Ltd will publish three interim financial reports in 1998. The first, for the period 1 January - 31 March, will be published on 20 April, the second, for the period 1 January - 30 June, on 16 July, and third for the period 1 January - 30 September, on 16 October.

The stock exchange releases published by the company, and other information about the company, can be found in the Internet at the address <http://www.santasalo-jot.com>. Information about company shares is available in the Internet from the Helsinki Stock Market page http://www.hse.fi/suomi_yhtiot_saj.html.

Further information about Santasalo-JOT Ltd can be obtained from the company's head office at Aleksanterinkatu 17 (World Trade Center Helsinki), FIN-00100 Helsinki, tel. +358 9 2250 2701, fax +358 9 2250 2721.

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SANTASALO-JOT GROUP

The Santasalo-JOT Group consists of two sub-groups, JOT Components Group and Santasalo Group. The JOT Components Group specializes in foundry products, which it supplies mainly to Nordic heavy goods vehicle manufacturers and engineering companies, and HEPAC products. The Santasalo Group supplies industrial power transmission gear units for various industrial sectors and has a worldwide market. The Group has put much effort into strategic alliances to boost its marketing power and augment its service network. Santasalo-JOT runs its production operations on JIT principles. The Group utilizes the latest production technology to obtain the cost-efficiency of serial production in its order-driven production. The Group's operations are controlled by a comprehensive quality policy.

GROUP PERFORMANCE 1997

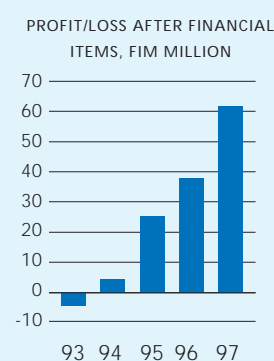
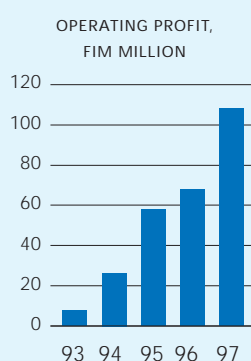
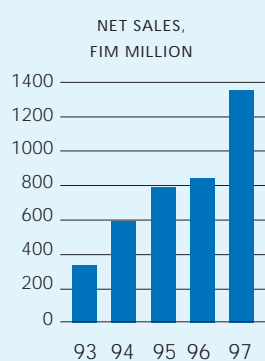
Santasalo-JOT Group, FIM million	1997	1996
Net sales	1,354.8	846.2
Share of exports and foreign operations, %	67.0	64.6
Profit after financial items	61.5	37.9
Net profit per share, FIM	5.60	3.75
Return on investment, ROI-%	10.3	9.6
Return on equity, ROE-%	13.9	12.1
Equity ratio, % *	34.8	32.9
Equity per share, FIM	42.00	32.00
Number of employees, December 31	2,898	1,446

* Includes preferred capital notes

PERFORMANCE OF SUB-GROUPS 1997

JOT Components Group, FIM million	1997	1996
Net sales	1,052	531
Operating profit	118	59
Orders received	1,141	524

Santasalo Group, FIM million	1997	1996
Net sales	304	332
Operating profit	-10	13
Orders received	319	309



SANTASALO-JOT GROUP'S STRUCTURE AND MANAGEMENT

JOT COMPONENTS GROUP



Cast Components

The JOT Components Group's Cast Components Division makes cast components for northern European manufacturers of heavy trucks and mechanical engineering companies. The division contains six foundries and four engineering workshops that specialize in the machining and surface treatment of cast components in Finland and Sweden.



Special Components

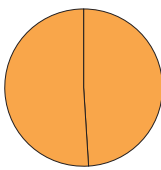
The JOT Components Group's Special Components Division contains companies that have specialized in the production of forged components, steel castings and special components for the automotive industry. The division supplies its products to manufacturers of heavy trucks, mechanical engineering companies and manufacturers of construction equipment.



Municipal Engineering

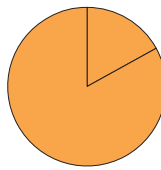
The JOT Components Group's JOT Aqua Division has specialized in the manufacture of manhole covers and in the manufacture, sale and marketing of pipes and pipe fittings. The division has a foundry in Finland and its main markets are the countries in the Baltic Sea region.

SHARE OF GROUP
NET SALES, 1997



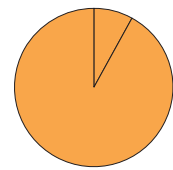
49%

SHARE OF GROUP
NET SALES, 1997



17%

SHARE OF GROUP
NET SALES, 1997



8%

GROUP EVENTS IN 1997

7 JAN 1997 - SANTASALO LTD ANNOUNCES THAT IT IS PLANNING A MAJOR EXPANSION OF ITS PRODUCT RANGE. THIS WILL REQUIRE A NEW PRODUCTION LINE IN KARKKILA.

30 JAN 1997 - SANTASALO-JOT ANNOUNCES THAT IT IS PURCHASING THE OPERATIONS OF ASKO COMPONENTS FROM ASKO OY. THIS MAKES THE JOT COMPONENTS GROUP THE LARGEST MANUFACTURER OF CAST COMPO-

NENTS IN THE NORDIC COUNTRIES. SANTASALO-JOT ISSUES 400,000 SHARES TO ASKO OY.

11 MAR 1997 - SUOMIVALIMO OY ANNOUNCES THAT IT IS INCREASING PRODUCTION CAPACITY IN IISALMI.

17 MAR 1997 - THE DECISION IS TAKEN AT AN EXTRAORDINARY SHAREHOLDERS' MEETING OF SANTASALO-JOT LTD TO ISSUE 600,000 NEW SHARES AND PREFERRED CAPITAL NOTES TO THE VALUE OF FIM 75 MILLION TO FINANCE THE PURCHASE OF ASKO COMPO-

NENTS. IT IS ALSO DECIDED TO ISSUE FIM 6 MILLION WORTH OF BONDS WITH WARRANTS TO PERSONNEL.

19 MAR 1997 - JOT COMPONENTS ANNOUNCES THAT IT IS CLOSING THE LAHTI FOUNDRY AND TRANSFERRING ITS PRODUCTION TO OTHER FOUNDRIES IN THE GROUP. LAHTI FOUNDRY WILL BE CLOSED DOWN BY THE END OF 1997.

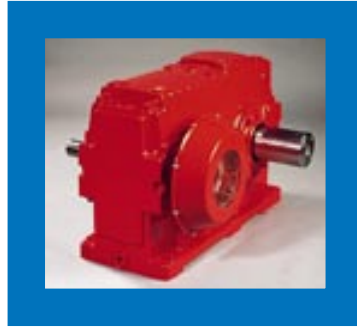
14 APR 1997 - SANTASALO LAUNCHES TWO NEW PRODUCT SERIES AT THE HANNOVER INDUSTRIAL FAIR. ONE OF THE SERIES WILL REPLACE THE COMPANY'S MAIN PRODUCT SERIES.

SANTASALOGROUP



Heating Division

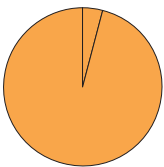
The JOT Components Group's Heating Division manufactures welded steel plate and cast iron central heating boilers for homes and larger buildings. The division's main markets are in Finland, but it also exports boilers to Sweden, the Baltic countries, Russia and central Europe.



Santasalo

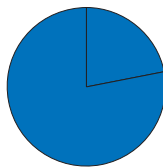
The Santasalo Group has specialized in the design and manufacture of industrial power transmission gear units. The company manufactures its products in Finland, Germany, Canada and China. Santasalo gear units are used all over the world in several industrial sectors.

SHARE OF GROUP
NET SALES, 1997



4 %

SHARE OF GROUP
NET SALES, 1997



22 %

BOARD OF DIRECTORS

YRJÖ M. LEHTONEN (67)
CHAIRMAN SINCE 1987

JOUKO KOSKINEN (61)
BOARD MEMBER SINCE 1989

ANTTI LEHTONEN (41)
BOARD MEMBER SINCE 1987

HEIKKI LEHTONEN (38)
BOARD MEMBER SINCE 1987

OLLI REENPÄÄ (63)
BOARD MEMBER SINCE 1995

CORPORATE MANAGEMENT

HEIKKI LEHTONEN, PRESIDENT
ARTO KIISSINEN, CORPORATE FINANCE
AKI MÄNTTÄRI, HUMAN RESOURCES

JOT-COMPANIES LTD

ANTTI LEHTONEN, PRESIDENT
YRJÖ JULIN, VICE PRESIDENT
TANELI VIRTANEN, FINANCE

SANTASALO LTD

HEIKKI LEHTONEN, PRESIDENT
MARKKU PIETILÄ, VICE PRESIDENT
MARKKU PIRSKANEN, FINANCE

AUDITORS

KARI MIETTINEN, CPA
SVH COOPERS & LYBRAND OY,
AUTHORIZED PUBLIC ACCOUNTANTS

14 MAY 1997 - HEATING DIVISION ANNOUNCES THAT IT IS TRANSFERRING PRODUCTION TO LARGER PREMISES IN SAARIJÄRVI

23 MAY 1997 - SANTASALO-JOT GROUP'S FIRST INTERIM REPORT SHOWS A PROFIT AFTER FINANCIAL ITEMS OF FIM 14 MILLION FOR JAN-APR.

5 JUNE 1997 - SANTASALO LTD ANNOUNCES THAT IT WILL START TO PRODUCE A NEW PRODUCT SERIES IN KARKKILA.

19 SEP 1997 - SANTASALO-JOT GROUP'S SECOND INTERIM REPORT SHOWS A PROFIT AFTER FINANCIAL ITEMS OF FIM 36 MILLION FOR JAN-AUG.

15 OCT 1997 - JOT COMPONENTS LTD ANNOUNCES THAT IT IS BUYING ALL THE SHARES OF COMPONENTA INDUSTRI AB FROM SVEDALA INDUSTRI AB. THE COST IS SEK 408 MILLION. THE ACQUISITION PARTICULARLY REINFORCES THE MARKET POSITION OF JOT COMPONENTS GROUP'S CAST COMPONENTS DIVISION IN SWEDEN.

26 NOV 1997 - SANTASALO-JOT LTD ANNOUNCES IT IS ARRANGING AN ISSUE OF 1 - 1.4 MILLION SHARES AND PREFERRED CAPITAL NOTES OF FIM 40 -75 MILLION TO FINANCE THE PURCHASE OF COMPONENTA INDUSTRI AB.

8 DEC 1997 - SANTASALO-JOT LTD ISSUES SHARE OPTIONS AND CONVERTIBLE BONDS TO THE MANAGEMENT AND PERSONNEL OF COMPONENTA INDUSTRI AB.

PRESIDENT'S REVIEW

During 1997 Santasalo-JOT made two strategic company acquisitions which considerably strengthened the company's position in the Nordic countries. With the growth in the JOT Components Group, Santasalo-JOT's net sales rose to more than FIM 1.3 billion and about half of its business operations are now in Sweden.

In recent years Swedish companies have established a footing in Finland in many different sectors. Now, like the Santasalo-JOT Group, more and more Finnish companies are expanding in Sweden and the other Nordic countries. The reasons for this trend are the same on both sides of the Gulf of Bothnia: to be successful, companies facing international competition need an operational base that is sufficiently extensive to enable them to operate effectively and to give them credibility both in the European Union and worldwide.

For many Nordic companies, Finland and Sweden together form a dependable and sufficiently large domestic market from which they can build up their businesses into competitive operations. However, the Nordic market area is attracting major companies from the rest of Europe, and their entry on the scene has intensified competition in all sectors. The Nordic companies that will best retain their competitiveness will be those that have already broadened their outlook outside their national and usually well protected markets. These are the companies that will in future be in the position to break out and expand from Nordic countries into larger markets.



HEIKKI LEHTONEN, PRESIDENT
SANTASALO-JOT LTD

SANTASALO-JOT GROUP VALUES



MISSION

SANTASALO-JOT PROMOTES THE BUSINESS OF ITS CUSTOMERS BY PROVIDING SOLUTIONS THAT GIVE ADDED VALUE.

PART OF THE CUSTOMER'S PROCESS

For the Santasalo-JOT Group, the growth in company size makes it possible to take on a larger role in the customer's manufacturing process. A good example of this is JOT Components' Cast Components Division. The division can be responsible for the complete manufacturing process for products made for customers, and that includes taking part in product design, handling logistics, and everything up to delivery to the customer's assembly line.

