



SANTASALO-JOT

ANNUAL REPORT 1998

FINANCIAL INFORMATION IN 1999

Santasalo-JOT Corporation published its financial statements for the financial year 1 January - 31 December 1998 on Monday, 25 January 1999.

Santasalo-JOT Corporation will publish three interim reports in 1999. The first, for the period 1 January - 31 March, will be published on 16 April, the second, for the period 1 January - 30 June, on 14 July, and third for the period 1 January - 30 September, on 13 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 Exchange <http://www.hex.fi>.

Further information about Santasalo-JOT Corporation 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.

SANTASALO-JOT IN BRIEF

The Santasalo-JOT Group has been divided since 1 February 1999 into three divisions, the Cast Components, Special Components and Santasalo Divisions. The Cast Components Division specializes in foundry products, which it supplies mainly to the Northern European heavy truck industry and engineering companies. The Special Components Division supplies its products to off-road equipment manufacturers in addition to heavy truck and general engineering companies. The Santasalo Group's business sector is industrial power transmission gear units, which the group's companies supply to several industrial sectors, operating on a worldwide basis. In its operations the Santasalo-JOT Group is focusing on strategic alliances that will help to increase marketing power and build up the service network. Santasalo-JOT's production operations function according to JIT principles. The Group utilizes the latest production technology to obtain the cost-efficiency of serial production in order-driven production.

Group performance 1998

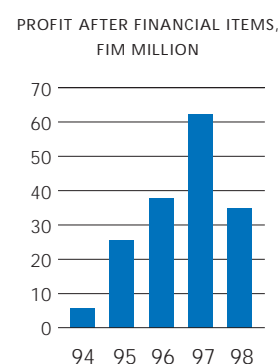
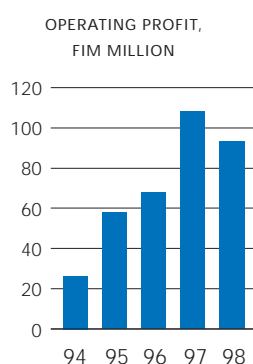
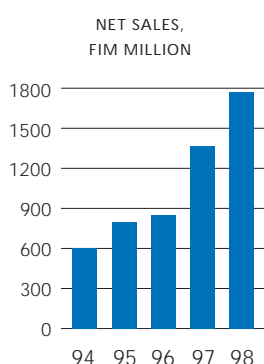
Santasalo-JOT Group, FIM million	1998	1997
Net sales	1,771.4	1,368.8
Sales outside Finland, %	75.0	67.0
Profit after financial items	33.2	62.2
Earnings per share, diluted, FIM	2.75	5.98
Return on investment, ROI-%	7.4	10.7
Return on equity, ROE-%	4.7	12.9
Equity ratio, %*	34.6	33.9
Equity per share, FIM	43.56	40.18
Personnel 31.12	2,771	2,898

* Includes Preferred Capital Notes

Performance of sub-groups 1998

JOT Components Group, FIM million	1998	1997
Net sales	1,441	1,016
Operating profit	115	111
Orders received	1,450	1,088

Santasalo Group, FIM million	1998	1997
Net sales	313	307
Operating profit	-14	-10
Orders received	317	319



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PRESIDENT'S REVIEW

The market prospects for the Santasalo-JOT Group and its performance weakened rapidly during the autumn of 1998. At the start of 1998 the company considered that profits would improve on the previous year, but after the summer it was obvious that the company would not meet the target for its result. During the autumn the markets weakened, and the Group's profit after financial items was half that of the previous year.

The Group had net sales of FIM 1,771 million (FIM 1,369 million in the previous year) and a profit after extraordinary items of FIM 59 million. This figure includes FIM 26 million in extraordinary items. Uncertainty about market trends grew during the financial year in both main customer segments, the Nordic heavy truck industry and mechanical engineering companies.

A notable factor was the speed of the change, since even in early autumn demand was still high. However, in November invoicing was already significantly lower than forecast. This was in part the consequence of customers preparing for the forecast decline in the market by reducing stocks to match the lower demand.

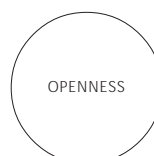
Santasalo-JOT Group is usually fairly well able to adapt its operations to demand, but this time the change was so swift that the company did not have time to react quickly enough. Consequently, the Group's costs during the last quarter of the financial year were higher than the level of production justified.

The Group started to adjust its operations during 1998, but their effect will not be seen until the first four months of 1999.

Further focusing on core businesses

Fluctuations in the market naturally do not affect the Group's strategy. The Group's objective is to focus on its core businesses and maintain its superior competitive position in these through specialization.

SANTASALO-JOT GROUP VALUES



MISSION

SANTASALO-JOT PROMOTES THE BUSINESS OF ITS CUSTOMERS BY PROVIDING SOLUTIONS THAT GIVE ADDED VALUE IN A PROFITABLE WAY

In line with this strategy, the Group was in June involved in the restructuring of the heating products sector with the Swedish company Thermia AB. In December the Group sold the Municipal Engineering Division's supply and assembly operations to the French company Pont-A-Mousson.

Also in December a restructuring of the Nordic steel castings sector took place with Raahen Teräsvalimo, and this involved JOT Components Group's Ljungby steel foundry.

With these restructurings, the Santasalo-JOT Group is focusing even more clearly on its core businesses. In cast components JOT Components is the largest supplier in the Nordic countries of components to order. In industrial gear units Santasalo with its partner SEW-Eurodrive is one of the leading companies in the world in its field. In many of the product groups of Special Components the Group is in a good position to build operations that are competitive on an international scale.

Looking at 1999

Increased uncertainty in its main customer groups casts a shadow over the Group's prospects. The Group is prepared for a decline in production volumes by the heavy trucks industry and for weakening demand from the mechanical engineering companies. The Group aims to compensate for the declining trend in volumes by increasing market shares in main customer groups.

Tools that conform to the Total Quality Management system are used at Santasalo-JOT Group to manage and develop its operations, and more personnel are constantly being trained in these tools. As a result of using these systematic methods, the Group's development work is guided by long-term goals for business operations.

Throughout the major changes of the past year the Group's customers, suppliers, personnel and other

stakeholders have provided excellent support for the steps taken. Following the implementation of these measures, Santasalo-JOT Group is now better placed to develop its core businesses. I would like to thank all those involved for the past year.

Heikki Lehtonen
President and CEO



GOALS

OUR GOAL IS TO BE THE LEADING SUPPLIER OF CAST, FORGED AND SELECTED GEARED COMPONENTS TO THE NORTHERN EUROPEAN TRUCK, ENGINEERING AND OFF-ROAD INDUSTRIES.

OUR GOAL IS TO BE, IN PARTNERSHIP WITH SEW-EURODRIVE, THE LEADING AND LOCAL SUPPLIER OF INDUSTRIAL GEAR UNITS AND SERVICE FUNCTIONS FOR THEM WORLDWIDE.

TO REACH OUR GOALS WE STRICTLY APPLY STRATEGIC MANAGEMENT AND TOM PROCEDURES.

SANTASALO-JOT GROUP STRUCTURE AND MANAGEMENT

JOT COMPONENTS GROUP



Cast Components

Cast Components Group produces 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

Special Components Group contains companies that have specialized in the production of forged, geared and other components. The division supplies its products to manufacturers of heavy trucks, mechanical engineering companies and the off-road industry.

SANTASALO GROUP



Santasalo

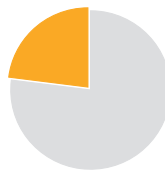
Santasalo has specialized in the design and manufacturing of industrial power transmission gear units. The company manufactures its products in Finland, Germany, Canada and China. Santasalo gear units are used all over the world in several industrial sectors.

SHARE OF GROUP NET SALES IN 1998



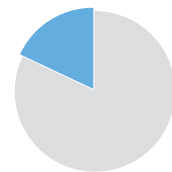
52 %

SHARE OF GROUP NET SALES IN 1998



23 %

SHARE OF GROUP NET SALES IN 1998



18 %

JOT Components Group's Municipal Engineering Division had a 7 % share of Group net sales in 1998. Towards the end of 1998 the majority of the Division's business was transferred to Santasalo-JOT's associated company JOT Aqua Oy.

GROUP EVENTS IN 1998

27 JAN. 1998 - THE BOARD OF DIRECTORS OF SANTASALO-JOT CORPORATION MAKES AN ISSUE OF 100,000 SHARE OPTIONS TO THE MANAGEMENT OF COMPONENTA. A SEK 8 MILLION ISSUE OF CONVERTIBLE BONDS IS ALSO MADE TO PERSONNEL, OF WHICH PERSONNEL SUBSCRIBES TO JUST OVER 16 PER CENT AND JOT COMPONENTS AB TO THE REMAINDER.

20 APRIL 1998 - THE SANTASALO-JOT GROUP'S FIRST INTERIM REPORT SHOWS A PROFIT AFTER FINANCIAL ITEMS OF MFIM 6 FOR JANUARY-MARCH.

29 MAY 1998 - MR JUHA HEIKINHEIMO IS APPOINTED PRESIDENT OF SANTASALO LTD AS FROM 1 JANUARY 1999.

12 JUNE 1998 - THE HEATING DIVISION IS MERGED WITH SWEDEN'S THERMIA AB AND WITH THE OPERATIONS OF BERGLAGSINVEST AB, THE MAIN OWNER OF THERMIA.

16 JULY 1998 - THE SANTASALO-JOT GROUP'S SECOND INTERIM REPORT SHOWS A PROFIT AFTER FINANCIAL ITEMS OF MFIM 30 FOR JANUARY-JUNE.

ASSOCIATED COMPANIES

Thermia AB

Thermia AB has specialized in heating technology. The main products of the Thermia Group are products for producing heat and hot water, such as central heating boilers, electric accumulators, heat pumps and district heating centres. Most of the group's products are supplied to private homes. Santasalo-JOT has a 24 % holding in the company.

JOT Aqua Oy

JOT Aqua specializes in the supply and sale of municipal engineering products. Santasalo-JOT has a 30 % holding in the company. The company is a distributor of JOT Components NV's manhole covers in Finland.

Raahen Teräsvalimo Oy

Raahen Teräsvalimo Group is one of the largest producers of cast steel components in the Nordic countries. The Group produces cast steel components and other products such as components for valves and pumps and for heavy trucks, off-road machines and machines used in the pulp and paper industry.

Board of Directors

YRJÖ M. LEHTONEN (68)
CHAIRMAN SINCE 1987

JOUKO KOSKINEN (62)
BOARD MEMBER SINCE 1989

ANTTI LEHTONEN (42)
BOARD MEMBER SINCE 1987

HEIKKI LEHTONEN (39)
BOARD MEMBER SINCE 1987

OLLI REENPÄÄ (64)
BOARD MEMBER SINCE 1995

Corporate Management Team from 1 February

HEIKKI LEHTONEN, PRESIDENT AND CEO
ANTTI LEHTONEN, EXECUTIVE VICE PRESIDENT
YRJÖ JULIN, CAST COMPONENTS
MATS BERGSJÖ, SPECIAL COMPONENTS
JUHA HEIKINHEIMO, SANTASALO
ARTO KIISKINEN, CORPORATE FINANCE
ESA MARTONEN, INFORMATION SYSTEMS
AKI MÄNTTÄRI, HUMAN RESOURCES (UNTIL 1 APRIL 1999)
MARKKU PIETILÄ, CORPORATE DEVELOPMENT

Auditors

KARI MIETTINEN, CPA
SVH PRICEWATERHOUSE COOPERS LTD,
AUTHORIZED PUBLIC ACCOUNTANTS



16 OCT. 1998 - THE SANTASALO-JOT GROUP'S THIRD INTERIM REPORT SHOWS A PROFIT AFTER FINANCIAL ITEMS OF MFIM 30 FOR JANUARY-SEPTEMBER.

19 OCT. 1998 - SANTASALO LTD ANNOUNCES A NEW ORGANIZATION TO SUPPORT ITS BUSINESS STRATEGY THAT WILL COME INTO FORCE ON 1 JANUARY 1999. THE NEW ORGANIZATION CONTAINS FOUR BUSINESS DIVISIONS. THREE OF THESE, SYSTEM DRIVES, INDUSTRIAL GEAR UNITS AND SERVICE, WILL FOCUS ON SERVING CUSTOMER GROUPS AND THE FOURTH IS GLOBAL PRODUCTION.

22 OCT. 1998 - SANTASALO LTD ANNOUNCES THAT SEW-EURODRIVE'S HOLDING IN SANTASALO LTD IS RISING FROM 22 PER CENT TO 34 PER CENT.

6 NOV. 1998 - THE SANTASALO-JOT GROUP ANNOUNCES THAT A TOTAL OF 7,600 OF THE BONDS WITH WARRANTS ISSUED TO PERSONNEL ON 25 AUGUST 1993 HAVE BEEN CONVERTED TO SHARES WITH A NOMINAL VALUE OF FIM 10.

20 DEC. 1998 - THE SANTASALO-JOT GROUP ANNOUNCES THAT IT IS SELLING MOST OF THE OPERATIONS OF THE MUNICIPAL ENGINEERING DIVISION TO THE FRENCH COMPANY PONT-A-MOUSSON, THE WORLD'S LARGEST MANUFACTURER OF CAST PIPES AND FITTINGS.

31 DEC. 1998 - THE SANTASALO-JOT GROUP ANNOUNCES THAT LJUNGBY STEEL FOUNDRY AND RAAHEN TERÄSVALIMO ARE MERGING THEIR OPERATIONS. THE MERGER PRODUCES ONE OF THE LARGEST MANUFACTURERS OF STEEL CASTINGS IN THE NORDIC COUNTRIES.