One of the most important benefits gained from expanding the Santasalo-JOT Group is the opportunity to participate more closely in the restructuring of various business sectors. In the long term, restructuring and concentration will continue to take place in the sectors in which Santasalo-JOT is involved.

CONTINUOUS DEVELOPMENT

The operations of Componenta Industri and Asko Components, which joined the Santasalo-JOT Group in 1997, have already been integrated with the rest of the Group, and the process of developing them is fully underway. The Group aims to carry out a Total Quality of Management (TQM) programme in both its old and its new companies. Objectives determined by the Group and intra-group operating methods are applied to form success factors for Group companies.

The Group is also continuing its efforts to raise the level of specialization at all group companies. By specializing we are looking for both synergy benefits and further expansion through organic growth, in other words natural growth of operations. We aim to convert those operational models that still follow traditional methods into dynamic forces for building up operations, working on the principle of continuous change.

PROSPECTS

Market prospects for the Santasalo-JOT Group in 1998 are mainly encouraging. The market for the northern European heavy truck industry is expected to remain firm and that of Scandinavian mechanical engineering companies should improve.

Net sales of the JOT Components Group, which accounts for four fifths of the Group's net sales, are expected to continue to grow. For the Santasalo Group, however, uncertainty about the economic situation, especially in the Far East, will further reduce investments by the wood processing industry and slow down any growth in net sales.

The new products launched in 1997 and the expansion of the cooperation with SEW-Eurodrive will create possibilities for positive development in Santasalo Group.

Net sales of the Santasalo-JOT Group are expected to rise over FIM 1.8 billion in 1998 and the Group's financial performance is expected to improve.

GOALS

OUR GOAL IS TO BE THE LEADING SUPPLIER OF CAST COMPONENTS FOR HEAVY TRUCK MANUFACTURERS AND ENGINEERING COMPANIES IN THE NORDIC COUNTRIES AND OF SELECTED PRODUCTS IN EUROPE.

OUR GOAL IS TO BE THE LEADING SUPPLIER OF INDUSTRIAL GEAR UNITS IN THE WORLD AND TO WORK CLOSELY WITH CUSTOMERS.

OUR GOAL IS TO BE THE LEADING SUPPLIER OF MANHOLE COVERS IN THE NORDIC AND BALTIC COUNTRIES.

OUR GOAL IS TO BE THE LEADING SUPPLIER OF ENVIRONMENTALLY FRIENDLY HEATING SYSTEMS IN THE NORDIC COUNTRIES.



JOT COMPONENTS IS THE LEADING SUPPLIER OF CAST COMPONENTS IN THE NORDIC COUNTRIES.
THE FOCUS OF THE GROUP'S OPERATIONS IS IN FINLAND AND SWEDEN.



JOT COMPONENTS GROUP

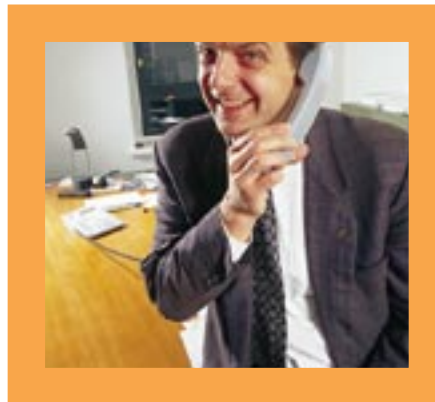
The JOT Components Group had net sales in 1997 of FIM 1 052 million, which was 98 per cent more than in 1996. The group had an operating profit of FIM 118 million, FIM 59 million in the previous year.

The growth in the group's net sales was mainly due to company acquisitions. In March the business operations of Asko Components were merged with the group and in October the operations of the Swedish company Componenta Industri joined the group. As a result of these changes the operations of JOT Components have been organized into the following divisions: Cast Components, Special Components, JOT Aqua and Heating.

The biggest division is Cast Components, which had net sales in 1997 of FIM 677. The second largest, Special Components, had net sales of FIM 239 million. Net sales for the Municipal Engineering Division totalled FIM 105 million and those of the Heating Division FIM 49 million.

The group's main customers are northern European heavy truck manufacturers and Scandinavian mechani-

cal engineering companies. The group has 22 production units, of which 13 are located in Sweden and eight in Finland. The group has 1 232 employees in Sweden and 1 047 in Finland. The group also has a subsidiary in Tallinn, Estonia. About half of the group's net sales come from the Swedish companies.



ANTTI LEHTONEN, PRESIDENT
JOT COMPONENTS LTD

RESULTS THROUGH SPECIALIZATION

One of the most important goals for the JOT Components Group is to raise the level of specialization by the group's production units. In practice, specialization means that the work

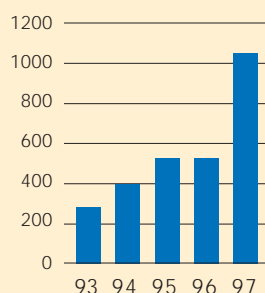
carried out by each unit is defined in relation to the areas of expertise of the group's other units, and not simply on the basis of the unit's own goals.

This strategy will increase the efficiency of the companies since it will streamline production and eliminate superfluous operations that are outside the company's area of specialization. Specialization enables the group's companies together to offer customers an extensive and competitive range of products.

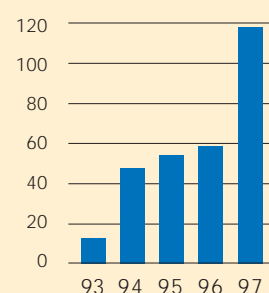
The impact of specialization can be clearly seen in the production figures for the foundries. Between 1990 and 1997 the combined output from foundries in the group for the period has risen from 60,900 tonnes to 71,200 tonnes. During this time the number of production lines has fallen from 26 to 12. Today the production lines at the foundries have an average annual output of 5,900 tonnes, compared to 2,350 in 1990.

The JOT Components Group is now sufficiently large so that it can increase specialization at its production units effectively. With the acqui-

JOT COMPONENTS GROUP'S
NET SALES 1993-1997, FIM MILLION



JOT COMPONENTS GROUPS OPERATING
PROFIT 1993-1997, FIM MILLION



JOT COMPONENTS GROUP

sition of Asko Components and Componenta Industri, the group has become the largest supplier of cast and forged components in the Nordic countries. It has clearly specialized in serving heavy goods vehicle manufacturers and mechanical engineering companies. Municipal Engineering Division has in turn a strong market position in Finland and Sweden in manhole covers, its main products, and the Heating Division is the leading supplier of central heating boilers in Finland.

CUSTOMERS THE CAUSE OF GROWTH

The growth experienced by the JOT Components Group during the 1990s has been possible because of changes in the way customers are operating. Manufacturers of heavy goods vehicles are giving up parts of their own production and transferring the supply of components to their partners. This is the case particularly with products that require large investments in production.

Cast components are products that

demand capital intensive production machinery and JOT Components Group has concentrated their production at specialized foundries. JOT Components has been a pioneer in the Nordic countries in concentrating production in this way and has given customers the opportunity to outsource their casting operations.

Along with the outsourcing trend,



JOT COMPONENTS GROUP'S UNITS
 ● FOUNDRIES ● HEATING DIVISION
 ● MACHINE SHOPS
 ○ MUNICIPAL ENGINEERING DIVISION

companies using cast components are also concentrating their sub-contracting. Their reasons for this are increased efficiency and the opportunities for joint R & D that arise from working

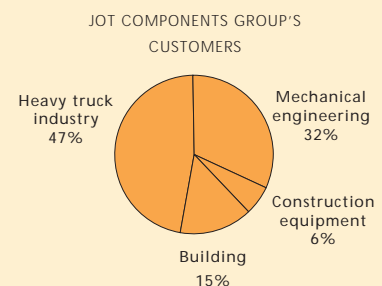
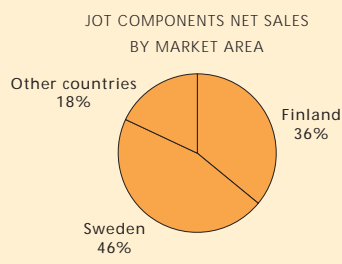
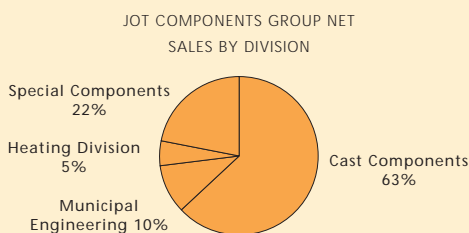
more closely with individual suppliers. The supplier can even design the complete cast component for the customer, and take responsibility for machining it and delivering it to the customer's assembly line.

Several projects are underway in the JOT Components Group that will further this development. For example one of the key objectives is to reduce the time to market by using CAD/CAM methods in the construction, pattern manufacturing and machining stages of the production.

NEED TO CONTROL LOGISTICS CHAIN

One of the key factors in the success of the JOT Components Group is the way it manages production logistics. The group follows the principles of just in time (JIT) operations, and these are applied to the operations of the different companies.

JOT Components' foundries and engineering workshops together form logistics chains that exist to make the production chain more efficient, meeting the requirements of individual



JOT COMPONENTS, Cast Components

customers. In the chain the products of a Finnish foundry, for example, go to a Swedish engineering workshop in the group for machining and surface treatment. At the end of the process, the finished product is delivered on time to the assembly line specified by the customer. The single logistics chain considerably reduces the time between placing the order and delivery, and in addition significantly increases the product's added value.

ENCOURAGING MARKET PROSPECTS

One of the main challenges facing the JOT Components Group in the near future is to raise the level of specialization in the Special Components Division, which will result in major synergy benefits in the division's operations. Market prospects for the group in 1998 continue to be good.

CAST COMPONENTS DIVISION

The Cast Components Division consists of four Finnish and two Swedish foundries and three Swedish engineer-

ing workshops. The division had net sales in 1997 of FIM 677 million (FIM 426 million the previous year) and an operating profit of FIM 95 (49) million.

The Cast Components Divisions forms the most advanced group of companies specializing in cast products in the Nordic countries, specializing in cast iron. The division's workshops have specialized in their own



YRJÖ JULIN, DIRECTOR
CAST COMPONENTS DIVISION

areas of expertise.

The division's largest customer groups are northern European heavy goods vehicle manufacturers and Scandinavian mechanical engineering companies. The division's products include e.g. chassis, engine and power transmission

components for heavy trucks, electric motor, valve and gear housings, cast gears and many other components for engineering industries.

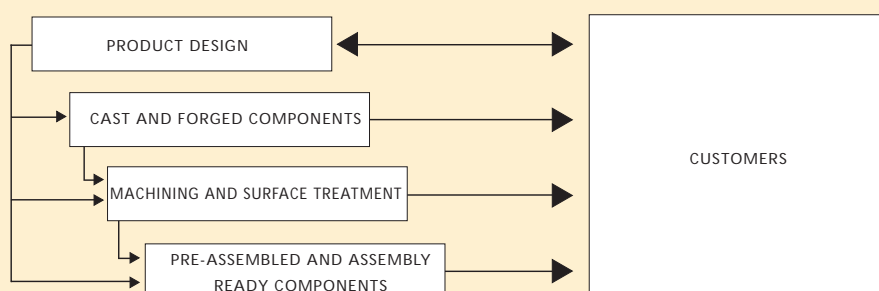
FROM FOUNDRIES TO COMPONENT SUPPLIERS

The Cast Components Division companies are modern component suppliers that generate much greater added value for their customers than traditional foundries. The division is increasingly involved in adding more value to its cast products by e.g. machining and powder coating components and even assembling axles fittings, bushings etc. and thus delivering preassembled systems ready to install to the customer.

The operations of the Cast Components Division are customer-driven, which requires the ability to adapt quickly to fluctuations in demand and the potential to introduce new products at short notice. The division's efficient production methods and flexible work shifts make this possible.

The division is working developing the latest design methods, includ-

THE LOGISTIC SYSTEM OF JOT COMPONENTS GROUP



JOT COMPONENTS, Cast Components

ing 3-D CAD systems with solidification simulation and computer aided pattern and component machining. Cast Components Division is taking a greater responsibility of the customers' product design for cast components.

SPECIALIZATION AT ENGINEERING WORKSHOPS DEPENDS ON THE PRODUCT

The way in which the Cast Components Division's engineering workshops specialize is governed by the size and complexity of the items to be processed and by the scale of the production series. The Åmål and Osby machineshops, for example, specialize in utilizing modern FMS production for machining larger castings requiring various complicated machining steps with high degree of tolerances.

The role of engineering workshops has grown in recent years as customers have increasingly transferred the purchasing of cast components to suppliers. The workshops often play a decisive role, in generating added value for

the customer and also for the division's competitiveness.

INTERNATIONAL MARKETS FOR CAST COMPONENTS

A strong movement towards more international operations is affecting the Cast Components Division's operations, as customers outsource their purchasing of castings. The foundry business used to be an extremely localized operation; as a rule foundries produced castings close to the customer, in other words the works that used the castings. In fact, many foundries even today are an internal production unit within a company.

Many sectors are now changing from this method of operating to the supplier model that the Cast Components Division represents, in which the production of components is outsourced to specialized units. This may mean geographically wider operating area when sub-contracting is concentrated to bigger sub-contractors.

In 1997 39 per cent of the Cast Components Division's net sales came

from Finland, 39 per cent from Sweden and 22 per cent from other countries. The division's goal is to further increase its international operations and in particular deliveries to central Europe, where it still is uncommon to purchase outside domestic markets.

KEY FIGURES OF CAST COMPONENTS DIVISION

	1997	1996
NET SALES, MFIM	677	426
-EXPORTS AND OPERATIONS OUTSIDE FINLAND %	61	60
OPERATING PROFIT, MFIM	95	49
NUMBER OF PERSONNEL 31.12	1,485	706

JOT COMPONENTS, Special Components

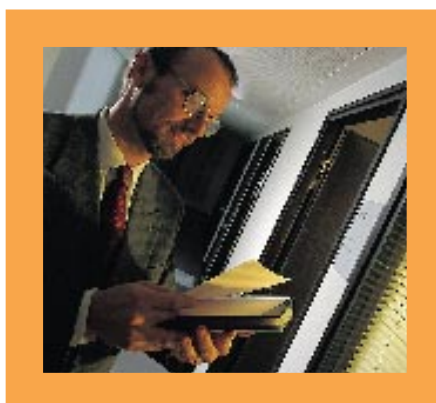
SPECIAL COMPONENTS DIVISION

The Special Components Division was formed during 1997 by combining Asko Components' production units for forged components and special components and those of Componenta Industri for steel and copper castings, as well as its gear wheel factory, in the same division. All the division's production units are located in Sweden and each has specialized in its own area of expertise. The division's companies also regularly work as sub-contractors for each other.

The Special Components Division had net sales in 1997 of FIM 239 million and an operating profit of FIM 9 million.

The Special Components Divisions has to a large extent a common customer base with JOT Components' Cast Components Division. The largest customer groups are heavy truck manufacturers, mechanical engineering companies and manufacturers of construction equipment.

The main products of the division's forging operations are forged components, from which special gear wheels, for example, are made for heavy trucks. The forges supply a substantial part of their output to the division's engineering workshops, which machine the products for individual customers. This is a similar logistics chain to that in the Cast Components Division, al-



MATS BERGSJÖ, DIRECTOR
SPECIAL COMPONENTS DIVISION

though the chain has lesser degree of integration.

A logistic chain also exists within the Wear Parts area for construction-, mining-, and dredging industry,

which involves the steel foundries and the development- and distribution company.

The division also contains a company that supplies tubular special components to the automotive industry as well as a foundry that specializes in copper castings.

SYNERGY BENEFITS

Work on developing the operations of the Special Components Division within the JOT Components Group started during 1997. The goal is to raise the level of specialization by the companies, by increasing the level of cooperation between the companies in the division, and to achieve the benefits of synergy by building up logistics chains within the group.

The main factor affecting the future of the Special Components Division will be how well its production units manage to respond to changes in their operations. The market prospects for the division are mainly good.

KEY FIGURES OF SPECIAL COMPONENTS DIVISION

	1997	1996
NET SALES, MFIM	239	*
-EXPORTS AND OPERATIONS OUTSIDE FINLAND %	100	
OPERATING PROFIT, MFIM	9	
NUMBER OF PERSONNEL 31.12	622	

*THE DIVISION WAS FORMED IN 1997

JOT COMPONENTS, Municipal Engineering

MUNICIPAL ENGINEERING

The Municipal Engineering Division had net sales in 1997 of FIM 105 million, which was FIM 36 more than in 1996. The division had an operating profit of FIM 15, compared to FIM 11 the previous year.

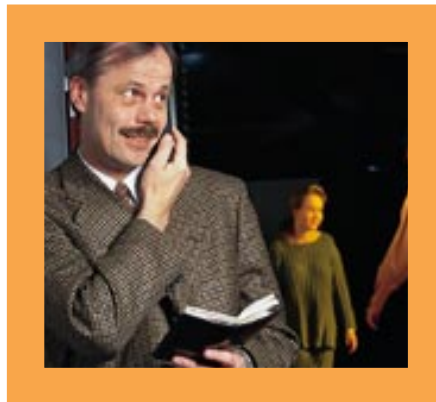
The increase in the division's net sales was mainly due to the integration of Asko Components comparable operations to the division. Operations were organized during 1997 into a single company which operates under the name JOT Aqua Ltd.

The main products of the Municipal Engineering Division are manhole covers and cast iron pipes and accessories. The division has operations in Finland, Sweden and the Baltic countries. In addition to its production it is a major agent for other products in Finland.

The markets of the Municipal Engineering Division are directly affected by the volume of construction in Finland and Sweden. The division's products are used in the construction

of water supply and sewer networks for new residential areas and when the networks are repaired. The largest customers are municipal authorities, as well as plumbing firms and subcontractors.

The division's market picked up during 1997 thanks to the recovery in the construction sector. It obtained an even stronger market position in Fin-



MATTI ANDERSIN, DIRECTOR
MUNICIPAL ENGINEERING DIVISION

land and the acquisition of Componenta Industri's operations has considerably reinforced the division's market position in Sweden. The division has a particularly strong market position in

manhole covers in Finland and Sweden because of its efficient production and nationwide distribution network. The Municipal Engineering Division is the largest manufacturer of manhole covers in the Baltic Sea area.

The Municipal Engineering Division's exports to the Baltic countries have grown in recent years. The company has established a significant position in Estonia as a supplier of water and heating accessories. The division operates in the country through a subsidiary.

The market prospects for the Municipal Engineering Division are good. The volume of construction is expected to grow in Finland and Sweden and exports to the Baltic countries should also continue to grow.

KEY FIGURES OF MUNICIPAL ENGINEERING DIVISION

	1997	1996
NET SALES, MFIM	105	69
-EXPORTS AND OPERATIONS OUTSIDE FINLAND %	31	25
OPERATING PROFIT, MFIM	15	11
NUMBER OF PERSONNEL 31.12	102	89

USAGE OF MUNICIPAL ENGINEERING DIVISION'S PRODUCTS



JOT COMPONENTS, Heating Products

HEATING DIVISION

The Heating Division had net sales in 1997 of FIM 49 million, FIM 44 in the previous year. The division's operating profit was FIM 7 (4) million.

The Heating Division consists of Högfors Lämpö Ltd, which manufactures cast iron and welded steel plate central heating boilers at Saarijärvi for homes and larger buildings.

The largest factor affecting the Heating Division's markets is the level of new building and building repairs in Finland. The division's exports to the Baltic countries and Russia are growing strongly and exports to Sweden have also increased in recent years. The market with the greatest potential for growth is still Russia.

The price of electricity for heating compared to the price of other forms of energy has a long term effect on the market for the division's products. Heating oil is the commonest source of energy for the boilers, and this has become much more competitive in recent years when compared to electric

heating. The electricity markets in the Nordic countries have been opened up to competition, and the price of electricity has risen. This has already been reflected in the choices made by consumers and increased the popularity of boiler-fired central heating compared to electric heating.

The choice of forms of energy available also increased when Högfors Läm-

the use of bio-energy is expected to increase considerably as a source of heating.

The Heating Division has concentrated its production in Saarijärvi. At the beginning of 1998 the division moved its production lines into more functional premises and modernized and increased the efficiency of its production. The division's market prospects for 1998 are good.

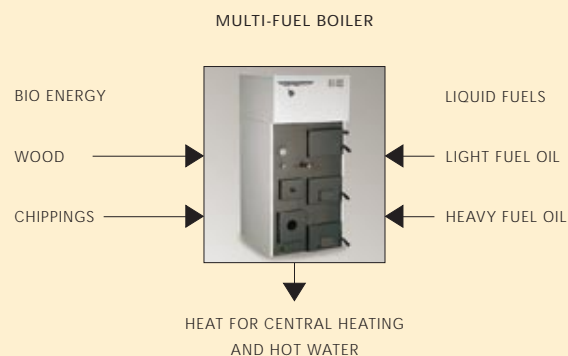


KLAUS SKOGBERG, DIRECTOR
HEATING DIVISION

pö introduced automated systems using solid fuels. In addition to this, the latest boilers can utilize several different fuels and make efficient use of bio-energy, for example. In the long term

KEY FIGURES OF HEATING DIVISION

	1997	1996
NET SALES, MFIM	49	44
-EXPORTS AND OPERATIONS OUTSIDE FINLAND %	22	20
OPERATING PROFIT, MFIM	7	4
NUMBER OF PERSONNEL 31.12	86	74





OUR GOAL IS TO BE THE LEADING SUPPLIER OF INDUSTRIAL GEAR UNITS IN THE WORLD
AND TO WORK CLOSELY WITH OUR CUSTOMERS.



SANTASALO GROUP

The Santasalo Group specializes in the manufacture of gear units for the power transmission needs of industry. The Group had net sales in 1997 of FIM 304 million, FIM 332 million in the previous year. The Group had an operating result of FIM -10 (13) million.

The Santasalo Group has gear unit factories in Finland, Germany, Canada and China, as well as a factory making components in Belarus. The group's factories in Finland, Canada and China each make bevel and helical industrial gear units for their own market areas. The factory in Germany manufactures planetary gear units for all market areas.

Factory 2000 in Karkkila, adjacent to the group's parent company Santasalo Ltd that operates in Finland, forms the R & D centre for the group and is also the main production plant for helical gears. Factory 2000 manufactures large special gear units for all market areas.

PARTNERSHIP PROVIDES EXTENSIVE MARKETING NETWORK

The Santasalo Group has a close partnership with the German company SEW-Eurodrive, one of the largest manufacturers of industrial gear units in the world. SEW-Eurodrive has a minority holding in Santasalo Ltd. SEW-Eurodrive markets Santasalo gear units worldwide and Santasalo is also currently involved in a project to launch a new series of gear units to SEW-Eurodrive marketing network.

The Santasalo and SEW-Eurodrive partnership covers most of the world's gear unit markets. The partnership has opened up to the Santasalo Group worldwide marketing channels, for which Santasalo's own service network provides technical support.

The alliance between the two companies is based on the benefits both derive from it. With SEW-Eurodrive's help Santasalo has been able to build a world wide marketing network extremely quickly. SEW for its part ben-

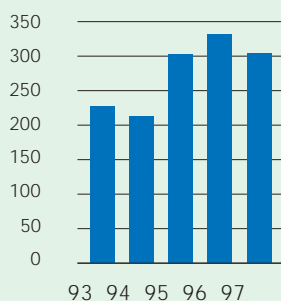
efits from Santasalo's expertise in large industrial gear units, since SEW's main expertise lies in small geared motors.

SERVICES TAKE ON GREATER IMPORTANCE

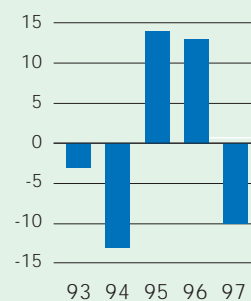
Santasalo's industrial gear units are frequently in a strategically important place in the customer's production process. The key machines in the process industry, for example, are driven by means of gear units, and it is of primary importance to ensure that they operate reliably in all circumstances. The need to prevent unplanned stoppages in production opens up opportunities for services related to industrial gear units.

Santasalo has set up a separate business unit, Santasalo Service, to plan and develop services relating to the installation and maintenance of industrial gear units. Various services are expected to grow rapidly in importance in the future.

SANTASALO GROUP'S NET SALES
1993-1997



SANTASALO- GROUP'S OPERATING
PROFIT 1993-1997



SANTASALO GROUP

HEAVY EMPHASIS ON PRODUCT DEVELOPMENT SHOWS IN PROFITS

The products of the Santasalo Group are known worldwide for their high technical quality; the company's name is particularly connected with many special gear units for the wood processing industry. Products for the wood processing industry accounted for 40 per cent of Santasalo's total sales in 1997.