JOT COMPONENTS GROUP



ANTTI LEHTONEN, MANAGING DIRECTOR
JOT COMPONENTS LTD

The JOT Components Group had net sales in 1998 of FIM 1,441 million, which was 42 per cent more than in 1997. The group recorded an operating profit of FIM 115 million.

The market for the JOT Components Group was strong for most of the year and capacity usage at the group's production plants was high. The markets changed rapidly in the autumn and demand from customers declined during the final months of the year.

The first visible signs of a change in the market came in the form of slacker demand from certain machine building companies. However, change was most rapid in the Nordic heavy truck industry, which reduced stocks and prepared for growth to stop.

Changes in group structure

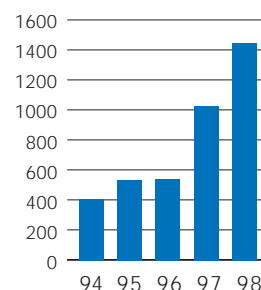
During the year the JOT Components Group focused even more closely on its core businesses. In June the group's Heating Division, which specializes in central heating boilers, was merged with the corresponding operations of the Swedish company Thermia. This merger produced one of the largest companies in the Nordic countries specializing in heating technology, a new Thermia AB, in which Santasalo-JOT is the biggest owner.

The main products of the Thermia Group are products for producing heat and hot water, such as central heating boilers, electric accumulators, heat pumps and district heating centres. Most of the group's products are supplied to private homes.

Thermia's main market areas are Finland and Sweden. The group also has operations in the Baltic countries and Russia and exports to Central European countries.

The newly formed Thermia Group can achieve considerable synergy benefits thanks to larger production volumes and specialization as well as by combining the sales, marketing and purchasing functions of the two companies. As a larger company it is also better placed to increase exports.

JOT COMPONENTS GROUP'S
NET SALES 1994-1998, FIM MILLION



In December the group sold most of the operations of the Municipal Engineering Division to the French company Pont-A-Mousson, the largest manufacturer of cast pipe systems in the world. The sale involved the supply and assembly operations for municipal engineering products, and a new company JOT Aqua Oy was set up to carry out this work.

Manhole cover production at the JOT Components NV factory in Harjavalta remains in the JOT Components Group, and JOT Aqua Oy is responsible for marketing these products in Finland.

Pont-A-Mousson and JOT Components both have options under which JOT Aqua Oy can become a fully-owned subsidiary of Pont-A-Mousson by 2005.

Restructuring of steel foundry sector begins

The group also started to restructure the steel castings sector with Raahen Teräsvalimo. As a result, the Ljungby steel foundry in Sweden was merged with Raahen Teräsvalimo to form a single group. Merging the operations of Raahen and Ljungby brings together the fragmented operations of the steel castings sector in the Nordic countries.

The newly formed group aims to continue the restructuring of the sector. The goal is to form a group of companies in which specialized foundries operate closely together. Bringing together several companies in the same group gives benefits through increased specialization and greater flexibility. A bigger company also has the capacity to make sufficiently large investments, to make them at the right time in response to demand and to increase its marketing efforts. It is also better placed to increase the added value from castings to components.

Ljungby steel foundry has specialized in steel castings for Sweden's mechanical engineering companies and heavy truck industry. Raahen Teräsvalimo, for its part, casts high alloy steels, such as acid resistant valves and pump housings. Its customers are mainly Finnish mechanical engineering companies. The companies'

products fit well together and form a strong core for further developing operations in the steel castings sector.

The Nordic commercial markets contain numerous small steel foundries that operate in a narrow sector, with a combined output of about 20,000 tonnes of castings a year. The combined market share of Ljungby and Raahen Teräsvalimo is almost a third of this. The companies have combined net sales of about FIM 120 million.

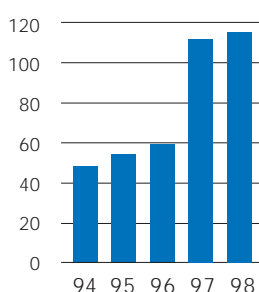
The consolidated figures of the Santasalo-JOT include net sales of FIM 154 million from the divested operations. The Heating Division is included in the consolidated income statement for six months and the other divested operations for the whole year.

More added value

The trend in production of cast components is towards creating higher added value for the customer. In practice this means that the company will increasingly supply customers with pre-assembled cast components, in which the cast part forms the heart of the component. These components contain parts from other suppliers and they are machined and surface treated ready for final assembly.

As the leading group of companies in its field in the Nordic countries, JOT Components is well placed for actively developing new ways of operating. The group's strengths are the close cooperation between foundries, or forges, and machine shops, and a firm commitment to serving its customers.

JOT COMPONENTS GROUP'S OPERATING PROFIT 1994-1998, FIM MILLION



KEY FIGURES OF JOT COMPONENTS GROUP

	1998	1997
NET SALES, MFIM	1,441	1,016
SALES OUTSIDE FINLAND %	74	68
OPERATING PROFIT, MFIM	115	111
ORDERS RECEIVED	1,450	1,088
NUMBER OF PERSONNEL 31.12	2,144	2,301

CAST COMPONENTS DIVISION



YRJÖ JULIN
CAST COMPONENTS DIVISION



Cast Components Division

JOT Components Group's Cast Components Division had net sales of FIM 923 million and an operating profit of FIM 100 million. The division's major customers are Northern European heavy truck manufacturers and mechanical engineering companies. The division is the largest supplier of cast components in the Nordic countries.

The division's operations are based on close cooperation between specialized foundries and engineering workshops. As a result, these are able to supply ready to install cast components directly to the assembly line. The division's logistics skills make it competitive as a key supplier of cast components to its main customer groups.

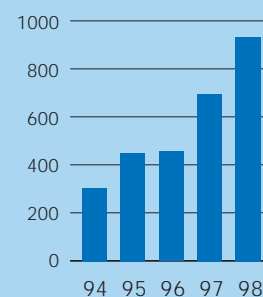
Thanks to advanced operating methods the division has been able to establish close customer relationships and increase its market shares irrespective of market conditions.

Changes in the market

Production levels in the European heavy truck industry rose significantly on those for 1997, reaching very high levels in 1998. During 1998 the sector was estimated to produce more than 270,000 vehicles, which is an all time record. Estimates for 1999 are lower, which is also expected to mean a fall in demand for cast components.

Demand in the mechanical engineering sector was affected by the substantial slowdown in the growth of

CAST COMPONENTS DIVISION'S
NET SALES 1994-1997, FIM MILLION





investments caused by the economic crises in South-East Asia, Latin America and Russia.

The division's foundries operated for most of 1998 at very high capacity usage. For a component supplier, peak loads cause extra costs, so a decline in volume from very high figures may not necessarily weaken the division's profits to the same degree.

Certain investments and maintenance work were carried out in the summer of 1998, and following this production started up more slowly than expected. The division managed to make up for some lost production during the autumn, so the division mainly met its targets.

Structural change to increase efficiency

The Cast Components Division has been formed through resolute development work, starting with the structural change in Finland's foundry industry that began in the 1980s. Through this structural change the Cast Components Division has developed into one of the most efficient manufacturers of cast components in Europe.

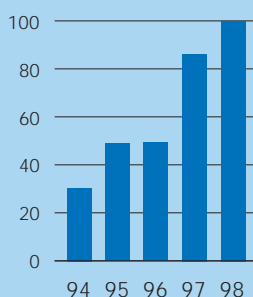
The most recent stage in developing the division's operations has been integrating the cast component operations of Asko Components and Componenta Industri, acquired in 1997, into the division's operations. Integrating Asko Components with the rest of the division's operations gave significant synergy

benefits in 1998. The division should realize the synergy benefits from the companies that joined the division with the purchase of Componenta Industri during the year 2000.

In November the Cast Components Division announced a new centralized organization that will sell the products of the units located in Sweden and Finland. The sales organization aims to obtain deeper knowledge of customer needs. It will also make the special expertise of the different production units available to customers by channelling orders directly to the production plants most suitable for the products in question.

The Cast Component Division's engineering workshops were brought together under common management during 1998. This was to achieve greater specialization at the workshops by product and production method. Specialization should further improve productivity and enable the division to take more advantage of logistic chains.

CAST COMPONENTS DIVISION'S OPERATING PROFIT 1994-1997, FIM MILLION



KEY FIGURES OF CAST COMPONENTS DIVISION

	1998	1997
NET SALES, MFIM	923	684
SALES OUTSIDE FINLAND %	72	61
OPERATING PROFIT, MFIM	100	86
ORDERS RECEIVED	909	722
NUMBER OF PERSONNEL 31.12	1,582	1,485

SPECIAL COMPONENTS DIVISION



MATS BERGSJÖ
SPECIAL COMPONENTS DIVISION

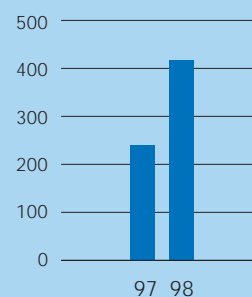
JOT Components Group's Special Components Division had net sales in 1998 of FIM 413 million and recorded an operating profit of FIM 3 million. The division's largest customer groups are Nordic heavy truck manufacturers, mechanical engineering companies and manufacturers of off-road equipment.

The Special Components Division was formed during 1997 from Asko Components' forges and components manufacturing operations and from Componenta Industri's steel and alloy casting and gear wheel and wear parts manufacturing. All the division's production plants are located in Sweden.

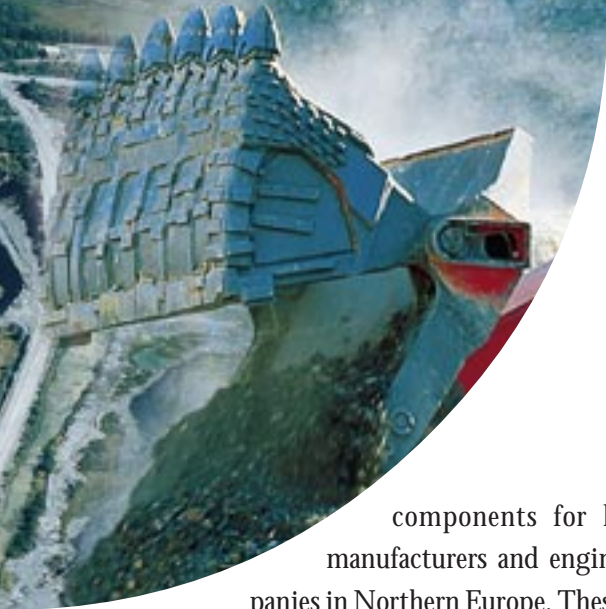
In 1998 the market for the Special Components Division was affected by developments in the truck manufacturing industry and in Sweden's mechanical engineering industry. The market remained strong up until the end of the summer, but then deteriorated rapidly during the last months of the year. The strong market for manufacturers of off-road equipment deteriorated towards the end of the year, and the orders received failed to meet the targets set early in the year.

Operations focus on component production
The division contains independent units that have been grouped into the following business areas: Components, Wear Parts, and Valves, Pumps and Strainers. The largest of these is the Components business area, which specializes in forged components and geared

SPECIAL COMPONENTS DIVISION'S
NET SALES 1997-1998, FIM MILLION



THE GROUP WAS
FORMED DURING 1997.



components for heavy truck manufacturers and engineering companies in Northern Europe. These account for about 80 per cent of the net sales of the Special Components Division.

The largest company in the division is JOT Components Virsbo AB, which specializes in forged components and operates largely in the same markets as the foundries in the Cast Components Division. The rapid deterioration in the market at the end of the year had a strong impact on Virsbo's operations. At the end of the year the Kolsva forge started up a new pressing line that will increase capacity. The objective of this investment in pressing equipment is to raise production efficiency and increase the company's opportunities for specialization.

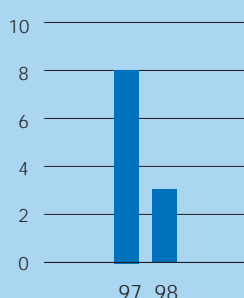
The Wear Parts business area specializes in wear parts for the minerals industry, the construction industry and for dredging. Typical wear parts are steel castings or forged components. Componenta Wear Parts is well known in its field around the world, with long history of proprietary systems.

The Valves, Pumps and Strainers business area specializes in industrial and marine valves and strainers, in which it has a strong market position among its chosen customer sectors.

The Special Components Division was formed as a result of company acquisitions. Work to define more specific strategies for the business areas made progress

during the year. JOT Components Group's objective is to continue to clarify the division's operations. The latest step in restructuring the division's operations took place in December 1998, when the operations of JOT Components Ljungby AB were merged with those of Raahen Teräsvalimo.

SPECIAL COMPONENTS DIVISION'S OPERATING PROFIT 1997-1998, FIM MILLION



KEY FIGURES OF SPECIAL COMPONENTS DIVISION

	1998	1997
NET SALES, MFIM	413	241
SALES OUTSIDE FINLAND %	100	100
OPERATING PROFIT, MFIM	3	8
ORDERS RECEIVED	406	264
NUMBER OF PERSONNEL 31.12	476	622

SANTASALO GROUP



JUHA HEIKINHEIMO
SANTASALO LTD

Santasalo Group, which specializes in industrial gear units, had net sales in 1998 of FIM 313 million and an operating loss of FIM -14 million. Santasalo supplies gear units for the power transmission needs of industry to several industrial sectors worldwide.

During 1998 the Santasalo Group introduced a new, customer-oriented organization that is based on specific strategic business areas.