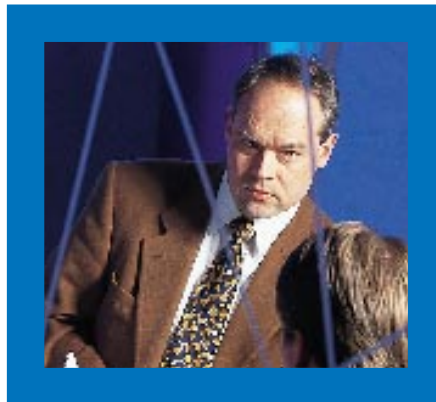
Santasalo's reputation has been built up through its intensive R & D work, and this utilizes Santasalo's many years' experience of industrial power transmission needs. In 1997 Santasalo launched two new product series: the Quatro series, based on planetary gear technology, and the M series, which replaces the company's main product series.

These product series, which were on display in the spring in Germany, generated considerable interest, but sales of the old product range fell as the markets started to wait for the new models. This difficult situation was prolonged because the start of sales of the M series was postponed to the end

of the year. Anticipation of the M series also delayed the expansion of SEW-Eurodrive's sales in the USA.

SALES OF NEW PRODUCTS TO START

The decline of capital expenditure in wood processing industry in recent years and particularly in 1997 as a consequence of turmoil in Far-East



MARKKU PIETILÄ, VICE-PRESIDENT
SANTASALO LTD

has had a negative impact on Scandinavian mechanical engineering industry. In Santasalo's sales the share of end-user applications for wood-processing industry has declined in comparison to other industries' share.

The effects of the uncertainty in the Far East markets is expected to be offset by the start of sales of the M series, and this will also make it possible to further expand the marketing alliance with SEW-Eurodrive in North America.

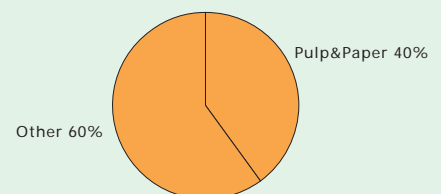
Demand for planetary drive technology is expected to pick up as German industry boosts its exports. However, possible repercussions from the difficult economic situation in the Far East create uncertainty about the market in Europe.

Santasalo's net sales for 1998 are expected to rise. The group's profits are expected to improve, but they will still be poor.

SANTASALO GROUP KEY FIGURES

FIM MILLION	1997	1996
NET SALES	304	332
OPERATING PROFIT	-10	13
EXPORTS AND OPERATIONS OUTSIDE FINLAND, %	79	82
ORDERS RECEIVED	319	309

SANTASALO GROUP NET SALES BY INDUSTRY AREAS 1997



PRINCIPLES FOR DEVELOPING THE SANTASALO-JOT GROUP

Several projects are in progress at the Santasalo-JOT Group that together reflect the principles on which the Group bases its personnel development and its efforts to improve the quality of its operations and increase environmental awareness.

The most important of these projects are the Total Quality Management (TQM) programme, and the European Quality Award (EQA) system used to assess the programme's results, as well as the environmental and occupational health and safety policies being drawn up and the TYKY programme to improve fitness at work. Each of these projects will have long-term repercussions affecting the operations of the entire Group.

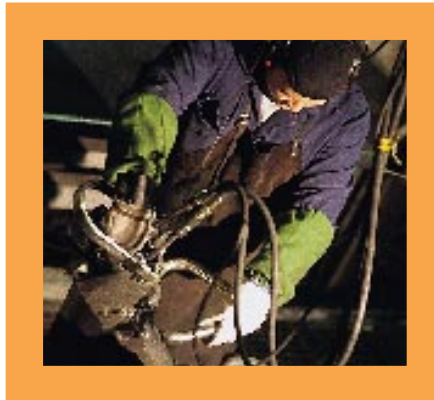
TQM ALTERS THE CONCEPT OF WORK

The objective of the Santasalo-JOT Group's TQM project is to formulate uniform management principles for all the companies in the Group. So this project aims to improve the quality of management and is not a quality project in the ordinary sense.

The Group has defined the starting point for the quality of its operations as a quality system conforming to ISO

9001 standards. This standard lays a foundation for starting to develop quality systematically.

The Santasalo-JOT Group's TQM programme will change the old concept of work. In the past a clear demarcation has existed in the mechanical engineering industry between those who do the work and those who plan and supervise the work. The main idea



behind TQM is to get each employee to assess and develop their own work. Through the TQM project everyone is given training and the tools, in other words various procedures and methods, for this development work.

CLEARLY DEFINED OBJECTIVES
TQM will increase the competitiveness of Group companies by make

operations more customer-oriented. As the work progresses, customer and job satisfaction will increase, and the long-term goal is to ensure that the Group continues to develop by constantly improving its operations.

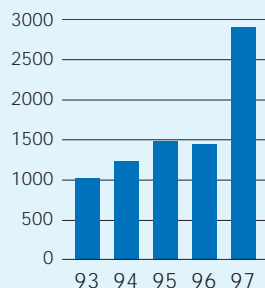
One of the specific objectives of the TQM project is that it should involve the entire workforce by the end of 1998. Many of the Santasalo-JOT Group's personnel will be actively using TQM tools by the end of 1999. Another objective is to reduce considerably the cost of the group's quality operations.

GETTING PERSONNEL INVOLVED

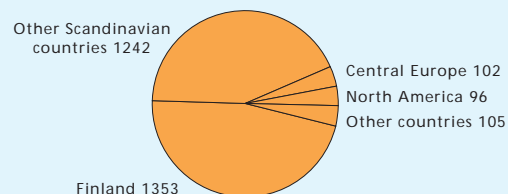
The TQM programme will eventually affect all personnel in the Santasalo-JOT Group. For this reason the TQM project can also be said to be one of the most important elements in personnel development. TQM gives the Santasalo-JOT Group the opportunity to develop a diversity of skills and then to share its knowhow among the units in the Group.

And this is precisely one of the ideas underlying the group's operations, namely to transfer technology from one unit to another. Then the

NUMBER OF PERSONNEL IN SANTASALO-JOT GROUP 1993-1997

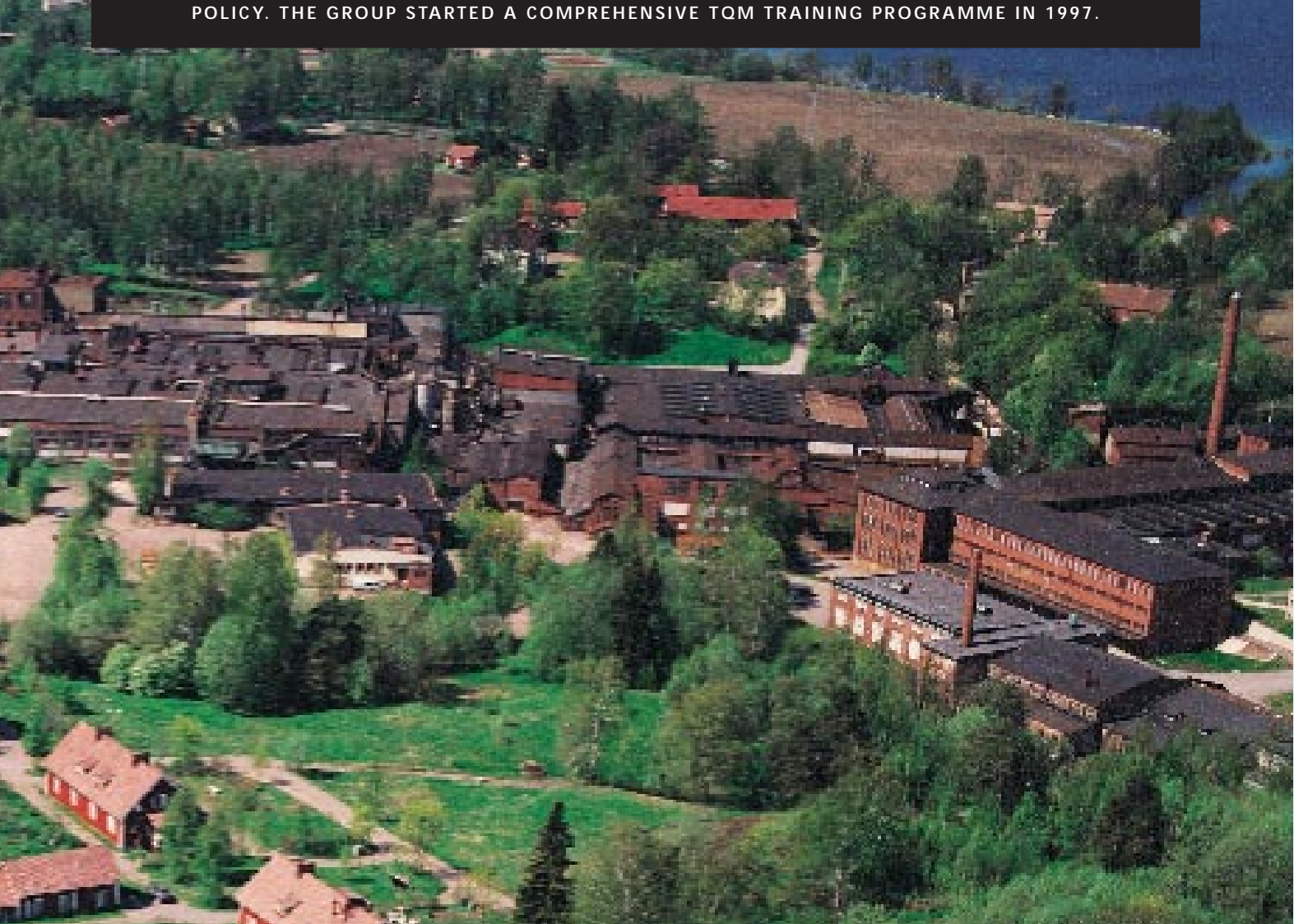


DISTRIBUTION OF PERSONNEL BY COUNTRY





ALL THE OPERATIONS OF THE SANTASALO-JOT GROUP ARE CONTROLLED BY A DETAILED QUALITY POLICY. THE GROUP STARTED A COMPREHENSIVE TOM TRAINING PROGRAMME IN 1997.



PRINCIPLES FOR DEVELOPING THE SANTASALO-JOT GROUP

knowhow acquired by certain units can be used to build up new business operations in other units.

Behind these developments lies the constant need to increase flexibility, as changes in the market take place with ever greater speed. The Santasalo-JOT Group has been one of the pioneers in increasing flexibility in work practices in the mechanical engineering industry. A prerequisite for the programme has been the desire of personnel to learn a diversity of skills and their strong sense of responsibility for developing their own work.

FITNESS AT WORK

A pilot project of action to improve fitness at work is underway at the Santasalo-JOT Group. It aims to develop methods to keep people fit for work and avoid the associated financial risks. The Group's personnel in Karkkila are taking part in the project.

The company's employees, management, occupational health service and pension insurance company are together involved in carrying out the activities. The aim is to develop an effective control system for fitness at work so that through regular monitor-

ing remedial measures can be taken at a sufficiently early stage.

The TYKY pilot project covers the three areas involved in the activities to maintain fitness at work, namely the individual, the work community, and work and the work environment. The project aims at total well-being for personnel and the work community, and to raise the level of work skills and occupational safety. The action to maintain fitness at work supports the objective of the Santasalo-JOT Group to build a work environment that is more attractive and less harsh than what has been the norm in the mechanical engineering industry.

ENVIRONMENT, OCCUPATIONAL HEALTH AND SAFETY

The sectors in which the Santasalo-JOT Group operates are not normally associated with those that place a heavy load on the environment. However, some surveys have shown that foundries are one of the hardest work environments.

The Group is currently drawing up environmental and occupational health and safety policies, defining the responsibilities of all Group subsidiar-

ies in these areas. The project also involves identifying any harmful effects of operations and taking steps to prevent them.

Regular monitoring of environmental loads already takes place at production plants, especially at the foundries which have the greatest impact on the environment. Environmental work is most advanced at the Group's Swedish companies, where the country's highly developed environmental legislation places specific demands on operations.

Growing environmental awareness and in particular the continual need to improve working conditions mean that the Santasalo-JOT Group will have to increase the amount it spends on these matters. The Group's goal is to become a leader in these areas as well and to ensure that it can control the economic impact of any environmental risks in the future.