The group's customer operations are divided into three areas of strong expertise. System Drives focuses on drives for the process industry and offers customers one-stop service for power transmission solutions. Industrial Gear Units focuses on industrial gear unit operations and on serving the sales organization of SEW-Eurodrive. The Service unit looks after service and maintenance operations, including the installation of gear units, preventive maintenance and spare parts supplies. Each of these units has its own management in charge of worldwide operations.

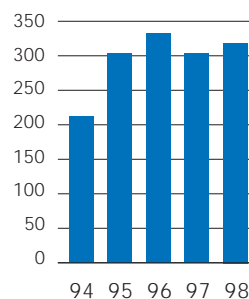
Under the new organization, production is concentrated in the Global Production unit. This aims to enhance production efficiency and profitability by increasing specialization at factories. Product development and marketing also have centralized control with the aim of providing a better service to end customers.

Increased uncertainty in the markets

In 1998 the low level of investment by the pulp and paper industry and the continuing uncertainty in Asia were reflected in demand for the products of Nordic and North American machine builders, and orders from system customers were smaller than anticipated.

Sales through SEW-Eurodrive's organization grew as expected. Growth was greatest in the European and

SANTASALO GROUP'S
NET SALES 1994-1998, FIM MILLION





Asian markets, but sales in North America did not meet expectations. Service operations developed during the year as had been expected. Usage of production capacity was low in the Santasalo Group, which had a significant impact on profitability.

Progress in renewing product series

A key factor in Santasalo's operations is its close partnership with the minority shareholder SEW-Eurodrive. The companies market their joint products under the SEW-Santasalo name and they also work closely together on R & D.

During the year the companies launched a series of jointly developed planetary gear motors, and sales through the SEW-Eurodrive organization got off to a promising start. The M gear unit series launched in the previous year and the Quatro series made in Germany also raised their sales, replacing the older product series.

Santasalo continued to develop the modular Compact series of gear units during the year. The series is almost ready and component production has begun in Finland. The components of the Compact gear units are made to stock in one place for delivery to assembly lines located in different parts of the world. The size of the new series places it between the product ranges of Santasalo and SEW-Eurodrive, so that together they will have a comprehensive range of products that covers the needs of power transmission well. The series will be presented to the public in spring 1999.

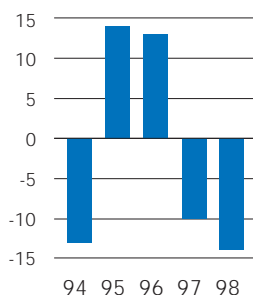
Once the Compact is completely ready, Santasalo will have completed its investment programmes aimed at renewing its product series and building global production.

Capacity to meet demand

Santasalo Group will adapt its operations in 1999 to conform to demand. The group aims to increase the specialization of the factories located in different countries by coordinating its component production and manufacturing in Canada and Germany. At the same time the company will also improve the performance of the new organization by eliminating overlapping operations in different countries.

The biggest challenges facing Santasalo, in addition to improving profitability, are the effective launching of the new gear unit series and taking full advantage of its worldwide operational network.

SANTASALO GROUP'S OPERATING PROFIT 1994-1998, FIM MILLION



KEY FIGURES OF SANTASALO GROUP

	1998	1997
NET SALES, MFIM	313	307
SALES OUTSIDE FINLAND %	82	79
OPERATING PROFIT, MFIM	-14	-10
ORDERS RECEIVED	317	319
NUMBER OF PERSONNEL 31.12.	563	545

QUALITY MANAGEMENT



Quality management at the Santasalo-JOT Group is based on the Total Quality Management (TQM) programme, which aims to develop management methods throughout the group. TQM has also been chosen as one of the main tools for implementing the Group's strategy. TQM's principles include an emphasis on customer-oriented operations and commitment to the continuous improvement of operations.

The TQM programme progressed in 1998 with a training project for senior and middle management, during which over 200 people were trained in the use of TQM tools. As a result, several projects to improve quality in operations were started during the same year in different units. The aim is that by the end of 1999 most of the group's personnel will be using TQM tools as part of their normal work.

The following are some examples of the fast, practical results achieved by applying quality management principles. The Santasalo Group has organized its product development on a worldwide basis and has reduced disruptions in the manufacture of geared axles at the Santasalo factory. At JOT Components Albin, reducing the downtime of machinery has raised the profitability of production cells, and the JOT Components Pietarsaari foundry has stabilized the properties of moulding sand.

TQM tools are used in the continuous improvement of operations and to increase the competitiveness of business areas. Another goal is the continuous enhancement of job and customer satisfaction.

Developing the work community

The objective of Santasalo-JOT Group's action to maintain fitness at work is to encourage personnel to develop themselves and the physical, mental and social well-being of their work community. The aim is to

develop an effective control system for fitness at work in the Group that will not only maintain fitness for work but also control the risks relating to the possible loss of work fitness.

The Group extended its activities for developing fitness at work from the companies in Karkkila to the other companies in Finland during 1998. The Group's personnel, management, occupational health service and pension insurance company are all involved in this work.


Adopting the ISO 14001 standard

The Santasalo-JOT Group's quality development and work to reduce environmental impact often go hand in hand with projects to boost productivity. For example, the procedures for recycling moulding sand and machine filings, carried out for financial reasons, also reduce the environmental load. The use of meters to measure the amount of waste is in turn one of the natural tools for improving quality while at the same time being a process for saving materials and energy.

Studies have shown that the Group's operations do not place a heavy load on the environment. Despite this, the Santasalo-JOT Group is aiming to obtain ISO 14001 certification for all the Group's units. The first approved system conforming to this standard was introduced during 1998 at JOT Components Albin AB in Sweden.

The ISO 14001 standard creates the principles and guidelines for managing environmental issues in the Group. The principle applied by the Group in its decision making and when developing production methods is to utilize the best feasible technology if it is financially justified.

The main goals of environmental activities in each unit are to reduce energy consumption and usage of materials, restrict emissions and noise, to reduce the amount of waste and to sort waste for recycling and re-usage.



Looked at from a business angle, in the long term the effect of environmental work is to enhance the company's operations. A competitive company also takes care of the environmental impact of its operations and reduces harmful effects in all possible ways.

Environmental activities and especially the planning of environmental action will increasingly take place jointly with customers, the authorities and classification bodies. The initiative for reducing environmental impact together may come from customers, from Santasalo-JOT Group companies or from subcontractors. Continuous assessment of the impact of operations is part of this partnership, and this will result in keeping the process of developing operations constantly underway.

TQM IS A DEVELOPMENT PROGRAMME THAT AIMS AT CONTINUOUS DEVELOPMENT IN THE QUALITY OF MANAGEMENT. THE PURPOSE OF TQM IS TO CONTINUOUSLY IMPROVE MANAGEMENT, TO MAKE OPERATIONS MORE CUSTOMER-ORIENTED, AND TO ACTIVATE PERSONNEL TO DEVELOP THEIR OWN WORK. TQM CONTAINS PROCEDURES WITH WHICH A COMPANY CAN RESPOND EFFECTIVELY TO CHANGES IN ITS BUSINESS ENVIRONMENT AND TO CUSTOMER NEEDS.

REPORT BY THE BOARD OF DIRECTORS

The operations of the Santasalo-JOT Group in 1998 were affected by the integration and consolidation of the operations of Asko Components and Componenta Industri AB, which it acquired in the previous year. The Group carried out restructuring in three business sectors involving its Municipal Engineering and Heating Divisions and the steel castings sector.

The markets in the company's business sectors were strong for most of the year and capacity usage in the foundries and engineering workshops was high. The end of the year saw the strong demand from mechanical engineering companies and the heavy truck industry weaken, and as a result production volumes fell rapidly in some of the group companies. The group had net sales of FIM 1,771 million, an operating profit of FIM 92 million and a profit after financial items of FIM 33 million.

The Board of Directors proposes to the Annual General Meeting that a dividend of FIM 1.75 per share be paid, the equivalent of 61 per cent of the net profit per share.

Markets

Output in 1998 by heavy truck manufacturers in Europe was estimated to reach a record level of over 270,000 trucks. Demand levelled off at the end of the year. Production levels for buses also improved encouragingly. Capacity usage at manufacturers of transport and off-road equipment gradually fell during the year.

Production volumes for general machinery and equipment manufacturers remained high for most of the year. Prospects for engineering workshops were overshadowed not only by the continuing economic uncertainty in South-East Asia but also by the unstable economic situation in Latin America and Russia and the fall in investments in Central Europe. The change in the market resulted in a decline in demand for metal components at the end of the year. Demand for industrial gear units was low throughout the year mainly because of the low level of new mill projects.

Municipal engineering grew more slowly than building construction in general, but the volume of the Municipal Engineering Division's orders rose on the previous year.

Changes in corporate structure

Högfors Lämpö Oy, which formed Santasalo-JOT Group's Heating Division, merged its operations with those of the Swedish companies Thermia AB and BergslagsInvest, the biggest owner of Thermia. The merger produced one of the largest heating technology groups in the Nordic countries, adopting the name Thermia AB. Thermia AB had net sales in 1998 of about FIM 335 million and 470 employees. Santasalo-JOT has a 24 % holding in Thermia AB, and in addition is entitled to increase its holding in the company by 5 per cent by the end of 1999.

Following the sector restructuring with the Heating Division, the division's net sales, orders received and profit will no longer be recorded separately in the accounts. The result for the Heating Division is included in the consolidated figures for the first six months of the year, after which the Thermia Group result is included as a share of the result of associated companies.

At the end of the year Santasalo-JOT sold 70 % of the shares of a company established to supply and assemble municipal engineering products to Pont-A-Mousson. The price was FIM 56 million. The purchaser has a further option to buy the remaining shares of the company, JOT Aqua Oy, in 2002. Correspondingly, the seller has an option to sell the 30 % it owns to the purchaser in 2005. In both cases the price of the shares will be determined from the company's result and will be a minimum of FIM 21 million. The new JOT Aqua Oy had Pro Forma net sales of about FIM 70 million and 37 employees. JOT Components NV Oy, a foundry specializing in manhole cover production that was not included in the arrangement, became part of the Cast Components Division as from the beginning of 1999.

Santasalo-JOT and Raahen Teräsvalimo merged their steel casting sector operations. The merger took place so that Raahen Teräsvalimo Oy purchased the shares of JOT Components Ljungby AB at the same time as JOT Components Oy acquired a 46 % holding in Raahen Teräsvalimo. The share capital of Raahen Teräsvalimo was further raised by a share issue to JOT Components Oy so that JOT Components Oy ended up with a 50 % holding in the associated company. The new company

had Pro Forma net sales of about FIM 120 million in 1998 and personnel of 230.

The convertible bond issued by Santasalo Ltd to SEW-Eurodrive was converted into shares on 15 December 1998, after which SEW-Eurodrive has a 34 % holding in Santasalo. On the same day the shareholders Santasalo-JOT and SEW-Eurodrive raised Santasalo's share capital by FIM 20 million to FIM 105 million.

The Santasalo Group announced a new organization in October 1998. As from 1 January 1999, operations have been organized by customer group into the System Drives, Industrial Gear Units and Service divisions with worldwide operations. Production in Finland, Germany, Canada, China and Belarus will have centralized management.

Changes in accounting principles

Santasalo-JOT has changed its accounting principles for the 1998 financial statements to conform to the provisions of the new Accounting Act. The most significant change is that the difference between planned and actual depreciation is recorded under shareholders' equity and deferred tax liability. Deferred tax receivables have been calculated on the 1998 results. The financial statements and key figures for previous years have been adjusted accordingly.

Net sales and order book

Net sales for the Santasalo-JOT Group rose to FIM 1,771 million (FIM 1,369 million in the previous year). The growth in net sales was the consequence of the company acquisitions in March and October of 1997 and of the strong markets that prevailed for most of the year.

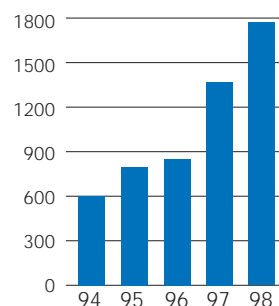
Exports from Finland and foreign operations accounted for FIM 1,329 (917) million, which was 75 % (67 %) of net sales. The Group's order book stood at FIM 316 (355) million on 31 December 1998.

The JOT Components Group had net sales of FIM 1,441 (1,016) million. The Santasalo Group had net sales of FIM 313 (307) million.

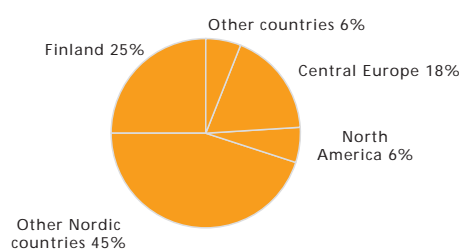
Profit

The Group's profit after financial items declined to FIM 33 (62) million, or 1.9 % (4.5 %) of net sales. The profit after extraordinary items was FIM 59 (34) million. Extraordinary items totalled FIM +26 (-28) million, most of which

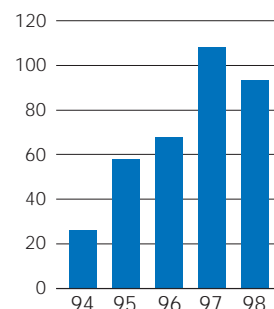
SANTASALO-JOT GROUP
NET SALES 1994-1998, FIM MILLION



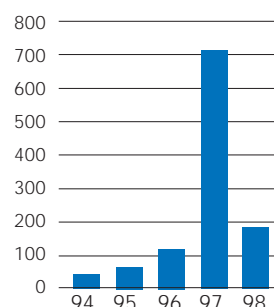
DISTRIBUTION OF SANTASALO-JOT GROUP'S
NET SALES BY MARKET AREA 1998



SANTASALO-JOT GROUP'S OPERATING PROFIT
1994-1998, FIM MILLION



SANTASALO-JOT GROUP'S
INVESTMENTS 1994-1998, FIM MILLION



came from the sale of JOT Aqua shares. The Group's net profit for the year amounted to FIM 56 (21) million and the balance sheet total on 31 December 1998 was FIM 1,882 (1,761) million.