REPORT BY THE BOARD OF DIRECTORS

SANTASALO-JOT EXPANDED THROUGH COMPANY ACQUISITIONS

During 1997 the Santasalo-JOT Group made two major company acquisitions. The Group purchased the operations of Asko Components from Asko Oy in February and acquired all the shares of Componenta Industri AB from Svedala Industri AB in October. The Group figures include Asko Components' figures as from 1 March 1997 and those of Componenta from 1 October 1997. Group net sales rose by 60% on the previous year's figures largely as a result of the acquisitions. In connection with the company acquisitions Santasalo-JOT arranged three targeted share issues that raised FIM 158 million in new shareholders' equity.

MARKETS

The healthy economic situation in the mechanical engineering industry continued in the Nordic countries and this had a positive effect on the operations of JOT Components. The latest available figures indicate that output by Finland's mechanical engineering companies grew by over 10 per cent in 1997. According to Sweden's Association of Engineering Workshops, output has risen by about 8 per cent in Sweden.

The order books of truck manufacturers saw substantial growth between the beginning and the end of the year. In their autumn interim reports, Nordic truck manufacturers announced average growth of 25 per cent in their order books on 1996 figures. The recovery in the level of investments in Europe had a positive effect on mechanical engineering companies in general as well as on manufacturers of heavy goods vehicles.

The growth in construction in Finland increased the sales of the Municipal Engineering and Heating Divisions compared to the previous year. The proportion of renovation work has remained high, which has particularly helped to raise the Heating Division's sales.

The low level of investment by the wood processing industry and the economic uncertainty in South-East Asia both had unfavourable effects on the number of orders received by the Santasalo Group. The economic situation in the Far East has caused decisions about new projects to be postponed. However, the disturbances in the macro-economy have not affected investments in maintenance and upgrades nor service operations.

OPERATIONS

The key feature in the operations of the JOT Components Group during the review year was the integration of the operations of Asko Components and Componenta into the group. The operations of Asko Components' Lahti foundry were closed down and its production was transferred to the foundries in Pietarsaari, Karkkila and Pori. Integrating the operations of Asko Components with other operations went as planned, and the anticipated annual synergy benefits of FIM 25 million should be achieved during 1998.

Following the acquisition of Componenta Industri AB, the group started a survey of resources and planning to ensure that estimated synergy benefits of FIM 21 million are achieved. Componenta's operations were reorganized and divided between the Cast Components and Special Components divisions. To ensure the smooth take over of Componenta, appointments were made in the organization and incentive schemes set up for employees and management.

The Municipal Engineering Division integrated comparable operations of Asko Components with its own operations for manhole covers and water and sewer systems. It also reorganized its operations and marketing under the JOT Aqua name. The Heating Division acquired more suitable premises in Saarijärvi, which place it in a better position to respond to increasing demand both in Finland and in nearby export markets.

The operations of the Santasalo Group were characterized by extensive product development and marketing. During the year the group launched two new product series. One of these, the M series, will replace Santasalo's current main product series. It was also decided to start work on developing a new modular product series. This series is aimed at the middle ground between Santasalo's industrial gear units and the geared motors of its partner SEW-Eurodrive, filling in the gap in their combined product range. The investments necessary for starting production of the new series have begun in Karkkila.

Sales through SEW-Eurodrive have matched expectations, and they account for a quarter of all Santasalo sales.

CHANGES IN CORPORATE STRUCTURE

In February Santasalo-JOT agreed with Asko Oy on the purchase of the operations of Asko Components for the sum of FIM 245 million. Asko Components' Pietarsaari foundry joined the Cast Components Division and the Lahti foundry was closed down at the end of December.

Asko Components' forges and engineering workshops in Sweden were formed into the Special Components Division.

In October JOT Components purchased all the shares of Componenta Industri AB from Svedala Industri AB. The price was FIM 284 million, in addition to which the Componenta Group had interest-bearing liabilities of FIM 86 million. Componenta's foundries and the Osby engineering workshop in Sweden joined the Cast Components Division. The company's other workshops joined the Special Components Division.

When Santasalo Ltd raised its share capital in July 1997, SEW subscribed to the new Santasalo Ltd shares to the value of FIM 8 million. As a result, SEW-Eurodrive's holding in Santasalo Ltd rose to 22 per cent.

NET SALES AND ORDER BOOK

Net sales for the Santasalo-JOT Group rose to FIM 1,355 (846) million, and the companies acquired during the year accounted for FIM 477 million of this. Comparable net sales rose by 4%. Exports and overseas operations accounted for FIM 908 (540) million, or 67% (64%) of total net sales. The Group's order book stood at FIM 355 (144) million at year end.

The JOT Components Group had net sales of FIM 1,052 (531) million. The Santasalo Group had net sales of FIM 304 (332) million.

PROFITS

Group profits after financial items improved to FIM 61 (38) million, or 4.5% (4.5%) of net sales. The profit before taxes and appropriations was FIM 30 (31) million. The Group's net profit for the year amounted to FIM 14 (11) million, and the balance sheet total on 31 December 1997 was FIM 1,761 (860) million. The parent company's profit before appropriations and taxes was FIM 32 million and the net profit for the year was FIM 23 million.

The operating profit for the JOT-Companies Group rose to FIM 118 (59) million in the year.

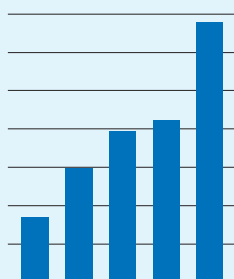
In the JOT Components Group the Cast Components Division made a healthy operating profit, improving from FIM 49 million to FIM 95 million. Capacity utilization, especially at the foundries, was high.

The Special Components Division had an operating profit of FIM 9 million. The division's performance mainly matched expectations.

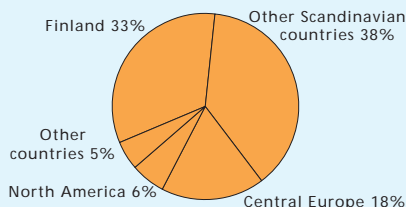
The Municipal Engineering Division's operating profit rose from FIM 11 million to FIM 15 million and was good. The Heating Division made an operating profit of FIM 7 million, the corresponding figure for the previous year was FIM 4 million.

Santasalo's performance did not match expectations since it made an operating loss of FIM 10 million, compared to a profit of FIM 13 million the

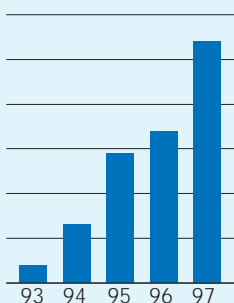
SANTASALO-JOT GROUP
NET SALES 1993-1997, FIM MILLION



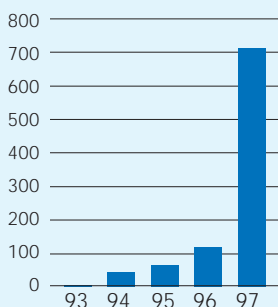
DISTRIBUTION OF SANTASALO-JOT GROUP'S NET SALES BY MARKET AREA 1997



SANTASALO-JOT GROUP'S OPERATING PROFIT
1993-1997, FIM MILLION



SANTASALO-JOT GROUP'S INVESTMENTS
1993-1997, FIM MILLION



previous year. Santasalo Scandinavia's operating profit declined from FIM 26 million the previous year to FIM 11 million. The operations of the factory in China were loss-making as had been expected; it made a loss of FIM 9 million. The operational performance of the factory in Germany improved from the previous year, but it still recorded an operating loss of FIM 8 (-16) million.

CHANGES IN SHARE CAPITAL

On 28 February 1997 Santasalo-JOT Ltd issued 400,000 shares to Asko Oy at a price of FIM 50 each.

On 19 March 1997 Santasalo-JOT Ltd launched an issue of 600,000 new shares with a nominal value of FIM 10 each to Finnish and international investors. The issue was fully subscribed during the subscription period and the subscription price was FIM 51 per share.

On 16 June 1997 the share capital of Santasalo-JOT was raised by FIM 3 million by converting to company shares some of the bonds with warrants issued to personnel on 25 August 1993. More of the same issue of bonds were converted to shares on 21 November 1997, and in consequence the company's share capital rose by FIM 2 million.

On 1 December 1997 an issue of 1,400,000 new shares with a nominal value of FIM 10 each was issued for Finnish and international investors. The issue was fully subscribed, with a subscription price of FIM 77 per share.

Through these share issues and the conversion of personnel bonds with warrants Santasalo-JOT Ltd's share capital rose from FIM 74 million at the beginning of the year to FIM 103 million on 31 December 1997 and through them the company raised a total of FIM 170 million in new shareholders' equity.

In April 1997 the company issued bonds with warrants to personnel to the value of FIM 6 million, which entitle personnel to subscribe by 30 April 2003 to 600,000 new shares at a

REPORT BY THE BOARD OF DIRECTORS

price of FIM 61 each. The bonds were fully subscribed.

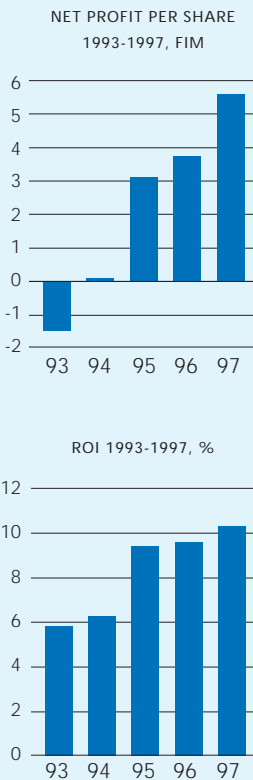
In December the decision was taken to issue from 2 January 1998 onwards 100,000 share options to the management of Componenta Industri AB, which entitle them to subscribe to 100,000 Santasalo-JOT shares, and convertible bonds to the value of SEK 8 million to personnel, which entitle personnel to subscribe to 64,000 new Santasalo-JOT Ltd's shares. The subscription price for the share options is FIM 87 and the conversion rate for the convertible bonds is SEK 125. The share options can be exercised and the bonds converted until 30 April 2003.

The share issues during the financial period were carried out to finance the major acquisitions of companies and business operations and to broaden the shareholder base. The subscription prices were based on the share price quoted at the time. The proportion of the shareholding and voting rights in the company based on previously issued shares was reduced by 32% as a result of the share capital increases.

At the end of the financial period the company's Board of Directors has no authorization for any further share issues.

INVESTMENTS

Investments by the Santasalo-JOT Group totalled FIM 712 (125) million during the financial year. The largest investments were the purchase of the operations of Asko Components, including its net working capital, for FIM 245 million and the purchase of the shares of Componenta Industri AB for FIM 284 million. Investments in other fixed assets totalled FIM 174 (125) million, of which the largest were FIM 57 million in production lines at the foundries and FIM 31 million in production machinery for Santasalo. Sales of fixed assets were FIM 27 (6) million. Research and development costs totalled FIM 16 (10) million, of which FIM 7 million was capitalized in development work on



Santasalo's completely new product series.

FINANCING

Despite considerable investments during the year, the Group's liquidity remained strong. The company's equity ratio including the preferred capital notes stood at 35% (33%). Two issues of preferred capital notes were made during the review period, one for FIM 75 million in connection with the purchase of Asko Components, and the other for FIM 60 million relating to the purchase of Componenta Industri AB. The Group's interest-bearing net liabilities excluding the preferred capital notes increased by FIM 367 million to FIM 808 million.

PERSONNEL

The Group had 2898 (1446) employees as of 31 December 1997. The average number of employees during the year was 2275 (1463).

In October Mr Yrjö Julin was appointed vice president of the JOT Components Group. In November Mr Mats Bergsjö, the president of Compo-

nenta, was appointed director of the Special Components Division.

PROSPECTS FOR 1998

Production volumes in the Nordic mechanical engineering sector are expected to rise in 1998, although the rate of growth may not match that of 1997. The economic situation in South-East Asia, and its possible indirect effects on business in Europe, which is important for the Santasalo-JOT Group, bring an element of uncertainty to forecasts. The strong market for heavy trucks manufacturers at the end of 1997 will probably continue in 1998.

The volume of construction should continue to rise in Finland, and the trend towards oil-fired central heating, particularly in renovation work, will benefit the Heating Division. Construction by municipal authorities is likewise expected to increase steadily.

Investments by the wood processing industry are expected to decline in 1998, so growth in deliveries by the Santasalo Group is expected to come mainly through increased sales of the new product series and through SEW-Eurodrive. Service operations should also become still stronger.