The profit for the year after financial items declined from the previous year. The reasons for this were the fall in demand at the end of the year, the extra costs for investments and maintenance work in the summer, and the rise in financing costs.

JOT Components had an operating profit of FIM 115 (111) million in the year.

In the JOT Components Group the Cast Components Division had an operating profit of FIM 100 (86) million. Capacity usage at the foundries and engineering workshops was high for almost the whole year. Because of high demand the foundries gradually introduced extra work shifts. The synergy benefits from integrating the operations of Askö Components were achieved during the review year as planned. Problems with the start up of investments at the Karkkila and Pietarsaari foundries and maintenance costs that were higher than planned placed an extra burden of just over FIM 10 million on the result of the Cast Components Division.

The Special Components Division had an operating profit of FIM 3 (8) million. The production capacity for forged components was in almost full use for nine months, but the decline in demand from the heavy truck industry towards the end of the year significantly reduced production volumes and during the last quarter the division made an operating loss. The new pressing line at Kolsva was delayed in starting up and production was lost when maintenance work took up more production time than planned.

Steps were taken to reduce costs and make products more profitable at the loss-making company in the Special Components Division, Prometek AB. Production of geared components was slightly below the previous year's level, but major new contracts were signed during 1998.

The Municipal Engineering Division had an operating profit of FIM 12 (15) million. The division's manhole production was combined with the Cast Components Division as from the beginning of 1999 and the rest of the division's operations were transferred to the new company JOT Aqua Oy, in which the JOT Components Group has a 30 % holding.

Santasalo made an operating loss of FIM -14 (-10) million. Equipment deliveries to the pulp and paper industry in particular were at a low level. The decline in the North American markets and the continuing uncertainty in Asia also contributed to the loss. Production at the factory in China continued according to plan but was still loss-making.

Restructuring

Poorer market prospects towards the end of the year caused Santasalo-JOT to announce that it was preparing to reduce its personnel by 250 – 300 people by the end of the first quarter of 1999. It cut 80 of these jobs by the end of 1998. The company plans to reduce production shifts in line with any reduction in demand. As part of its actions to streamline its corporate structure, at the end of the year the Group carried out the arrangements with the Municipal Engineering Division and the Ljungby steel foundry. Santasalo-JOT aims to focus on its core businesses and improve its competitiveness by increasing specialization at its units.

Changes in shareholders' equity

Santasalo-JOT Corporation was registered as a public limited company on 2 April 1998.

On 2 January 1998 an issue of 100,000 share options to Santasalo-JOT Corporation shares was made to the management of Componenta AB. On the same day an issue of convertible bonds to the value of SEK 8 million was made to the personnel of Componenta, entitling personnel to subscribe to 64,000 new Santasalo-JOT Corporation shares. The subscription price for the share options was FIM 87 and the exchange rate for the convertible bonds SEK 125. The share options can be exercised and the bonds converted until 30 April 2003. The options were fully subscribed. Personnel subscribed for convertible bonds to the value of SEK 1,295,000 and JOT Components AB subscribed for the remainder.

The final 7,600 of the bonds with warrants issued by Santasalo-JOT Corporation to personnel on 25 August 1993 were converted to shares on 15 October 1998. The company's share capital stood at FIM 103 million after this.

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

Investments and development costs

Investments by the Santasalo-JOT Group totalled FIM 189 (712) million. The largest production investments were FIM 34 million to raise production efficiency at the Karkkila, Pietarsaari and Pori foundries, FIM 23 million to raise capacity at the Virsbo forge, and FIM 6 million on new equipment at the Främmestad workshop.

The Santasalo Group spent FIM 20 million on the development of the medium-size gear unit series and for building the new factory. The project is now almost finished.

The Group exchanged Högfors Lämpö Oy shares for shares in Thermia AB, with a book value of FIM 23 million. The acquisition cost of the shares of Raahen Teräsvalimo Oy was FIM 36 million.

Costs of FIM 15 (16) million arose from development operations for Santasalo's industrial gear units. Development costs of FIM 12 (7) million were capitalized for completely new product series.

Financing

The Group's liquidity was good during the year. The company's equity ratio including the preferred capital notes stood at 35 % (34 %) at the end of the year.

In March Santasalo-JOT signed a DEM 150 million syndicated credit facility. This is a multi-currency loan and has a total loan period of 6 years. For short-term financing requirements the Group has a FIM 150 million commercial paper programme that was in full use at the end of the year. The Group had long term committed credit facilities of FIM 354 million available at the end of the financial year. The Group's interest-bearing net liabilities, excluding the FIM 135 million preferred capital notes, were FIM 870 (808) million.

Personnel

The Group had 2,771 (2,898) employees on 31 December 1998. The average number of employees during the year was 2,981 (2,275).

Mr Juha Heikinheimo was appointed President of Santasalo Ltd as from 1 January 1999. He started working for Santasalo on 24 August 1998. Mr Markku Pietilä, previously Vice President at Santasalo Ltd, was appointed Senior Vice President, Corporate Development at Santasalo-JOT Corporation as from the beginning of November.

Adopting the euro

The Group will adopt the euro in its operations during the first half of 1999. In accordance with the euro plan approved by the Board of Directors, the euro will be adopted for accounting, reporting and financing activities in 1999. The company has agreed on the use of the euro in pricing and invoicing with customers and suppliers who are prepared for the euro. The share capital of Santasalo-JOT Corporation should be converted to euros during 1999.

It has been estimated that adopting the euro will cause one-time costs of less than FIM 1 million. Savings from using the euro will come mainly in foreign exchange transactions and hedging.

The year 2000

The year 2000 should not cause extensive problems for Santasalo-JOT Corporation because of its basic manufacturing operations. Most of the Group's operational and financial management systems and its production equipment can cope with the problems caused by the year 2000.

The Group started to prepare itself for any problems caused by the new millennium by setting up a Year 2000 Project, which consists of project groups at corporate level and work groups in the individual companies. The project is examining how well the operational management and financial systems, as well as suppliers and partners can handle the change of millennium. Just over two thirds of the initial survey was completed in 1998 and it should be finished during April 1999.

The Group has started to correct the problems that have been discovered, which are of limited significance, and all the corrections should be completed by September 1999. The Group has to a large extent completed a survey of how well suppliers, transport companies and other partners are prepared for the year 2000, and steps will be taken during this year to ensure that they are equipped to operate smoothly during the change of millennium.

Prospects for 1999

Production volumes in the European heavy truck industry are expected to fall from the record high levels of 1998. Both the producers and independent forecasters predict 1999 production volumes to be 5 – 10 per cent lower than in 1998.

Production by the Nordic metal industry is forecast to remain at the level of the previous year. Rapid improvements are not expected in the economic situation in South-East Asia, South America and Russia. The level of investments worldwide is expected to remain low in 1999.

A slight decline in demand for cast components will increase the Cast Components Division's chances of improving production efficiency, and the steps taken in the division to increase specialization coupled with the synergy benefits from merging operations will contribute strongly to this.

Demand for special components is forecast to decline slightly from 1998. Rationalization and streamlining measures are improving the performance of previously loss-making units. Sales of geared components are expected to improve encouragingly thanks to new product sectors.

Basic demand for industrial gear units is expected to remain at quite a low level in 1999, but Santasalo's sales should rise, mainly because of the industrial gear units sold through the company's partner SEW-Eurodrive and the expected growth in Service operations.

Associated companies are expected to make a similar contribution to the Group's result as the result for the previous year of the operations transferred to the associated companies.

The Group estimates that its net sales will be FIM 1.6 billion or 270 million euro, the sold off operations accounting for the reduction in net sales. The steps taken to restructure and put units on a healthier footing place the Group in a good position to improve its profit after financial items on the previous year. Production investments in 1999 are expected to be significantly below the level of depreciation and less than half of the investments made in 1998.

CONSOLIDATED INCOME STATEMENT

(1000 FIM) 1.1. - 31.12.		1998	%	1997	%
Net sales	1	1,771,436	100	1 368,792	100
Other operating income	2	9,692		5,981	
Other operating expenses	3	1,583,767		1 192,910	
Depreciation and write-down of non-current assets	4	104,988		73,014	
Operating profit	5	92,373	5.2	108,849	8.0
Financial income and expenses	6	-59,192		-46,618	
Profit after financial items		33,181	1.9	62,231	4.5
Extraordinary items	7	26,116		-28,333	
Profit after extraordinary items		59,297	3.3	33,898	2.5
Income taxes	9	-10,973		-17,948	
Conversion differences		-29		-741	
Minority interest		7,205		6,165	
Profit for the financial year		55,500	3.1	21,374	1.6

(1000 EUR) 1.1. - 31.12.		1998	%	1997	%
Net sales		297,934	100	230,214	100
Other operating income		1,630		1,006	
Other operating expenses		266,370		200,633	
Depreciation and write-down of non-current assets		17,658		12,280	
Operating profit		15,536	5.2	18,307	8.0
Financial income and expenses		-9,955		-7,841	
Profit after financial items		5,581	1.9	10,467	4.5
Extraordinary items		4,392		-4,765	
Profit after extraordinary items		9,973	3.3	5,701	2.5
Income taxes		-1,846		-3,019	
Conversion differences		-5		-125	
Minority interest		1,212		1,037	
Profit for the financial year		9,334	3.1	3,595	1.6

CONSOLIDATED BALANCE SHEET

(1000 EUR)	31.12.1998	31.12.1997
ASSETS		
Non-current assets		
<i>Intangible assets</i>	4,767	4,604
<i>Group goodwill</i>	31,890	35,805
<i>Tangible assets</i>	160,709	161,353
<i>Investments</i>	15,092	3,795
	212,458	205,557
Current assets		
<i>Inventories</i>	37,110	37,446
<i>Long-term receivables</i>	4,359	2,208
<i>Short-term receivables</i>	51,491	44,842
<i>Cash and bank accounts</i>	11,191	6,072
	104,151	90,568
Total assets	316,609	296,125

(1000 FIM)	31.12.1998	31.12.1997
ASSETS		
Non-current assets		
<i>Intangible assets</i>	28,342	27,373
<i>Group goodwill</i>	189,612	212,888
<i>Tangible assets</i>	955,530	959,359
<i>Investments</i>	89,731	22,566
	10 1,263,215	1,222,186
Current assets		
<i>Inventories</i>	12 220,645	222,641
<i>Long-term receivables</i>	13 25,917	13,131
<i>Short-term receivables</i>	14 306,154	266,618
<i>Cash and bank accounts</i>	66,540	36,104
	619,256	538,494
Total assets	1,882,471	1,760,680

(1000 FIM)	31.12.1998	31.12.1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	102,994	102,918
Share premium account	227,070	231,345
Legal reserve	15,926	15,783
Retained earnings	47,110	42,129
Profit for the financial year	55,500	21,374
Preferred capital notes	17 135,000	135,000
	16 583,600	548,549
Minority interest	67,787	46,536
Provisions	19 1,246	660
Liabilities		
Non-current liabilities	21 676,253	654,688
Deferred tax liability	22 49,413	37,552
Current liabilities	23 504,172	472,695
	20 1,229,838	1,164,935
Total liabilities and shareholders' equity	1,882,471	1,760,680

(1000 EUR)	31.12.1998	31.12.1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	17,322	17,310
Share premium account	38,190	38,909
Legal reserve	2,679	2,655
Retained earnings	7,923	7,086
Profit for the financial year	9,334	3,595
Preferred capital notes	22,705	22,705
	98,154	92,259
Minority interest	11,401	7,827
Provisions	210	111
Liabilities		
Non-current liabilities	113,738	110,111
Deferred tax liability	8,311	6,316
Current liabilities	84,796	79,502
	206,844	195,928
Total liabilities and shareholders' equity	316,609	296,125

PARENT COMPANY INCOME STATEMENT

(1000 FIM) 1.1. - 31.12.		1998	1997
Net sales	1	6,355	3,611
Other operating income	2	1,896	1,959
Other operating expenses	3	21,168	13,538
Depreciation and write-down of non-current assets	4	271	211
Operating profit		-13,188	-8,179
Financial income and expenses	6	7,186	-4,602
Profit after financial items		-6,002	-12,781
Extraordinary items	7	27,968	32,170
Profit after extraordinary items		21,966	19,389
Change in untaxed reserves	8	-125	-27
Income taxes	9	1,692	3,185
Profit for the financial year		23,533	22,547

PARENT COMPANY BALANCE SHEET

(1000 FIM)	31.12.1998	31.12.1997
ASSETS		
Non-current assets		
Intangible assets	947	785
Tangible assets	842	719
Investments	26, 27, 28 265,053	245,684
	10	247,188
Current Assets		
Long-term receivables	13 898,916	641,461
Short-term receivables	14 67,715	81,589
Cash and bank accounts	40,065	16,375
	1,006,696	739,425
Total assets	1,273,538	986,613

(1000 FIM)	31.12.1998	31.12.1997
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Share capital	102,994	102,918
Share premium account	226,055	225,952
Legal reserve	4,570	2,607
Profit for the financial year	23,533	22,547
Preferred capital notes	135,000	135,000
	16	489,024
Untaxed reserves	18	67
Liabilities		
Non-current liabilities	21 526,348	353,157
Current liabilities	23 254,847	144,365
	20	497,522
Total liabilities and shareholders' equity	1,273,538	986,613

CASH FLOW STATEMENT

(1000 FIM)	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
OPERATIONS				
<i>Funds generated from operations</i>				
<i>Operating profit</i>	92,373	108,849	-13,188	-8,179
<i>Depreciation and write-down of non-current assets</i>	104,988	73,014	271	211
<i>Financial income and expenses</i>	-59,192	-46,618	7,186	-4,602
<i>Extraordinary items</i>	-2,504	-28,333	38,844	32,170
<i>Income taxes</i>	-12,622	-15,153	-9,184	3,185
	123,043	91,759	23,929	22,785
Change in net working capital				
<i>Inventories, increase (-), decrease (+)</i>	1,996	-122,522	-	-
<i>Short-term receivables, increase (-), decrease (+)</i>	-31,712	-142,293	13,874	-47,073
<i>Non-interest bearing current liabilities, increase (+), decrease (-)</i>	-42,144	173,043	28,713	12,429
	-71,860	-91,772	42,587	-34,644
Cash flow from operations	51,183	-13	66,516	-11,859
Investments				
<i>Investments in non-current assets</i>	-189,037	-712,008	-20,255	-80,413
<i>Disposals</i>	99,800	27,068	330	2,014
	-89,237	-684,940	-19,925	-78,399
Cash flow before financing	-38,054	-684,953	46,591	-90,258
Financing				
<i>Long-term receivables, increase (-), decrease (+)</i>	-12,786	-13,131	-257,455	-530,999
<i>Non-current liabilities, increase (+), decrease (-)</i>	21,565	270,773	173,191	214,322
<i>Current liabilities, increase (+), decrease (-)</i>	73,621	129,458	81,769	116,227
<i>Preferred capital notes, increase (+), decrease (-)</i>	-	135,000	-	135,000
<i>Share issues</i>	179	169,021	179	169,971
<i>Dividends</i>	-20,652	-14,836	-20,584	-14,799
	61,927	676,285	-22,900	89,722
<i>Adjustments</i>	6,563	19,223	-	-
Change in cash and bank accounts, increase (+), decrease (-)	30,436	10,555	23,691	-536

NOTES TO THE FINANCIAL STATEMENTS

ACCOUNTING PRINCIPLES

The financial statements of Santasalo-JOT Corporation and the consolidated financial statements have been prepared in accordance with current laws and regulations in Finland. The 1998 financial statements are the first for the Santasalo-JOT Group to be prepared in accordance with the 1997 Accounting Act. This has resulted in changes in the income statement and balance sheet, and the figures for previous years have been adjusted accordingly.

The financial statements for foreign subsidiaries have been grouped so that they correspond to the Finnish Accounting Act.

The financial year for all group companies ended on 31 December 1998.

Scope of consolidated financial statements

The consolidated financial statements include Santasalo-JOT Corporation and those Finnish and foreign subsidiaries in which the group holds directly or indirectly shares with over 50 % of the voting rights. Subsidiaries acquired during the financial year are included in the consolidated financial statements from the date of acquisition, and subsidiaries sold during the financial year are included up until the date of sale.

The consolidated financial statements do not include figures for Santasalo Conveyor Drives Minsk (Belarus) nor for certain small non-operational subsidiaries. These companies do not have any effect on the group's distributable equity.

The consolidated financial statements include 65.6 % of the figures for Santasalo (Tianjin) Co Ltd, based on the shareholder agreement.

Associated companies are companies in which the group holds shares with 20 % to 50 % of the voting rights. The consolidated financial statements do not include certain small associated companies since the amounts concerned are insignificant. The non-consolidated associated companies do not affect the group's distributable equity.

Principles for consolidation

The consolidated financial statements have been prepared according to the acquisition cost method. The difference between the acquisition cost of the shares of subsidiary companies and their shareholders' equity is allocated to the non-current assets of the subsidiaries, and the remainder of the acquisition cost is presented as group goodwill. On 31 December 1998 items allocated to machinery and equipment under non-current assets totalled FIM 66 million.

Group goodwill is depreciated according to plan on a straight-line basis. The depreciation period for the goodwill arising from the purchase of the shares of Componenta Industri AB is 20 years. The depreciation period for the goodwill from the purchase of the companies in Canada is 40 years, following the American practice, and for the goodwill arising from the purchase of other subsidiaries 10 years.

The financial statements of associated companies are consolidated according to the equity method. The group's share of the result of associated companies is entered under other operating income in the income statement. The difference between the acquisition cost of shares and the group's share of the shareholders' equity and equity in untaxed reserves of the associated companies (goodwill) is depreciated over ten years. The value of shares is presented in the balance sheet as the acquisition cost of the shares adjusted by the result of the associated companies.

Foreign subsidiaries and conversion differences

The income statements of foreign subsidiaries are converted into Finnish markka using the average exchange rate for the accounting period. Balance sheet items are converted into Finnish markka at the Bank of Finland's average exchange rate on the closing day.

For the result 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 caused by changes in exchange rates when consolidating the shareholders' equity of subsidiaries have been recorded under shareholders' equity.

NOTES TO THE FINANCIAL STATEMENTS

The shareholders' equity of foreign subsidiaries has been hedged with currency-denominated loans using the equity hedging method. Exchange rate differences for these loans are recorded net in the consolidated balance sheet as conversion differences under shareholders' equity.

Intra-group transactions

Intra-group transactions have been eliminated, as has the internal margin included in the inventories of group companies. Intra-group receivables and liabilities have also been eliminated.

Minority interest

Minority interest is calculated as the minority shareholders' share of the result for the financial period and of the shareholders' equity of subsidiary companies.

Net sales

When calculating net sales, indirect taxes, exchange rate differences for sales, discounts given and the costs of claims have been deducted from net sales.

Freight charges and other costs relating to sales as well as credit losses are included in other operating expenses.

Foreign currency transactions

Foreign currency transactions are recorded at the exchange rate on the transaction date.

The foreign currency receivables and liabilities of the parent company and Finnish subsidiaries are converted to Finnish markka at the Bank of Finland's average exchange rate on the last day of the year. The foreign currency receivables and liabilities of foreign group companies are converted at the exchange rate in the country concerned on the last day of the year. Depending on how they arise, exchange rate differences are recorded in the income statement as sales or purchasing adjustments or as financial items.

Currency-denominated open derivatives are valued at the exchange rate on the closing day of the financial year.

The amount of exchange rate differences resulting from the changeover to the euro that are recorded in the income statement is insignificant.

Capitalized development costs

Capitalized development costs for the completely new product series of industrial gear units have been capitalized in the balance sheet. The planned depreciation period for these costs is 5 years. Other development costs are recorded as expenses for the period.

Pension obligations

Pension coverage for employees of group companies in Finland 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 and they are 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.

Inventories

The acquisition cost of inventories includes indirect purchasing and manufacturing costs. Inventories are valued at the lowest of the acquisition cost, the replacement price or the probable sale price.

The use of inventories is entered according to the FIFO principle.

Non-current assets and depreciation

Non-current assets are capitalized at their direct acquisition cost. Planned depreciation is calculated on a straight line basis on the original acquisition cost, based on the estimated useful economic life, as follows:

capitalized development costs	5 years
intangible rights	5-10 years
group goodwill	10-40 years
other capitalized expenditure	3-10 years
buildings and structures	40 years
computing equipment	3-5 years
other machinery and equipment	10-25 years
other tangible assets	5-10 years

Depreciation of group goodwill allocated to non-current asset items takes place according to the planned depreciation schedule for the item in question.

Leasing

Leasing payments are treated as rental expenses. The group has no significant finance leasing contracts. Unpaid payments based on leasing agreements are presented under contingent liabilities.

Extraordinary items

Extraordinary items include exceptional business transactions that are not part of the group's actual business operations. Taxes relating to these transactions are also recorded under extraordinary items.

Parent company extraordinary items also include group contributions received.

Untaxed reserves

In the parent company and the separate financial statements of subsidiaries the change in the difference between planned and recorded depreciation is presented as change in untaxed reserves in the income statement and the accumulated difference between planned and recorded depreciation is presented in the balance sheet under untaxed reserves.

In the consolidated balance sheet untaxed reserves are allocated to the shareholders' equity and to the deferred tax liability. The change in untaxed reserves for the period is allocated in the income statement to the result for the period and to the change in the deferred tax liability. The figures for previous years have been adjusted accordingly.

Equity in untaxed reserves under consolidated shareholders' equity is not distributable funds.

Direct taxes

Group direct taxes include direct taxes based on the taxable result of group companies, calculated according to local tax regulations, and the change in the deferred tax liability relating to the change in untaxed reserves. Taxes include taxes paid for the period and taxes for previous periods that have been due for payment or refund; however, taxes on extraordinary items are included under extraordinary items. Deferred tax receivables are calculated on the 1998 result.

NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
1. Net sales by market area and by division				
By market area, MFIM				
Finland	443	452	6	4
Other Scandinavian countries	797	520	-	-
North America	106	82	-	-
Central Europe	319	246	-	-
Other countries	106	68	-	-
Total	1,771	1,369	6	4
By division, MFIM				
Cast components	923	684	-	-
Special components	413	241	-	-
Municipal engineering	124	106	-	-
Industrial gears	313	307	-	-
Sold units	20	50	-	-
Others and internal sales	-22	-19	6	4
Total	1,771	1,369	6	4
2. Other operating income				
Rental income	4,543	833	1,887	1,297
Profit from sale of non-current assets	810	2,975	9	609
Other income	2,339	3,060	-	53
Share of profit/loss in associated companies	2,000	-887	-	-
Total	9,692	5,981	1,896	1,959
3. Other operating expenses				
Change in inventory of finished goods	-24,148	8,234	-	-
Production for own use	-4,594	-4,400	-	-
Material, supplies and products				
Purchases during the financial year	569,718	433,503	-	-
Change in inventories	-10,570	-12,967	-	-
Total	559,148	420,536	-	-
External services	132,823	71,097	-	-
Personnel expenses *	624,328	450,125	4,379	3,022
Other operating expenses				
Rents	38,437	30,538	3,004	2,924
Other expenses	257,774	216,780	13,785	7,593
Total	296,211	247,318	16,789	10,517
Total other operating expenses	1,583,768	1,192,910	21,168	13,539
* Personnel expenses and average number of personnel				
Wages and salaries	509,970	372,720	3,287	2,300
Pension expenses	47,418	44,436	886	521
Other social expenses	66,940	32,969	206	201
	624,328	450,125	4,379	3,022
Remuneration of the members of Boards of Directors and managing directors	10,449	11,340	253	400
There are no specific pension commitments for members or managing directors				
Average number of personnel	2,981	2,275	12	10
Average number of personnel by division				
Cast components	1,590	1,199	-	-
Special components	611	332	-	-
Municipal engineering	111	102	-	-
Industrial gears	559	534	-	-
Other	110	108	12	10
Total	2,981	2,275	12	10

NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
4. Depreciation and write-down of non-current assets				
Intangible assets				
Capitalized development costs	786	-	-	-
Intangible rights	573	727	-	-
Goodwill	152	572	-	-
Group goodwill	15,397	8,655	-	-
Other capitalized expenditure	5,255	3,679	131	99
	22,163	13,633	131	99
Tangible assets				
Buildings and structures	6,038	8,740	-	-
Machinery and equipment	76,142	50,149	140	112
Other tangible assets	645	492	-	-
	82,825	59,381	140	112
Total depreciation and write-down of non-current assets	104,988	73,014	271	211
5. Operating profit by division, MFIM				
Cast components	100	86		
Special components	3	8		
Municipal engineering	12	15		
Industrial gears	-14	-10		
Sold units	-2	7		
Others and internal items	-7	2		
Total	92	108		
6. Financial income and expenses				
Dividend income				
Dividends from group companies	-	-	1,934	1,149
Other dividends	152	506	124	57
	152	506	2,058	1,206
Interest and other financial income				
Interest and other financial income from group companies	-	-	49,504	27,814
Interest and other financial income	21,353	7,181	19,130	1,042
	21,353	7,181	68,634	28,856
Interest expenses and other financial expenses				
Interest expenses to group companies	-	-	-21,513	-253
Interest expenses and other financial expenses	-80,696	-54,305	-41,994	-34,411
	-80,696	-54,305	-63,507	-34,664
Total financial income and expenses	-59,191	-46,618	7,185	-4,602
Financial income and expenses include net exchange rate gains and losses				
From group companies	-	-	-21,095	5,957
From others	1,091	1,461	18,182	-3,199
	1,091	1,461	-2,913	2,758
7. Extraordinary items				
Extraordinary income				
Sale of shares	38,773	-	-	-
Group contribution received	-	-	38,844	44,680
	38,773	-	38,844	44,680
Extraordinary expenses				
Restructuring costs	-1,480	-31,562	-	-
Goodwill of associated company	-	-1,000	-	-
Other expenses	-1,024	-	-	-
	-2,504	-32,562	-	-
Income taxes on extraordinary items	-10,153	4,229	-10,876	-12,510
Total extraordinary items	26,116	-28,333	27,968	32,170

NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
8. Change in untaxed reserves				
Change in accelerated depreciation				
Other capitalized expenditure			-8	-27
Machinery and equipment			-117	-
Total change in accelerated depreciation			-125	-27
9. Income taxes				
Income taxes for the financial year	-12,007	-10,641	-9,184	-8,962
Income taxes from previous financial years	-615	-283	-	-363
Change in deferred tax liability	-16,328	-2,795	-	-
Change in deferred tax receivables	7,824	-	-	-
Total	-21,126	-13,719	-9,184	-9,325
Income taxes on extraordinary items	10,153	-4,229	10,876	12,510
Total income taxes	-10,973	-17,948	1,692	3,185

10. Non-current assets

Consolidated	Acquisition cost 1.1.	Conversion differen- ce +/-	In- crease +	De- crease-	Re- classi- fica- tion +/-	Acquisi- tion cost 31.12	Accumulated depreciations according to plan 31.12.	Book value 31.12
Intangible assets								
Capitalized development costs	-	-	2,581	-	4,200	6,781	-786	5,995
Intangible rights	5,683	-	179	-555	-353	4,954	-3,130	1,824
Goodwill	7,796	-	-	-796	-	7,000	-6,736	264
Other capitalized expenditure	42,671	-23	5,099	-	-3,324	44,423	-24,507	19,916
Advance payments	317	-	343	-	-317	343	-	343
Group goodwill	242,612	-2,659	-	-	-	239,953	-50,341	189,612
1.1.-31.12.1998	299,079	-2,682	8,202	-1,351	206	303,454	-85,500	217,954
1.1.-31.12.1997	126,719	2,446	174,046	-4,132	-	299,079	-58,818	240,261

The capitalized development costs consist of development costs of the new product series for industrial gears. The unfinished part of the development costs (MFIM 13) is included in the Advance payments and construction in progress in Tangible assets. The capitalization of development costs is made according to the decision of the Finnish Ministry of Trade and Industry. The development costs will be depreciated in 5 years.