The encouraging prospects for the JOT Components Group's customer industries in 1998 and the synergy benefits arising from the company acquisitions place the operations of the Santasalo-JOT Group in a strong position for the current year. Santasalo's new product series are expected to increase sales and make it possible to raise capacity utilization. Net sales for the whole Group should rise to more than FIM 1.8 billion and its financial performance should improve on the previous year.

CONSOLIDATED INCOME STATEMENT

(FIM 1000)	1.1.-31.12.1997		%		1.1.-31.12.1996		%	
Net sales		1,354,792		100.0		846,168		100.0
Change in finished goods inventory		-8,234				-7,562		
Production for own use		4,400				1,774		
Share of loss in associated companies		-887				-		
Other revenue from business operations		3,144				2,010		
Expenses								
Materials, supplies and goods		433,503				269,242		
Change in inventory		-12,967				-5,170		
External services		71,097				30,460		
Personnel expenses		459,325				297,000		
Rents		30,538				20,378		
Other expenses		190,626	1,172,122			114,237	726,147	
Depreciations								
Fixed assets and other long-term expenditure		64,359				41,764		
Group goodwill		8,655	73,014			6,528	48,292	
Operating profit			108,079	8.0			67,951	8.0
Financial income and expenses								
Dividend income		506				399		
Interest income on short-term investments		1,892				1,910		
Interest income on long-term investments		578				369		
Other financial income		4,711				2,771		
Interest expenses		42,896				29,967		
Other financial expenses		11,409	-46,618			5 521	-30,039	
Profit before extraordinary items			61,461	4.5			37,912	4.5
Extraordinary income and expenses								
Extraordinary income		3,724				79		
Extraordinary expenses		35,516	-31,792			6,629	-6,550	
Profit before appropriations and taxes			29,669	2.2			31,362	3.7
Change in difference between booked and planned depreciation			-10,169				-12,973	
Change in voluntary reserves			185				-575	
Conversion differences			-741				-89	
Minority holding			6,165				407	
Direct taxes			-10,924				-7,314	
Net profit for the period			14,185	1.0			10,818	1.3

CONSOLIDATED BALANCE SHEET

(FIM 1000)	31.12.1997		31.12.1996	
ASSETS				
Fixed assets and other long-term investments				
Intangible assets				
Intangible rights	2,113		2,551	
Goodwill	1,113		1,142	
Group goodwill	212,888		62,923	
Other long-term expenditure	23,830		16,117	
Prepayments	317	240,261	188	82,921
Tangible assets				
Land and water areas	16,747		12,117	
Buildings and constructions	361,803		309,654	
Machinery and equipment	530,658		167,995	
Other tangible assets	3,537		1,039	
Prepayments and goods in course of delivery	46,614	959,359	19,429	510,234
Shares and other long-term investments				
Shares	22,566		17,105	
Loan receivables	13,131	35,697	-	17,105
		1,235,317		610,260
Inventories and financial assets				
Inventories				
Materials and supplies	81,559		37,259	
Unfinished products	65,605		40,036	
Finished products/goods	74,350		21,881	
Prepayments	1,127	222,641	943	100,119
Receivables				
Account receivables	216,134		103,089	
Loan receivables	4,582		2,347	
Accrued income	36,968		14,911	
Other receivables	8,934	266,618	3,978	124,325
Cash and bank accounts				
		36,104		25,549
		1,760,680		860,253

(FIM 1000)	31.12.1997		31.12.1996	
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity				
Restricted equity				
Share capital	102,918		73,994	
Legal reserve	15,783		107,031	
Shared premium reserve	231,345	350,046	-	181,025
Unrestricted equity				
Retained earnings	8,625		9,949	
Net profit for the period	14,185	22,810	10,818	20,767
Preferred capital notes		135,000		-
Minority share		44,892		32,946
Reserves				
Difference in depreciation in fixed assets		55,934		46,738
Voluntary reserves				
Other reserves		2,866		1,735
		611,548		283,211
Compulsory reserves		660		1,844
Liabilities				
Long-term liabilities				
Convertible bonds	31,500		31,500	
Loans from financial institutions	490,230		249,382	
Loans from pension funds	99,806		93,397	
Other long-term liabilities	54,241	675,777	30,725	405,004
Current liabilities				
Loans from financial institutions	148,426		40,752	
Loans from pension funds	9,480		8,547	
Prepayments	3,396		474	
Accounts payable	105,241		31,765	
Accrued expenses	170,217		73,572	
Other current liabilities	35,935	472,695	15,084	170,194
		1,760,680		860,253

PARENT COMPANY INCOME STATEMENT

(FIM 1000)	1.1.-31.12.1997		1.1.-31.12.1996	
Net sales		3,611		3,566
Other revenue from business operations		1,297		971
Expenses				
Personnel expenses		3,079	3,149	
Rents		2,924	2,166	
Other expenses		6,757	5,476	10,791
Depreciation				
Fixed assets and other long-term expenditure		211		137
Operating loss		-8,063		-6,391
Financial income and expenses				
Dividend		1,206	111	
Interest income on short-term investments		3,485	4,996	
Interest income on long-term investments		19,414	6,790	
Other financial income		5,957	4,794	
Interest expenses		25,033	9,106	
Other financial expenses		9,631	4,186	3,399
Profit before extraordinary items		-12,665		-2,992
Extraordinary income and expenses				
Extraordinary income		45,342	24,950	
Extraordinary expenses		778	1,315	23,635
Profit before appropriations and taxes		31,899		20,643
Change in difference between booked and planned depreciations		-27		-21
Direct taxes		-9,325		-5,821
Net profit for the period		22,547		14,801

PARENT COMPANY BALANCE SHEET

(FIM 1000)	31.12.1997		31.12.1996	
ASSETS				
Fixed assets and long-term investments				
Intangible assets				
Other long-term expenditure	785	785	377	377
Tangible assets				
Machinery and equipment	631		621	
Other tangible assets	88	719	60	681
Shares and other long-term investments				
Shares	245,684		167,943	
Loan receivables	641,461	887,145	110,462	278,405
		888,649		279,463
Inventories and financial assets				
Receivables				
Accounts receivables	23,504		3,166	
Loan receivables	1,789		521	
Accrued income	56,296	81,589	30,828	34,515
Cash and bank accounts				
		16,375		16,911
		986,613		330,889
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity				
Restricted equity				
Share capital	102,918		73,994	
Legal reserve	-		84,905	
Shared premium reserve	225,952	328,870	-	158,899
Unrestricted equity				
Retained earnings	2,607		2,604	
Net profit for the period	22,547	25,154	14,801	17,405
Preferred capital notes				
		135,000		-
Reserves				
Difference in depreciation of fixed assets				
		67		40
		489,091		176,344
Liabilities				
Long-term liabilities				
Loans from financial institutions	271,257		75,240	
Loans from pension fund	10,712		11,973	
Other long-term liabilities	71,188	353,157	51,622	138,835
Current liabilities				
Loans from financial institutions	120,973		8,621	
Loans from pension fund	1,222		1,245	
Accounts payable	1,358		342	
Accrued expenses	16,892		5,479	
Other current liabilities	3,920	144,365	23	15,710
		986,613		330,889

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

(FIM 1000)	Group		Parent company	
	1.1.-31.12.1997	1.1.-31.12.1996	1.1.-31.12.1997	1.1.-31.12.1996
OPERATIONS				
Funds generated from operations				
Profit before depreciation	108 079	67 951	- 8 064	- 6 391
Depreciations	73 014	48 292	211	137
Financial income and expenses	- 46 618	- 30 039	- 4 602	3 399
Extraordinary items	- 31 792	- 6 550	44 565	23 634
Taxes	- 10 924	- 7 314	- 9 325	- 5 821
	91 759	72 340	22 785	14 958
Change in net working capital				
Inventories	- 122 522	405	-	-
Current receivables	- 142 293	23 499	- 47 073	11 769
Non-interest bearing current liabilities	173 043	- 23 246	12 429	480
	- 91 772	658	- 34 644	12 249
Cashflow from operations	- 13	72 998	- 11 859	27 207
INVESTMENTS				
Investments	- 712 008	- 125 437	- 80 413	- 64 804
Disposal of fixed assets	27 068	6 326	2 014	225
	- 684 940	- 119 111	- 78 399	- 64 579
Cashflow before financing	- 684 953	- 46 113	- 90 258	- 37 372
FINANCING				
Change in long-term receivables	- 13 131	274	- 530 999	- 11 778
Change in long-term liabilities	270 773	44 331	214 322	74 778
Change in current liabilities	129 458	- 33 613	116 227	- 11 008
Change in capital notes	135 000	-	135 000	-
Share issues	169 021	20 363	169 971	2 855
Dividend	- 14 836	- 11 129	- 14 799	- 11 099
	676 285	20 226	89 722	43 748
Change in cashflow	- 8 668	- 25 887	- 536	6 376
Adjustments	19 223	27 049	-	- 40
Change in cash and bank accounts	10 555	1 162	- 536	6 336

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The consolidated financial statements of Santasalo-JOT Group include the parent company and the following companies of which the parent company holds directly or indirectly over 50 %:

	Holding, %		
Albin Komponenter AB	100	Kiinteistö Oy Noviron	100
Alvesta Gjuteri AB	100	Kiinteistö Oy Uotilan Pajamäki	100
Appsys Oy	100	Kiinteistö Oy Uusporila	77,3
Arimax Oy	100	Kiinteistö Oy Ylä-Emali	100
Armatu-Teknik i Osby AB	100	Ljungby Stålgjuteri AB	100
Componenta Inc.	100	Luoteis-Uudenmaan	
Componenta Industri AB	100	Kiinteistö Oy	100
Componenta Wear Parts AB	100	Osby Armatur AB	100
Högfors Lämpö Oy	100	Oy Tekno-Montan Ab	100
Högfors VVS AB	100	Pietarsaaren malli- ja	
Högfors Foundry Ltd	100	huoltopalvelu Oy	100
JOT Aqua Ltd	100	Porin Valimokiinteistö Oy	100
JOT Components AB	100	Prometek AB	100
JOT Components Ltd	100	Santasalo Asia Pacific Pte Ltd	77,8
JOT Components Högfors Ltd	100	Santasalo (Canada) Inc.	77,8
JOT Components Lahti Ltd	100	Santasalo Conveyor Drives Ltd	77,8
JOT Components Pietarsaari Ltd	100	Santasalo France S.A.R.L	77,8
JOT Components Pori Ltd	100	Santasalo Gears Corp.	77,8
JOT Components	100	Santasalo Gears Service Corp.	77,8
Suomivalimo Ltd	100	Santasalo Germany GmbH	77,8
JOT Components Virsbo AB	100	Santasalo Norge A/S	77,8
Högfors Machineshop Ltd	100	Santasalo North America Inc.	77,8
Karkkilan Koskikiinteistö Oy	81	Santasalo Ltd	77,8
Karkkilan Lääkärikeskus Oy	60	Santasalo Service AB	77,8
Karkkilan Valimokiinteistö Oy	100	Santasalo Svenska AB	77,8
Kiinteistö Oy Ala-Emali	100	Santasalo (Tianjin) Co Ltd*	44,8
		Santasalo UK Ltd	77,8
		Santasalo-Gears Ltd	77,8
		Satakunnan Valu Oy	100
		Suomen Sentab Oy	100
		Teräsvalu Oy Harjavalta	100
		Traryds Metall AB	100
		Uudenmaan Rakennustiimi Oy	100

Vanhan Ruukin
Kiinteistöpalvelu Oy 100
Vesiterm AS 65,2
Älmhults Gjuteri AB 100
Ärnkome Oy 100
* According to the shareholders' agreement 77,8% has been taken in to the consolidated balance sheet.

The consolidated financial statements do not include consolidated figures for Santasalo Conveyor Drives Minsk (Belarus) and the associated company Oy Högfors-Systems Ab, as the amounts are relatively insignificant. Santasalo-Gears Ltd owns 100% of Santasalo Conveyor Drives Minsk and JOT Components Ltd has a 33.3% holding in Oy Högfors-Systems Ab. The proportion of the result corresponding to the Group's holding in the associated company SEW-Santasalo Pty Ltd (Australia), which is operationally linked to the Group, is recorded in the income statement under "Share of loss in associated companies". The depreciation of goodwill relating to the shares in the associated company Karkkilan Keskustakiinteistö Oy is recorded under extraordinary expenses.