Tangible assets	Acquisition cost 1.1.	Conversion diffe- rence +/-	In- crease +	De- crease-	Re- classi- fica- tion +/-	Acquisi- tion cost 31.12	Accumulated depreciations according to plan 31.12.	Book value 31.12
Land and water areas	16,747	-162	4,469	-1,149	2,185	22,090	-	22,090
Buildings and structures	401,898	-3,887	16,377	-24,334	1,380	391,434	-40,611	350,823
Machinery and equipment	781,231	-35,129	97,566	-32,771	36,236	847,133	-298,841	548,292
Other tangible assets	4,886	-	649	-29	-760	4,746	-2,190	2,556
Advance payments and construction in progress	46,614	-1,015	25,417	-	-39,247	31,769	-	31,769
1.1.-31.12.1998	1,251,376	-40,193	144,478	-58,283	-206	1,297,172	-341,642	955,530
1.1.-31.12.1997	743,540	-	547,452	-39,616	-	1,251,376	-292,017	959,359

The above mentioned figures include value adjustments:

Buildings								
1.1.-31.12.1998	123,892	-	-	-2,980	-	120,912	-	120,912
1.1.-31.12.1997	123,892	-	-	-	-	123,892	-	123,892
Machinery and equipment in production use, book value								
31.12.1998	466,048							
31.12.1997	456,365							

NOTES TO THE FINANCIAL STATEMENTS

Investments	Book value 1.1.	In-crease +	De-crease -	Re-classifi-cation +/-	Share of profit/loss	Write-down	Book value 31.12.
Shares in associated companies	6,241	36,000	-	30,479	2,000	-	74,720
Other shares	16,325	357	-1,570	-101	-	-	15,011
1.1.-31.12.1998	22,566	36,357	-1,570	30,378	2,000	-	89,731
1.1.-31.12.1997	17,105	9,996	-2,648	-	-887	-1,000	22,566

Parent company

Intangible assets	Acquisition cost 1.1.	In-crease +	De-crease -	Acqui-sition cost 31.12.	Accumulated depreci-ations-according to plan 31.12	Book value 31.12.
Other capitalized expenditure	965	-	-51	914	-310	604
Advance payments	-	343	-	343	-	343
1.1.-31.12.1998	965	343	-51	1,257	-310	947
1.1.-31.12.1997	457	508	-	965	-179	786

Tangible assets	Acquisition cost 1.1.	In-crease +	De-crease -	Acqui-sition cost 31.12.	Accumulated depreci-ations-according to plan 31.12	Book value 31.12.
Machinery and equipment	880	227	-	1,107	-389	718
Other tangible assets	88	5	-	93	-	93
Advance payments	-	31	-	31	-	31
1.1.-31.12.1998	968	263	-	1,231	-389	842
1.1.-31.12.1997	818	150	-	968	-249	719

Investments	Book value 1.1.	Increase +	Decrease -	Book value 31.12.
Shares in subsidiaries	233,427	19,680	-	253,107
Shares in associated companies	5,000	-	-	5,000
Other shares	7,257	-	-310	6,947
1.1.-31.12.1998	245,684	19,680	-310	265,054
1.1.-31.12.1997	167,943	79,755	-2,014	245,684

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	1998	1997
11. Associated companies		
Book value 1.1.	6,241	3,564
Increase	43,566	6,785
Transfer from shares in subsidiaries	23,031	-
Decrease	-	-3,221
Conversion difference	-118	-
Share of profit/loss	2,000	-887
Book value 31.12.	74,720	6,241

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PARENT COMPANY

	1998	1997	1998	1997
12. Inventories				
Raw material supplies and other	76,139	81,559	-	-
Work in progress	69,746	65,605	-	-
Finished goods	74,356	74,350	-	-
Advance payments	403	1,127	-	-
Total	220,644	222,641	-	-

NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
13. Long-term receivables				
Group companies				
Loan receivables	-	-	887,743	629,619
Associated companies				
Loan receivables	12,738	12,713	11,173	11,842
Other long-term receivables				
Loan receivables	3,920	418	-	-
Other long-term receivables	9,259	-	-	-
	13,179	418		
Total long-term receivables	25,917	13,131	898,916	641,461
14. Short-term receivables				
Group companies				
Trade receivables	-	-	14,179	23,301
Other current receivables	-	-	38,844	44,680
Prepaid expenses and accrued income	-	-	300	8,888
	-	-	53,323	76,869
Associated companies				
Loan receivables	874	4,582	51	-
	874	4,582	51	-
Other short-term receivables				
Trade receivables	192,617	216,134	132	202
Loan receivables	6,731	-	621	1,790
Other current receivables	80,418	33,761	7,361	393
Deferred tax receivables	7,824	-	-	-
Prepaid expenses and accrued income	17,690	12,141	6,227	2,335
	305,280	262,036	14,341	4,720
Total short-term receivables	306,154	266,618	67,715	81,589
Specification of prepaid expenses and accrued income				
Exchange rate gains from intra-group loans	-	-	3,983	9,019
Periodization of arrangement fees for liabilities and preferred capital notes	2,194	1,439	2,194	1,439
Other exchange rate gains	3,983	-	-	-
Accrued interest income	672	477	331	461
Other	10,841	10,225	19	303
	17,690	12,141	6,527	11,222
Loans granted to managing directors of group companies	121	221	-	-

15. Share capital, share options, bonds with warrants and convertible bonds

The share capital of the company totalled FIM 102,994,100 at December 31, 1998, and was divided into 10,299,410 shares, each of which carries one vote.

At the end of the financial year, the company had issued share options, bonds with warrants and convertible bonds with entitlement to the following subscriptions (terms in point 24):

	Number of shares	Holding %
Bonds with warrants 1997	600,000	5.42%
Convertible bonds 1998	64,000	0.58%
Share options 1998	100,000	0.90%
	764,000	6.91%
Number of shares including warrants, share options and convertible bonds	11,063,410	100.00%

	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
16. Shareholders' equity				
Share capital 1.1.	102,918	73,994	102,918	73,994
Conversion of bonds with warrants	76	4,924	76	4,924
Share issue	-	24,000	-	24,000
Share capital 31.12.	102,994	102,918	102,994	102,918
Share premium account 1.1.	231,345	-	225,952	-
Issue premium	103	97,963	103	96,405
Change in minority interest	-4,378	-	-	-
Transfer from legal reserve	-	133,382	-	129,547
Share premium account 31.12.	227,070	231,345	226,055	225,952

NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
Legal reserve 1.1.	15,783	107,031	-	84,905
Issue premium	-	44,642	-	44,642
Transfer from retained earnings	195	-	-	-
Transfer to cover retained losses	-	-1,409	-	-
Change in minority interest	-	-1,108	-	-
Conversion difference +/-	-52	9	-	-
Transfer to share premium account	-	-133,382	-	-129,547
Legal reserve 31.12.	15,926	15,783	-	-
Retained earnings 1.1.	63,502	54,039	25,154	17,406
Dividends	-20,652	-14,836	-20,584	-14,799
Conversion difference +/-	741	1,516	-	-
Change in minority interest	3,714	-	-	-
Transfer to legal reserve	-195	-	-	-
Transfer from legal reserve	-	1,409	-	-
	47,110	42,128	4,570	2,607
Profit for the financial year	55,500	21,374	23,533	22,547
Preferred capital notes	135,000	135,000	135,000	135,000
Total shareholders' equity	583,600	548,548	492,152	489,024
Equity in untaxed reserves	82,850	40,692	-	-
Distributable shareholders's equity	19,760	22,810	28,103	25,154

17. Preferred capital notes

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. The preferred Capital Notes will be repaid on the maturity date only if Santasalo-JOT Corporation and the Group after repayment of the Notes has full cover for their respective restricted equity. If the conditions for repayment are not satisfied, the maturity will extend by one year at a time. The interest for the loans is 9 % p.a.. If the loans are not repaid on maturity date, the interest rate thereafter is 5 % above 12 month Helibor. Interest shall not be paid in excess of the distributable non-restricted equity of Santasalo-JOT Corporation or the Group. The unpaid interest will remain a liability of the company. The preferred Capital Notes rank junior to the Company's other debt commitments. The loans are not secured. Accrued interest on the loans at 31 December 1998 has been recorded as an expense in the income statement and as a liability in the accrued expenses.

	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
18. Untaxed reserves and deferred tax liability				
Accelerated depreciation				
Other capitalized expenditure	-	-	74	67
Machinery and equipment	-	-	117	-
	-	-	191	67
Untaxed reserves	176,475	134,118		
Equity elimination of acquired subsidiaries	-41,762	-54,230		
Minority interest	-2,450	-1,644		
Deferred tax liability	-49,413	-37,552		
Equity in untaxed reserves	82,850	40,692		
Deferred tax liability	49,413	37,552		

The deferred tax liability of subsidiaries outside Finland is calculated using local tax rates. The deferred tax liability for Finnish companies is calculated using the Finnish tax rate of 28 %

19. Provisions

Provisions in balance sheet				
Santasalo GmbH, rental commitments	-	660	-	-
Santasalo GmbH, restructuring expenses	1,246	-	-	-
	1,246	660	-	-
Change of provisions in the income statement				
Other operating expenses	1,246	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
20. Liabilities				
Interest bearing liabilities	943,715	848,529	734,232	479,272
Non-interest bearing liabilities	286,123	316,406	46,963	18,250
	1,229,838	1,164,935	781,195	497,522
21. Non-current liabilities				
Non-current interest bearing liabilities to group companies	-	-	100,545	65,188
Other non-current interest bearing liabilities				
Bonds with warrants	6,000	6,000	6,000	6,000
Convertible bonds	812	31,500	5,013	-
Loans from financial institutions	532,971	490,230	405,235	271,257
Loans from pension funds	86,818	99,806	9,529	10,712
Other non-current interest bearing liabilities	49,652	27,152	26	-
	676,253	654,688	425,803	287,969
Total non-current interest bearing liabilities	676,253	654,688	526,348	353,157
22. Deferred tax liability	49,413	37,552	-	-
23. Current liabilities				
Current interest bearing liabilities				
Loans from financial institutions	84,109	148,426	54,473	120,973
Loans from pension funds	10,880	9,480	1,446	1,222
Other current interest bearing liabilities	172,473	35,935	151,965	3,920
	267,462	193,841	207,884	126,115
Current non-interest bearing liabilities				
Current non-interest bearing liabilities to group companies				
Accounts payable	-	-	336	26
Accrued expenses and deferred income	-	-	27,668	576
	-	-	28,004	602
Other current non-interest bearing liabilities				
Advances received	1,863	3,396	-	-
Accounts payable	92,665	105,241	371	1,332
Accrued expenses and deferred income	101,627	107,426	14,109	11,580
Other current non-interest bearing liabilities	40,555	62,791	4,479	4,736
	236,710	278,854	18,959	17,648
Total current non-interest bearing liabilities	236,710	278,854	46,963	18,250
Total current liabilities	504,172	472,695	254,847	144,365
Specification of accrued expenses and deferred income				
Accrued interest expenses	16,943	16,647	13,748	11,861
Exchange rate losses	-	-	27,552	-
Accrued rents	-	1,756	-	-
Annual discounts	3,369	9,084	-	-
Holiday pay reserve including social expenses	77,807	65,188	431	296
Other accrued expenses	3,508	14,751	46	-
Total	101,627	107,426	41,777	12,157
Non-current liabilities fall due as follows:				
2000	137,524		39,939	
2001-2003	233,783		127,324	
2004-	304,946		258,540	
	676,253		425,803	
Non-current liabilities falling due in five or more years:				
Loans from financial institutions	269,510	153,822	254,692	119,192
Loans from pension funds	35,436	48,652	3,848	6,000
	304,946	202,474	258,540	125,192

NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED	
	1998	1997
Foreign currency breakdown of non-current liabilities, %		
FIM *	51%	39%
DEM*	28%	32%
SEK	16%	22%
USD	4%	5%
other	1%	2%
	100%	100%
* denominated in euro, total	79%	71%

24. Bonds with warrants, convertible bonds and share options

Bonds and share options issued by the group

		Bonds with warrants 1997	Convertible bonds 1998	Share options 1998
The bonds				
Issuer		Santasalo-JOT Corp.	Santasalo-JOT Corp.	Santasalo-JOT Corp.
Amount of issue		6,000,000	SEK 8,000,000	
Interest rate		0 %	2 % p.a.	
Repayment of issue		in full at 30.4.2000		
Held by a group company			SEK 6,705,000	
The warrants/share options				
Number of warrants/share issues		600,000	64,000	100,000
Subscription time	1/4	1.4.1998 - 30.4.2003		1.4.1998 - 30.4.2003
	1/4	1.4.1999 - 30.4.2003		1.4.1999 - 30.4.2003
	1/4	1.4.2000 - 30.4.2003		1.4.2000 - 30.4.2003
	1/4	1.4.2001 - 30.4.2003		1.4.2001 - 30.4.2003
	1/1		1.4.2001-30.4.2003	
Subscription conditions		One warrant entitles the holder to subscribe for one Santasalo-JOT Corporation share with a par value of 10 FIM at a subscription price of 59 FIM per share. The subscription price will be adjusted by the distributed dividends. 59 FIM is the subscription price after dividends from 1997. The original subscription price was 61 FIM.	One bond with a nominal value of 1,000 SEK entitles the holder to subscribe for 8 Santasalo-JOT Corporation shares with a par value of 10 FIM. The exchange price will be adjusted by the distributed dividends.	One warrant entitles the holder to subscribe for one Santasalo-JOT Corporation share with a par value of 10 FIM at a subscription price of 85 FIM per share. The subscription price will be adjusted by the distributed dividends. 85 FIM is the subscription price after dividends from 1997. The original subscription price was 87 FIM.

	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
25. Contingent liabilities				
Mortgages				
For own debts	112,533	172,774	-	-
	112,533	172,774	-	-
General charges				
For own debts	97,987	153,509	15,000	27,000
For subsidiaries	-	-	12,000	-
	97,987	153,509	27,000	27,000
Pledges given for debt				
For own debts	-	256	-	-
	-	256	-	-
Guarantees				
For subsidiaries	-	-	183,817	226,025
For associated companies	101	-	101	-
	101	-	183,918	226,025

NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		PARENT COMPANY	
	1998	1997	1998	1997
Other own commitments				
Other commitments	71,481	44,489	48,914	17,081
Leasing commitments				
Next year	9,383	8,703	163	379
Over one year	9,314	16,440	656	165
	18,697	25,143	819	544
Secured liabilities				
Loans from financial institutions	128,398	265,383	15,000	15,000
Loans from pension funds	79,010	60,900	9,110	12,000
	207,408	326,283	24,110	27,000
Derivative instruments				
Nominal value of forward exchange agreements	608,103	418,359	608,103	418,359
Current value of forward exchange agreements	2,967	586	2,967	586
Nominal value of interest rate swaps	60,000	60,000	60,000	60,000
Current value of interest rate swaps	-3,075	-3,032	-3,075	-3,032
Current value = Profit/loss from the derivative at 31.12.				

26. Subsidiaries

Company	Registered office	Group share of holding %	Shares owned by the parent company			
			Parent company share of holding %	Number of shares	Par value (tFIM)	Book value (tFIM)
Appsys Oy	Espoo, Finland	100.0	100.0	420	210	274
Componenta Inc.	Morton Grove, USA	100.0				
Componenta Industri AB	Kristinehamn, Sweden	100.0				
Componenta Wear Parts AB	Kristinehamn, Sweden	100.0				
Iisalmen Konepajakiinteistö Oy	Iisalmi, Finland	100.0				
JC-Kiinteistöt Oy	Helsinki, Finland	100.0				
JOT Components AB	Kristinehamn, Sweden	100.0				
JOT Components Albin AB	Kristinehamn, Sweden	100.0				
JOT Components Alvesta AB	Alvesta, Sweden	100.0				
JOT Components AT AB	Osby, Sweden	100.0				
JOT Components Främme stad AB	Nossebro, Sweden	100.0				
JOT Components Karkkila Oy	Karkkila, Finland	100.0				
JOT Components Lahti Oy	Lahti, Finland	100.0				
JOT Components NV Oy	Harjavalta, Finland	100.0				
JOT Components Osby AB	Osby, Sweden	100.0				
JOT Components Oy	Helsinki, Finland	100.0	100.0	5,750	69,000	80,218
JOT Components Pietarsaari Oy	Pietarsaari, Finland	100.0				
JOT Components Pori Oy	Pori, Finland	100.0				
JOT Components Suomalimo Oy	Iisalmi, Finland	100.0				
JOT Components Traryd AB	Strömsnäsbruk, Sweden	100.0				
JOT Components Virsbo AB	Virsbo, Finland	100.0				
JOT Components Älmhult AB	Älmhult, Finland	100.0				
Karkkilan Konepaja Oy	Karkkila, Finland	100.0	50.0	4,650	326	809
Karkkilan Koskikiinteistö Oy	Karkkila, Finland	81.0	66.9	210,103	2,101	39,049
Karkkilan Lääkärikeskus Oy	Karkkila, Finland	60.0	60.0	180	90	92
Karkkilan Valimokiinteistö Oy	Karkkila, Finland	100.0				
Karkkilan Valimopalvelu Oy	Karkkila, Finland	100.0				
Kiinteistö Oy Ala-Emali	Karkkila, Finland	100.0	100.0	440	204	1,019
Kiinteistö Oy Uotilan Pajamäki	Rauma, Finland	100.0	100.0	75	15	508
Kiinteistö Oy Uusporila	Karkkila, Finland	77.3	31.8	210	210	42
Kiinteistö Oy Ylä-Emali	Karkkila, Finland	100.0	100.0	1,150	115	619
Luoteis-Uudenmaan Kiinteistöt Oy	Karkkila, Finland	100.0	100.0	1,200	1,200	1,008
Pietarsaaren malli- ja huoltopalvelu Oy	Pietarsaari, Finland	100.0				
Porin Valimokiinteistö Oy	Pori, Finland	100.0				

NOTES TO THE FINANCIAL STATEMENTS

Company	Registered office	Group share of holding %	Parent company share of holding %	Shares owned by the parent company		
				Number of shares	Par value (tFIM)	Book value (tFIM)
Prometek AB	Uppsala, Sweden	100.0				
Santasalo (Canada) Inc.	Cambridge, Canada	65.6				
Santasalo (Tianjin) Co Ltd	Tianjin, China	37.8				
Santasalo Asia Pacific Pte Ltd	Singapore	65.6				
Santasalo Conveyor Drives Minsk	Minsk, Belarus	65.6				
Santasalo Conveyor Drives Oy	Helsinki, Finland	65.6				
Santasalo France S.A.R.L.	France	65.6				
Santasalo Gears Corp.	Doraville, USA	65.6				
Santasalo Gears Service Corp.	Doraville, USA	65.6				
Santasalo Germany GmbH	Wuppertal, Germany	65.6				
Santasalo Norge A/S	Norway	65.6				
Santasalo North America Inc.	Cambridge, Canada	65.6				
Santasalo Oy	Helsinki, Finland	65.6	65.6	69,420	69,420	126,690
Santasalo Service AB	Sweden	65.6				
Santasalo Svenska AB	Göteborg, Sweden	65.6				
Santasalo UK Ltd	United Kingdom	65.6				
Santasalo-Vaihteet Oy	Helsinki, Finland	65.6				
Satakunnan Valu Oy	Harjavalta, Finland	100.0				
Suomen Sentab Oy	Helsinki, Finland	100.0				
Teräsvalu Oy Harjavalta	Harjavalta, Finland	100.0				
Uudenmaan Rakennustiimi Oy	Karkkila, Finland	100.0	100.0	150	15	15
Vanhan Ruukin Kiinteistopalvelu Oy	Karkkila, Finland	100.0	100.0	250	250	254
Vesiterm AS	Tallinn, Estonia	65.2				
Ärnkome Oy	Rauma, Finland	100.0	100.0	50	50	2,510
						253,107

27. Associated companies

Company	Registered office	Group share of holding %	Parent company share of holding %	Number of shares	Par value (tFIM)	Book value in parent company (tFIM)	Book value in group (tFIM)
JOT Aqua Oy	Harjavalta, Finland	30.0	-	3,000		-	7,566
Thermia AB	Sweden	24.0	-			-	25,009
Raahen Teräsvalimo Oy	Raaha, Finland	50.0	-			-	36,000
SEW Santasalo Pty Ltd	Australia	39.0	-			-	1,588
Karkkilan Keskustakiinteistöt Oy	Karkkila, Finland	50.0	50.0	2,180	436	5,000	4,000
Oy Högfors Systems Ab	Helsinki, Finland	33.3	-	400	200	-	200
Pommisuoja Oy	Helsinki, Finland	22.0	-	36	3	-	256
Mallix Oy	Lahti, Finland	36.0	-	36	101	-	101
						5,000	74,720

28. Other shares

Company	Group share of holding %	Number of shares	Book value in parent company (tFIM)	Book value in group (tFIM)
Alma Media Oyj I		11,564	2,045	2,045
Alma Media Oyj II		15,386	2,711	2,711
SEW-Eurodrive (Thailand) Pty Ltd	11.7			2,536
Santasalo Conveyor Drives, Minsk	100.0			2,253
Wecometal Oy	19.8	592		592
Oy Pickala Golf		2		224
Shares in housing associations			2,069	3,384
Other shares			122	1,266
			6,947	15,011

SHARES, SHAREHOLDERS AND SHAREHOLDERS BY GROUP

SHAREHOLDERS BY NUMBER OF SHARES HELD AT DECEMBER 31, 1998

Number of shares	Shareholders		Shares	
	number	%	number	%
1-100	202	23.82	12,183	0.12
101-500	303	35.73	82,486	0.80
501-1000	156	18.40	128,370	1.25
1001-5000	112	13.21	262,102	2.54
5001-10000	18	2.12	133,390	1.30
10001-50000	26	3.07	658,275	6.39
50001-100000	12	1.42	849,600	8.25
100001-500000	17	2.00	2,891,033	28.07
500001-	2	0.24	5,279,591	51.26
Total	848	100.00	10,297,030	99.97
On waiting list 31.12.1998			600	0.01
Shares not transferred to the book-entry securities system			1,780	0.02
Total			10,299,410	100.00

LARGEST SHAREHOLDERS AT DECEMBER 31, 1998

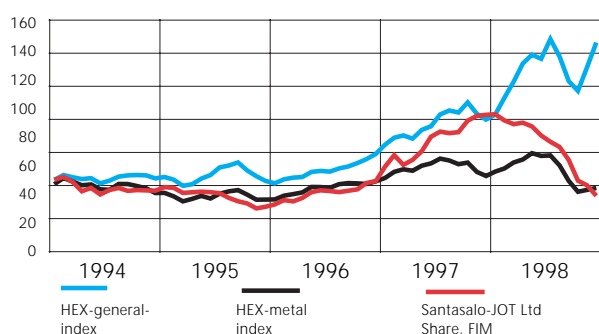
Shareholder	Shares	Share of total voting rights %
1 Lehtonen Heikki	3,166,731	30.75
2 Nominee Register / Merita Bank Plc	2,112,860	20.51
3 Keskinäinen Eläkevakuutusyhtiö Ilmarinen	482,600	4.69
4 Helsingin Santapaperi Oy	340,000	3.30
5 Alfred Berg Optimal Investment Fund	215,700	2.09
6 Teollisuusvakuutus Oy	200,000	1.94
7 Alfred Berg Finland Investment Fund	185,000	1.80
8 Lehtonen Anna-Maria	178,823	1.74
9 Kuntien eläkevakuutus	150,000	1.46
10 Lehtonen Antti	137,470	1.33
11 Other shareholders	3,130,226	30.39
Total	10,299,410	100.00

The members of the Board of Directors own 36,5 % of the shares. All shares have equal voting rights. The members of the Board of Directors hold 15 % of the bonds with warrants. If all the warrants were converted to shares, the holding of the shares of the members of the Board of Directors would decrease to 35 %.