The mutual ownership of shares has been eliminated with the acquisition cost method. The consolidated difference that has arisen has partially been allocated to the fixed assets of subsidiary companies and partially presented as Group goodwill. On 31 Decem-

NOTES TO THE FINANCIAL STATEMENTS

ber 1997, items allocated to machines and equipment totalled FIM 60.3 million. Intra-group transactions and internal margins included in the inventories of group companies have been eliminated. The balance sheets of foreign subsidiaries have been converted into Finnish markka at the Bank of Finland's average exchange rate on the closing day and the income statements using the average exchange rate for the accounting period. For the profit for the period, the difference between the average exchange rate for the period and the rate on the closing day is recorded as a conversion difference in the income statement. Conversion differences in shareholders' equity caused by changes in exchange rates have been recorded under unrestricted equity.

The acquisition cost of inventories is valued according to FIFO principles and indirect purchase and manufacturing costs are added to the acquisition cost.

Fixed assets are valued at their direct purchase cost. Planned depreciation has been calculated with a straight-line depreciation on the original purchase cost over the probable working life of the assets as follows:

Buildings and structures	40 years
Information systems	3-5 years
Transport equipment	5 years
Other machinery and equipment	10-25 years
Other long-term expenditure	10 years

The depreciation period for the Group goodwill that arose in 1993 is 10 years. The depreciation period for the goodwill arising from the purchase of the shares of Componenta Industri AB is 20 years, and the depreciation period for the goodwill from the purchase of the companies in Canada is 40 years, following American practice. The Group goodwill allocated to fixed asset items in connection with the purchase of Componenta Industri AB will be depreciated according to the rules for depreciation for the relevant class of fixed assets.

On 31 December 1997 fixed assets had a fire insurance valuation of FIM 2,104 million.

In the case of employees of Group companies in Finland, pension coverage is provided through insurance schemes in line with statutory arrangements. According to an agreement made with the pension insurance

company, as from 1 January 1997 the Group is responsible in Finland for work disability payments included in pension insurance payments in their entirety at the moment when the pension starts. Foreign subsidiaries operate pension schemes in accordance with local practice.

The development costs of FIM 6.7 million for Santasalo-Gears Ltd's totally new product series have been capitalized and other research and development costs are recorded as expenses for the period.

Receivables and liabilities in foreign currencies are recorded at the Bank of Finland's average exchange rate on the closing day. Exchange rate gains and losses are recorded in the income statement.

(FIM 1000)	Group		Parent company	
	1997	1996	1997	1996
1. Net sales by market area				
Finland	447,081	299,544	3,611	3,566
Other Scandinavian countries	514,821	222,543	-	-
North America	81,288	77,001	-	-
Central Europe	243,862	202,233	-	-
Other countries	67,740	44,847	-	-
Total	1,354,792	846,168	3,611	3,566
2. Personnel costs				
Wages and salaries	310,145	198,461	1,720	2,069
Pension costs	44,436	40,596	521	583
Other indirect employee costs	104,744	57,943	838	497
	459,325	297,000	3,079	3,149
Benefits in kind	1,855	1,369	28	8
Total	461,180	298,369	3,107	3,157
To members of the Board of Directors and managing directors	11,340	9,384	400	344
The average number of employees during the year	2,275	1,463	10	10
3. Depreciation				
Planned depreciation				
Other long-term expenditure	3,679	3,059	99	49
Buildings and constructions	8,740	4,309	-	-
Machinery and equipment	50,149	31,974	112	88
Other intangible and tangible assets	1,791	2,422	-	-
Group goodwill	8,655	6,528	-	-
Total	73,014	48,292	211	137
Change in difference in depreciation				
Other long-term expenditure	87	-13	-27	-21
Buildings and constructions	1,256	-281	-	-
Machinery and equipment	-11,655	-12,679	-	-
Other intangible and tangible assets	143	-	-	-
Total	-10,169	-12,973	-27	-21

NOTES TO THE FINANCIAL STATEMENTS

(FIM 1000)	Group		Parent company	
	1997	1996	1997	1996
Accumulated difference in depreciation				
Other long-term expenditure	472	420	67	40
Buildings and constructions	11,439	12,615	-	-
Machinery and equipment	43,834	33,504	-	-
Other intangible and tangible assets	189	199	-	-
Total	55,934	46,738	67	40
4. Group financing income and expenses				
Financing income received from group companies				
Dividends	-	-	1,149	83
Interest income from long-term investment	-	-	19,414	6,790
Interest income from short-term investment	-	-	2,443	3,545
Other financial income	-	-	5,957	3,110
Total	-	-	28,963	13,528
Financing expenses paid to group companies				
Interest expenses	-	-	253	286
5. Extraordinary items				
Income from the disposal of fixed assets	2,975	-	662	-
Loss from the disposal of fixed assets	-1,974	-	-727	-
Restructuring costs	-31,562	-	-	-
Goodwill of associated company	-1,000	-	-	-
Devaluation of shares	-	-	-	-1,200
Terminating rental agreements	-	-4,663	-	-
Group contribution	-	-	44,680	24,950
Others	-231	-1,887	-51	-115
Total	-31,792	-6,550	44,564	23,635
6. Change in compulsory reserves				
The decrease of FIM 1 million in the Group's compulsory reserves for the financial period 1. Jan. - 31 Dec. 1997 results from booking Santasalo GmbH's rental commitments under expenditure.				
7. Intangible and tangible assets				
Group goodwill				
Acquisition cost 1 Jan	85,962	81,603	-	-
Increase	156,650	2,052	-	-
Acquisition cost 31 Dec	242,612	83,655	-	-
Accumulated planned depreciation 1 Jan	21,069	14,204	-	-
Depreciation for the period	8,655	6,528	-	-
Book value 31 Dec.	212,888	62,923	-	-
Other long-term expenditure				
Acquisition cost 1 Jan	32,894	22,363	457	201
Increase	13,909	9,921	508	256
Decrease	-4,132	-299	-	-
Acquisition cost 31 Dec	42,671	31,985	965	457
Accumulated planned depreciation 1 Jan	15,162	12,809	80	32
Depreciation for the period	3,679	3,059	99	49
Book value 31 Dec	23,830	16,117	786	376
Land and water areas				
Acquisition cost 1.1.	12,123	11,826	-	-
Increase	4,907	291	-	-
Decrease	-283	-	-	-
Book value 31 Dec	16,747	12,117	-	-

NOTES TO THE FINANCIAL STATEMENTS

(FIM 1000)	Group		Parent company	
	1997	1996	1997	1996
Buildings and constructions				
Acquisition cost 1 Jan	343,671	286,069	-	-
Increase	66,832	55,123	-	-
Decrease	-8,605	-	-	-
Acquisition cost 31 Dec	401,898	341,192	-	-
Accumulated planned depreciation 1 Jan	31,355	27,229	-	-
Depreciation for the period	8,740	4,309	-	-
Book value 31 Dec	361,803	309,654	-	-
Revaluation made after 1974 and included in the acquisition cost of buildings	123,892	123,892	-	-
Machinery and equipment				
Acquisition cost 1 Jan	373,442	327,972	758	610
Increase	438,517	48,415	122	148
Decrease	-30,728	-9,340	-	-
Acquisition cost 31 Dec	781,231	367,047	880	758
Accumulated planned depreciation 1 Jan	200,424	167,078	137	50
Depreciation for the period	50,149	31,974	112	88
Book value 31 Dec	530,658	167,995	631	620
Share of machinery and equipment in book value 31 Dec	456,365	146,155	-	-
Other intangible and tangible assets				
Acquisition cost 1 Jan	16,183	13,814	60	60
Increase	2,182	832	28	-
Acquisition cost 31 Dec	18,365	14,646	88	60
Accumulated planned depreciation 1 Jan	9,811	7,492	-	-
Depreciation for the period	1,791	2,422	-	-
Book value 31 Dec	6,763	4,732	88	60
8. Taxation values				
Land areas	16,895	5,852	-	-
Buildings	99,300	85,955	-	-
Shares in subsidiaries	-	-	193,134	96,397
Other shares	6,228	6,123	2,034	1,332
9. Long-term investments and loan receivables/ Group companies and associated companies				
Group companies				
Shares	-	-	233,427	163,667
Loan receivables	-	-	629,619	110,462
Total	-	-	863,046	274,129
Associated companies				
Shares	6,241	3,564	5,000	-
Loan receivables	11,842	110	11,842	-
Accounts receivables	-	109	-	-
Total	18,083	3,783	16,842	-
10. Group receivables				
Accounts receivables	-	-	23,301	2,931
Loan receivables	-	-	-	-
Accrued income	-	-	52,813	25,514
Total	-	-	76,114	28,445
11. Group liabilities				
Other long-term liabilities	-	-	65,188	47,373
Accounts payable	-	-	26	170
Accrued liabilities	-	-	119	230
Total	-	-	65,333	47,773
12. Loans granted to management				
Loans granted to managing directors of group companies	221	221	-	-

NOTES TO THE FINANCIAL STATEMENTS

(FIM 1000)	Group		Parent company	
	1997	1996	1997	1996
13. Shareholders' equity				
Shareholders' equity 1 Jan	73,994	72,421	73,994	72,421
Exchange of convertible bond	-	1,573	-	1,573
Conversion of bond loan with warrants	4,924	-	4,924	-
Rights issue	24,000	-	24,000	-
Shareholders' equity 31 Dec	102,918	73,994	102,918	73,994
Reserve fund 1 Jan	107,031	88,241	84,905	83,623
Issue premium	44,642	1,282	44,642	1,282
Transfer to cover losses	-1,409	-	-	-
Change in Group structure	-	17,492	-	-
Change in minority share	-1,108	-	-	-
Conversion differences	9	16	-	-
Transfer to shared premium reserve	-133,382	-	-129,547	-
Reserve fund 31 Dec	15,783	107,031	-	84,905
Shared premium reserve 1 Jan	-	-	-	-
Issue premium	97,963	-	96,405	-
Transfer from reserve fund	133,382	-	129,547	-
Shared premium reserve 31 Dec	231,345	-	225,952	-
Unrestricted equity 1 Jan	20,767	18,814	17,406	13,745
Taxes	-	-50	-	-42
Dividend distribution	-14,836	-11,129	-14,799	-11,099
Conversion differences	1,285	1,077	-	-
Minority differences	-	1,237	-	-
Transfer from reserve fund	1,409	-	-	-
Profit for the accounting period	14,185	10,818	22,547	14,802
Unrestricted equity 31 Dec	22,810	20,767	25,154	17,406
14. Preferred capital notes	135,000	-	135,000	-

The loans are for FIM 75 million and FIM 60 million. The notes are dated 19 March 1997 and 12 December 1997 and both loans mature on 18 March 2004. Santasalo-JOT Ltd is entitled unilaterally to extend the loan period by a year at a time if, according to the approved balance sheet of the parent company or group for the last complete financial period before the maturity date for the loan, the restricted equity of the parent company or group is not sufficient to fully cover the loan.

The loans carry interest of 9%. If the loans are not repaid by the maturity date, the interest rate changes and is determined by the 12 month Helibor FIM interest rate plus 5%.

In the case of Santasalo-JOT Ltd being placed in receivership or going bankrupt, receivables due on the basis of the preferred capital notes will be ranked junior to other Santasalo-JOT Ltd commitments. The loans are not secured.

In so far as the unrestricted equity recorded in the approved balanced sheet for the last complete financial period or for the same period the distributable unrestricted equity in the approved group balance sheet is not sufficient to cover the interest calculated for the period, the company is entitled at its discretion to postpone payment of the interest until the unrestricted equity is sufficient. Any unpaid interest remains a liability of the company. Accrued interest on the aforementioned preferred capital notes at 31 December 1997 has been recorded in accrued liabilities.

(FIM 1000)	Group		Parent company	
	1997	1996	1997	1996
15. Liabilities				
Interest-bearing liabilities	848,529	469,387	479,252	148,701
Non-interest-bearing liabilities	299,943	105,811	18,270	5,843
	1,148,472	575,198	497,522	154,544
Other long-term liabilities				
Deferred tax liabilities	21,089	-	-	-
Bond loans with warrants and convertible bonds				
Bond loan with warrants (1993)	3,899	4,249	3,899	4,249
Bond loan with warrants (1997)	6,000	-	6,000	-
Convertible bond*	31,500	31,500	-	-

*SEW-Eurodrive may raise its ownership of Santasalo Ltd to 34% by converting its convertible bond before 31.12.1998.

NOTES TO THE FINANCIAL STATEMENTS

(FIM 1000)	Group		Parent company		
	1997	1996	1997	1996	
Division of interest-bearing liabilities by currency (%): FIM 39, USD 5, DEM 32, SEK 22, others 5.					
Liabilities with maturities of 5 years and more					
Loans from financial institutions	153,822	114,537	119,192	937	
Loans from pension fund	48,652	71,914	6,000	8,322	
Total	202,384	186,451	125,192	9,259	
16. Contingent liabilities					
Leasing payments on machinery and equipment					
1998	8,703	9,072	379	160	
1999 and later	16,440	22,153	165	59	
Pledges given for debt					
On own behalf	256	4,441	-	914	
Mortgages given as collateral debt					
	326,283	323,308	27,000	45,500	
Guarantees					
On Group companies' behalf	-	-	226,025	200,734	
On associated companies' behalf	-	16,979	-	16,979	
On others behalf	-	-	-	-	
Other own commitments					
Other commitments	44,489	20,636	17,081	10,592	
17. Nominal value of derivative instruments					
Forward exchange agreements	418,359	109,360	418,359	109,360	
Interest rates swaps	60,000	20,526	60,000	20,526	
18. Shares					
	Share %	Number	Nominal value	Book value	Result -97
Shares in subsidiaries					
AppSys Oy	100	420	210	274	-
JOT Components Ltd	100	5,750	69,000	80,218	16,301
Karkkilan Koskikiinteistö Oy	66.9	210,103	2,101	39,049	-999
Karkkilan Lääkärikeskus Oy	60	180	90	92	276
Kiinteistö Oy Ala-Emali	100	440	204	1,019	1
Kiinteistö Oy Uutilan Pajamäki	100	75	15	508	-
Kiinteistö Oy Ylä-Emali	100	1,150	115	619	-6
Luoteis-Uudenmaan Kiinteistöt Oy	100	1,200	1,200	1,008	-99
Santasalo Ltd	77.8	56,300	56,300	107,009	-19
Uudenmaan Rakennustiimi Oy	100	150	15	15	-3
Vanhan Ruukin Kiinteistöpalvelu Oy	100	250	250	254	73
Ärnkome Oy	100	50	50	2,510	-17
Other shares					
On parent company's balance sheet					
Högfors Machinешop Ltd	50	4 650	325	809	5,800
Karkkilan Keskustakiinteistö Oy	50	2,180	436	5,000	-979
Kiinteistö Oy Uusporila	31.8	210	210	42	-1
MTV Yhtymä			196	4,756	
Shares in apartment house companies				2,363	
Other shares				138	
On Group companies' balance sheets					
Pommisuoja Oy	22	36	3	256	
Oy Högfors-Systems Ab	33.3	400	200	200	
Oy Pickala Golf Ab		2		224	
Santasalo Conveyer Drives Minsk	77.8			2,253	
SEW Santasalo Pty Ltd	39			1,785	
SEW-Eurodrive (Thailand) Pty Ltd	11.7			2,706	
Shares in apartment house companies				1,943	
Other shares				1,942	

PROPOSAL OF THE BOARD OF DIRECTORS FOR THE DISTRIBUTION OF PROFITS

The non-restricted shareholders' equity shown in the consolidated balance sheet is FIM 22.810.000. The non-restricted shareholders' equity shown in the parent company's balance sheet is FIM 25.154.085,20. The Board of Directors proposes to the meeting of the shareholders that, of the disposable profits, a dividend of 20 % should be paid per share (10.291.810 shares, FIM 2,00 per share) totalling FIM 20.583.620.

Helsinki, January 26, 1998

Yrjö M. Lehtonen Olli Reenpää Jouko Koskinen

Antti Lehtonen Heikki Lehtonen

AUDITORS' REPORT

To the shareholders of Santasalo-JOT Ltd

We have audited the accounting, the financial statements and the corporate governance of Santasalo-JOT Ltd for the fiscal year 1 January - 31 December 1997.

The financial statements, which include the report of the Board of Directors, consolidated and parent company income statements, balance sheets and notes to the financial statements, have been prepared by the Board of Directors and the Managing Director. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. 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 statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies Act.

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

We have reviewed the interim reports published during the financial year. The interim reports have been prepared in accordance with applicable regulations.

Helsinki, January 27, 1998

Kari Miettinen, CPA

SVH Coopers & Lybrand Oy,
Authorized public accountants
Christer Antson, CPA

SHARE AND OWNERSHIP INFORMATION

DISTRIBUTION OF SHARES AND SHARE CAPITAL

Shareholders by number of shares held, Dec 31, 1997

Number of shares	Shareholders		Shares	
	number	%	number	%
1-100	186	27.23	11,073	0.11
101-500	235	34.40	65,029	0.63
501-1000	101	14.79	78,358	0.76
1001-5000	82	12.00	206,620	2.01
5001-10000	21	3.08	171,461	1.66
10001-50000	29	4.25	700,465	6.81
50001-100000	12	1.76	903,400	8.78
100001-500000	15	2.20	2,257,033	21.93
500001-	2	0.29	5,875,421	57.09
Total	683	100.00	10,268,860	99.78
Waiting list 31.12.1997			21,000	0.20
Shares not transferred to the book-entry securities system			1,950	0.02
Total			10,291,810	100.00

Shareholders according to share register, Dec 31, 1997

Shareholder	Number of shares	Share of total voting rights, %
1. Lehtonen Heikki	3,166,731	30.77
2. Nominee register/ Merita Bank Ltd	2,708,690	26.32
3. Helsingin Santapaperi Oy	340,000	3.30
4. Teollisuusvakuutus Oy	200,000	1.94
5. Lehtonen Anna-Maria	178,823	1.74
6. Eläkevakuutus Oy Ilmarinen	154,400	1.50
7. Kuntien eläkevakuutus	150,000	1.46
8. Henkivakuutusosakeyhtiö Nova	148,600	1.44
9. Sijoitusrahasto Optimal	139,900	1.36
10. Lehtonen Antti	137,470	1.34
11. Others	2,967,196	28.83
Total	10,291,810	100.00

Members of the Board of Directors, or companies over which they exercise control, own 36.5% of the shares. All shares have equal voting rights. Members of the Board of Directors hold 19% of the bond with warrants. If all the warrants will be converted to shares, the holding of the shares of members of the Board of Directors will decrease to 35.5%.

SHARE INFORMATION

	1993	1994	1995	1996	1997
Quotation of shares at year's end	44.00	37,00 ***	28.00	43.00	82.40
Net profit per share (EPS), FIM*	-1.49	0.12	3.12	3.75	5.60
Equity per share, FIM	23.53	23.68	27.13	32.00	42.00
Dividend per share, FIM	0,70/0,35	1.00	1.50	2.00	2.00**
Dividend per net profit, %	neg.	767.51	52.68	48.37	40.73
Effective dividend yield, %	1.32	2.70	5.36	4.65	2.43
P/E ratio	neg.	296.65	8.98	11.47	14.74
Average share price, FIM	29.05	38.68	34.18	37.79	64.40
Adjusted lowest price, FIM	15.00	32.00	26.00	25.00	42.00
Adjusted highest price, FIM	45.00	50.00	41.00	45.00	90.00
Market value of shares, FIM million	238	249	203	318	848
Development in trading, x 1000 shares	2,362	1,728	665	2,059	4,407
% of total	43.7	25.6	9.2	27.8	42.8
Weighted average number of shares, x 1000 shares	3,367	5,850	6,754	7,383	8,428
Number of shares at end of fiscal year, x 1000 shares	5,409	6,739	7,242	7,399	10,292

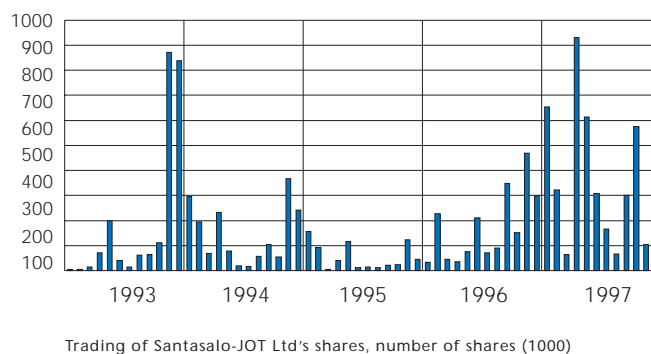
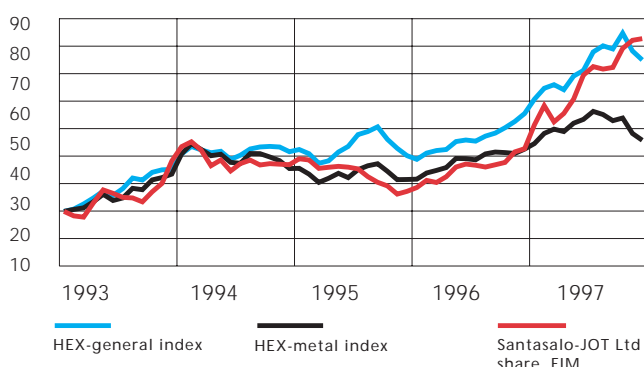
* The effect of the bond with warrants on the share data is included in the parameters.

** According to the Board of Directors proposal

***Santasalo-JOT shares were first quoted on the Helsinki Stock Exchange on July 1994

GROUP DEVELOPMENT 1993-1997

FIM million	1993	1994	1995	1996	1997
NET SALES	339.2	594.1	792.4	846.2	1,354.8
Other revenue from business operations	0.6	2.1	3.6	2.0	3.1
Expenses	-313.8	-530.8	-694.9	-732.0	-1,176.8
Planned deprecation and expenses	-18.2	-38.9	-43.2	-48.3	-73.0
OPERATING PROFIT	7.8	26.4	57.9	67.9	108.1
Financial income and expenses	-12.3	-22.0	-32.6	-30.0	-46.6
PROFIT AFTER FINANCIAL ITEMS	-4.5	4.4	25.3	37.9	61.5
Direct taxes	-2.3	-3.5	-4.2	-7.3	-10.9
PROFIT BEFORE EXTRAORDINARY ITEMS, AFTER TAXES	-6.8	0.9	21.1	30.6	50.6
Extraordinary items	6.9	-6.2	-2.0	-6.6	-31.8
PROFIT BEFORE APPROPRIATIONS	0.1	-5.3	19.1	24.0	18.8
Order book	89.4	163.0	189.6	143.5	355.4
Change in total sales, %	188.5	75.1	33.4	6.8	60.1
Share of exports and foreign activities, %	68.9	59.7	62.0	64.6	67.0
Profit before extraordinary items	-4.5	4.4	25.3	37.9	61.5
Return on investments, %	5.8	6.3	9.4	9.6	10.3
Return on equity, %	neg.	0.5	10.3	12.1	13.9
Equity ratio, %	22.5	25.1	27.6	32.9	34.8
Investments	6.0	43.3	67.6	119.4	712.0
Number of personnel 31.12.	1,034	1,241	1,492	1,446	2,898



FORMULAS USED FOR CALCULATING THE RATIOS

Return on equity % (ROE)	= $\frac{\text{profit before extraordinary items} - \text{taxes}}{\text{equity} + \text{minority holding} + \text{reserves}} \times 100$ (using four-month values)
Return on investment % (ROI)	= $\frac{\text{profit before extraordinary items} + \text{interest and other financial expenses}}{\text{balance sheet total} - \text{non-interest bearing liabilities}} \times 100$ (using four-month values)
Equity ratio, %	= $\frac{\text{equity} + \text{preferred capital notes} + \text{minority holding} + \text{reserves}}{\text{balance sheet total} - \text{prepayments received}} \times 100$
Net profit/share, FIM	= $\frac{\text{profit before extraordinary items, after taxes}}{\text{adjusted average number of shares over the fiscal year}}$
Adjusted average share price	= $\frac{\text{total trading of shares in FIM}}{\text{adjusted average number of traded shares over the fiscal year}}$
Equity/share, FIM	= $\frac{\text{equity} + \text{reserves}}{\text{adjusted number of shares on 31 Dec}}$
Dividend/share, FIM	= $\frac{\text{dividend}}{\text{adjusted number of shares on 31 Dec}}$
Dividend/net profit, %	= $\frac{\text{dividend}}{\text{net profit (as in net profit per share)}} \times 100$
Effective dividend yield, %	= $\frac{\text{dividend/share}}{\text{adjusted last share price in fiscal year}} \times 100$
Market value of shares	= number of shares x share price on closing date
P/E ratio	= $\frac{\text{share price on closing date}}{\text{net profit/share}}$

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