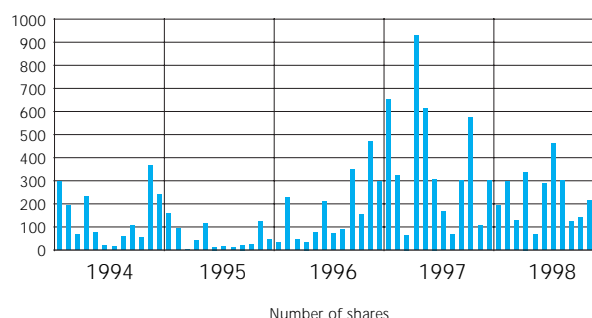
SHAREHOLDERS BY GROUP AT DECEMBER 31, 1998

Individuals	39.48
Nominee holdings and other foreign shareholders	22.71
Financial and insurance institutions	18.13
Public institutions	9.41
Domestic companies	7.16
Non-profit seeking owners	3.08
Public companies	0.01
On waiting list and not transferred to the book entry securities system	0.02
	100.00

SHARE PRICE DEVELOPMENT, FIM



VOLUME OF TRADING, 1,000 SHARES



PER SHARE DATA

ADJUSTED PER SHARE DATA

	1994	1995	1996	1997	1998
Earnings per share (EPS), FIM *	0.35	2.82	3.68	5.98	2.86
Equity per share, FIM	26.54	28.39	31.77	40.18	43.56
Dividend per share, FIM	1.00	1.50	2.00	2.00	1.75 **
Payout ratio	282.43	53.10	54.28	33.43	61.24
Effective dividend yield, %	2.70	5.36	4.65	2.43	5.49
P/E multiple	104.50	9.91	11.67	13.77	11.16
Share price at December 31, FIM	37.00 ***	28.00	43.00	82.40	31.90
Average trading price, FIM	38.68	34.18	37.79	64.40	64.31
Lowest trading price, FIM	32.00	26.00	25.00	42.00	29.00
Highest trading price, FIM	50.00	41.00	45.00	90.00	87.00
Market capitalization at December 31, mFIM	249	203	318	848	329
Trading volume, 1 000 shares	1,728	665	2,059	4,407	2,822
Trading volume, %	25.6	9.2	27.8	42.8	27.4
Weighted average of the number of shares, 1 000 shares	5,864	6,766	7,385	8,433	10,293
Number of shares at December 31, 1 000 shares	6,739	7,242	7,399	10,292	10,299

* Dilution of bonds with warrants, convertible bonds and share options included **2.75**

** Proposal of the Board of Directors

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

ADJUSTED PER SHARE DATA IN EUROS

	1994	1995	1996	1997	1998
Earnings per share (EPS), EUR *	0.06	0.47	0.62	1.01	0.48
Equity per share, EUR	4.46	4.77	5.34	6.76	7.33
Dividend per share, EUR	0.17	0.25	0.34	0.34	0.29 **
Payout ratio	282.43	53.10	54.28	33.43	61.24
Effective dividend yield, %	2.70	5.36	4.65	2.43	5.49
P/E multiple	104.50	9.91	11.67	13.77	11.16
Share price at December 31, EUR	6.22 ***	4.71	7.23	13.86	5.37
Average trading price, EUR	6.51	5.75	6.36	10.83	10.82
Lowest trading price, EUR	5.38	4.37	4.20	7.06	4.88
Highest trading price, EUR	8.41	6.90	7.57	15.14	14.63
Market capitalization at December 31, mEUR	42	34	53	143	55
Trading volume, 1 000 shares	1,728	665	2,059	4,407	2,822
Trading volume, %	25.6	9.2	27.8	42.8	27.4
Weighted average of the number of shares, 1 000 shares	5,864	6,766	7,385	8,433	10,293
Number of shares at December 31, 1 000 shares	6,739	7,242	7,399	10,292	10,299

* Dilution of bonds with warrants, convertible bonds and share options included **0.46**

** Proposal of the Board of Directors

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

SANTASALO-JOT GROUP DEVELOPMENT 1994 - 1998

MILLION FIM	1994	1995	1996	1997	1998
Net Sales	600.0	800.3	854.7	1,368.8	1,771.4
Other operating income	3.6	5.4	3.8	6.8	7.7
Share of profit/loss in associated companies	-	-	-	-0.9	2.0
Other operating expenses	-538.2	-704.6	-742.2	-1,192.9	-1,583.8
Depreciation and write-down of non-current assets	-38.9	-43.2	-48.3	-73.0	-105.0
Operating profit	26.5	57.9	68.0	108.8	92.4
Financial income and expenses	-22.0	-32.6	-30.0	-46.6	-59.2
Profit after financial items	4.4	25.3	37.9	62.2	33.2
Extraordinary items	-6.2	-2.0	-6.6	-28.3	26.1
Profit/loss after extraordinary items	-1.8	23.3	31.3	33.9	59.3
Profit/loss for the financial year	-3.8	17.9	20.6	21.4	55.5
Order book	163.0	189.6	143.5	355.4	316.0
Change in net sales, %	75.1	33.4	6.8	60.1	29.4
Share of export and foreign activities in net sales, %	59.7	62.0	64.6	67.0	75.0
Balance sheet total	749	812	860	1,761	1,882
Net interest bearing debt	423	412	441	808	870
Invested Capital	645	656	741	1,444	1,596
Return on Investments, %	6.4	9.8	10.5	10.7	7.4
Return on Equity, %	1.3	10.0	11.1	12.9	4.7
Equity Ratio, %	24.0	26.5	31.4	33.9	34.6
Net gearing, %	235.2	191.3	163.7	135.8	133.6
Investments in non-current assets	43.3	67.6	125.4	712.0	189.0
Number of personnel 31.12.	1,241	1,492	1,446	2,898	2,771
Average number of personnel	1,096	1,410	1,463	2,275	2,981
MILLION EUR	1994	1995	1996	1997	1998
Net Sales	100.9	134.6	143.8	230.2	297.9
Other operating income	0.6	0.9	0.6	1.1	1.3
Share of profit/loss in associated companies	-	-	-	-0.1	0.3
Other operating expenses	-90.5	-118.5	-124.8	-200.6	-266.4
Depreciation and write-down of non-current assets	-6.5	-7.3	-8.1	-12.3	-17.7
Operating profit	4.5	9.7	11.4	18.3	15.5
Financial income and expenses	-3.7	-5.5	-5.0	-7.8	-10.0
Profit after financial items	0.7	4.3	6.4	10.5	5.6
Extraordinary items	-1.0	-0.3	-1.1	-4.8	4.4
Profit/loss after extraordinary items	-0.3	3.9	5.3	5.7	10.0
Profit/loss for the financial year	-0.6	3.0	3.5	3.6	9.3
Order book	27.4	31.9	24.1	59.8	53.1
Change in net sales, %	75.1	33.4	6.8	60.1	29.4
Share of export and foreign activities in net sales, %	59.7	62.0	64.6	67.0	75.0
Balance sheet total	126	137	145	296	317
Net interest bearing debt	71	69	74	136	146
Invested Capital	108	110	125	243	268
Return on Investments, %	6.4	9.8	10.5	10.7	7.4
Return on Equity, %	1.3	10.0	11.1	12.9	4.7
Equity Ratio, %	24.0	26.5	31.4	33.9	34.6
Net gearing, %	235.2	191.3	163.7	135.8	133.6
Investments in non-current assets	7.3	11.4	21.1	119.7	31.8
Number of personnel 31.12.	1,241	1,492	1,446	2,898	2,771
Average number of personnel	1,096	1,410	1,463	2,275	2,981

1 EUR = 5,94573 FIM

CALCULATION OF KEY FINANCIAL RATIOS

Return on equity -% (ROE)	=	$\frac{\text{Profit after financial items – income taxes (income taxes on extraordinary items excluded)}}{\text{Shareholders' equity without preferred capital notes + minority interest (quarterly average)}} \times 100$
Return on investments -% (ROI)	=	$\frac{\text{Profit after financial items + interest and other financial expenses}}{\text{Balance sheet total - interest free liabilities (quarterly average)}} \times 100$
Equity ratio, %	=	$\frac{\text{Shareholders' equity + preferred capital notes + minority interest}}{\text{Balance sheet total - advances received}} \times 100$
Earnings per share, FIM (EPS)	=	$\frac{\text{Profit after financial items – income taxes (income taxes on extraordinary items excluded) +/- minority interest}}{\text{Average number of shares during the year}}$
Earnings per share with dilution, FIM	=	<p>As above, but earnings have been increased by calculating interest on market terms and net of tax, on the capital increase corresponding to the outstanding warrants, and by the paid interest, net of tax, of the convertible bonds. The number of shares has been increased with the warrants outstanding and with the number of shares after conversion of bonds to shares.</p>
Average trading price	=	$\frac{\text{Trading volume, FIM}}{\text{Number of shares traded during the year}}$
Equity per share, FIM	=	$\frac{\text{Shareholders' equity, preferred capital notes excluded}}{\text{Number of shares at December 31}}$
Dividend per share, FIM	=	$\frac{\text{Dividend}}{\text{Number of shares at December 31}}$
Payout ratio	=	$\frac{\text{Dividend}}{\text{Earnings (as in Earnings per share)}} \times 100$
Effective dividend yield, %	=	$\frac{\text{Dividend per share}}{\text{Market share price at December 31}} \times 100$
Market capitalization	=	<p>Number of shares x share price at December 31</p>
P/E multiple	=	$\frac{\text{Market share price at December 31}}{\text{Earnings per share}}$
Net interest bearing debt	=	<p>Interest bearing liabilities - Cash and bank accounts - interest bearing loan receivables</p>
Net gearing	=	$\frac{\text{Net interest bearing debt}}{\text{Shareholders' equity + preferred capital notes + minority interest}}$

PROPOSAL OF THE BOARD FOR THE DISTRIBUTION OF PROFITS

The distributable equity according to the consolidated balance sheet is FIM 19,760,000. The distributable equity according to the parent company balance sheet is FIM 28,103,349.18.

The Board of Directors proposes that a dividend of 17.5 % per share is paid (10,299,410 shares, FIM 1.75/share), a total of FIM 18,023,967.50.

Helsinki, 22 January 1999

Yrjö M. Lehtonen

Olli Reenpää

Jouko Koskinen

Antti Lehtonen

Heikki Lehtonen

AUDITORS' REPORT

To the shareholders of Santasalo-JOT Corporation

We have audited the accounting, the financial statements and the corporate governance of Santasalo-JOT Corporation for the fiscal year 1 January – 31 December 1998. The financial statements, which have been prepared by the Board of Directors and the Chief Executive Officer, contain the report of the Board of Directors, and the consolidated and parent company income statements, balance sheets and notes to the financial statements. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted our audit in accordance with generally accepted auditing standards in Finland. These standards require that we conduct a sufficient examination of the accounting, as well as the accounting principles, disclosures and presentation of the financial statements, to obtain reasonable assurance that the financial statements are free of material misstatement. The purpose of our audit of corporate governance is to establish that the Board of Directors and the Chief Executive Officer have complied with the rules of the Finnish Companies Act.

In our opinion the financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements. The financial statements give a true and fair view, as defined in the Accounting Act, of both the consolidated and parent company's result of operations and financial position. The financial statements, including the consolidated statements, can be adopted and the members of the Board of Directors of the parent company and the Chief Executive Officer can be discharged from liability for the financial period audited by us. The proposal of the Board of Directors concerning the disposition of the distributable shareholders' equity is in compliance with the Finnish Companies Act.

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

Helsinki, 26 January 1999

SVH Pricewaterhouse Coopers Oy
Authorized public accountants

Kari Miettinen
CPA

Christer Antson
CPA

FINANCIAL RISK MANAGEMENT

The financial risks relating to the Santasalo-JOT Group's business operations are managed according to the financial policy approved by the Board of Directors. This aims to protect the group against adverse changes in the financial markets and to safeguard the performance of the group and its financial position.

Funding and re-financing risk

The company aims to ensure the availability of financing by spreading the maturity dates, sources of funding and financial instruments in its loan portfolio. The proportion of one source of funding should not exceed the limit set by the Board of Directors. No more than a quarter of the total loan portfolio should mature each year. The maturity dates for loans are presented in the notes to the balance sheet.

Liquidity risk

The financial policy states that the group's liquidity should cover 12 months' forecast needs or be the equivalent of at least one month's net sales. In addition to cash reserves, the group ensures its liquidity with unused long-term committed credit facilities that amounted to FIM 354 million at the end of the financial year. Cash reserves are invested with the institutions on a list of counter parties approved by the Board that are considered to have a low credit risk.

Foreign exchange risk

In accordance with the group's financial policy the foreign exchange risk is divided into transaction risk, which arises from income and expenses denominated in foreign currencies, and translation risk, which arises from balance sheet items denominated in foreign currencies. The transaction risk is calculated from the business cash flow position, which includes commercial foreign currency flows, interest flows and hedging items for a 12 month period. Export agreements are to a very large extent made in Finnish markka, so they are not exposed to currency risk. The translation risk is calculated from receivables, liabilities and the shareholders' equity of foreign subsidiaries in the consolidated balance sheet that are denominated in foreign currency.

Following the introduction of the euro, the Group's foreign exchange risk will mainly consist of Swedish kronor, English pounds, and American and Canadian dollars.

In accordance with the financial policy, the group's transaction and translation risks are hedged so that any unfavourable changes in exchange rates will not weaken the group's result by more than half a per cent, with a statistical confidence level of 95 per cent. The risk limit is based on volatility and correlation estimates for exchange rates in accordance with the Value at Risk model. The company uses standard hedging instruments such as forward exchange contracts and currency options, which are reliably priced on the market.

Interest rate risk

Because of the cyclical nature of the markets of the group's customers, the duration of Santasalo-JOT's net interest position is allowed in the financial policy to vary between one and two years. The interest rate risk is also spread among several interest renewal periods, so changes in interest rates affect the group's result in stages but relatively quickly. The duration of the net interest position is affected by the choice of interest rate periods and by interest rate swaps.

The group's net interest position is hedged so that any unfavourable changes in market interest rates can raise the group's net interest by a maximum of half a per cent of net sales with a statistical confidence level of 95 per cent. The calculation is based on market interest rate volatility.

BOARD OF DIRECTORS

YRJÖ M. LEHTONEN, 68

Chairman since 1987

Employed by Santasalo-JOT Group 1953-1991,
Group President 1972-1991.

Chairman of Board of Finnish Swimming Federation

JOUKO KOSKINEN, 62

Board member since 1989

President of Neles-Jamesbury 1980-1994

ANTTI LEHTONEN, 42

Board member since 1987

Senior Vice President at Santasalo-JOT Group and
President of JOT Components Ltd

Employed by Santasalo-JOT since 1984

Member of Board of Directors of Metsäpuu Oy

HEIKKI LEHTONEN, 39

Board member since 1987

President and CEO of Santasalo-JOT Group

Chairman of Board of Jaakko Pöyry Group Oyj and
member of Board of Directors of Otava Publishing
Company Ltd and Raute Plc

OLLI REENPÄÄ, 64

Board member since 1995

President of Otava Publishing Company Ltd

Member of Board of Directors of Alma Media Corporation
and Rautakirja Oyj, member of supervisory board of
Merita Bank Plc

MANAGEMENT TEAM



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