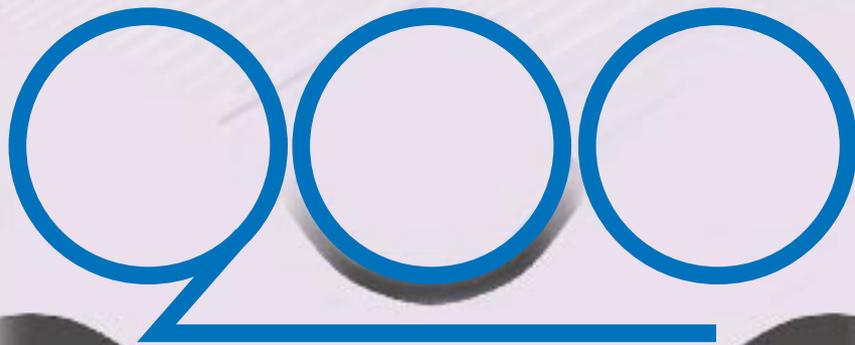


ANNUAL REPORT 1997



1797-1997

CONTENTS

Company Profile	2
Key Data	2
Annual General Meeting	2
Review by the President	3
Bicentennial Celebration in Pictures	4
Organization	8
Board of Directors	8
Auditors	8
Executive Board	8
Board of Directors' Report	9-16
Consolidated Statement of Income	17
Consolidated Balance Sheet	18-19
Consolidated Statement of Cash Flows	20
Statement of Income, Parent Company	21
Balance Sheet, Parent Company	22-23
Statement of Cash Flows Parent Company	24
Significant Accounting Policies	25
Financial Data	27
Stock Analysis	34-35
Stock Data	36-38
Board of Directors' Proposal to Annual General Meeting	39
Auditors' Report	39

COMPANY PROFILE

Tamfelt is one of the pioneers of Finnish industry. The company was founded 200 years ago in 1797.

It was first listed on the Helsinki Stock Exchange in 1942.

Tamfelt has four strategically located plants: one in the United States, one in Portugal and two in Finland. The plant in Tampere, Finland, is one of the largest and most modern in the world today.

The company's main products are forming fabrics, press felts and dryer fabrics for the pulp and paper industry. Filter fabrics cover a broad range, including the pulp, mining and chemical industries.

Tamfelt's quality system is certified according to the most recent SFS-EN ISO 9001 quality standard and the environmental management system according to the SFS-EN ISO 14001 standard.

Tamfelt's customers require increasingly efficient products and advanced technical service to stay in the vanguard of the development. Tamfelt's state-of-the-art technology together with prompt and flexible service ensure the availability of products and technical expertise whenever the need arises in a customer's mill.

KEY DATA

	1997	1996	Change %
Net sales (FIM million)	607	532	14
Income before taxes and minority share (FIM million)	137	99	38
Gross investments (FIM million)	60	53	13
Personnel, Dec. 31	1229	1166	5
Return on net assets, %	26	20	
Equity/Assets ratio, %	77	75	
Earnings/share (FIM)	14.85	11.20	33
Equity/share (FIM)	79	69	14
Dividend/share (FIM)			
- common	6.20	5.60	
- preferred	6.40	5.80	

ANNUAL GENERAL MEETING

The Annual General Meeting of the company will be held on Wednesday, April 1, 1998 at

4.00 p.m. at Group headquarters in Tampere, Finland, Yrittäjänkatu 21.

REVIEW BY THE PRESIDENT

Tamfelt's bicentennial year 1997 was the third successive year of heavy growth and development. Increasing volumes of domestic and export deliveries pushed the group net sales to FIM 607m and net income to FIM 98.6m. Such strong performance can be attributed to our customers' good market situation, notably in the latter half of the year, and to strengthening exchange rates of important currencies. At the same time, we succeeded in eliminating capacity bottlenecks and in focusing product development on areas of growing demand.

When our company celebrated its 200th anniversary in the spring, we received wide publicity and gained a lot of positive response. Newspapers and international forestry journals published plenty of material on our celebrations, seminar, chronicle and the exhibition staged in the fall. The general public and customers now know a lot more about Tamfelt. We are also working for an increasingly active and open communication with our owners, the shareholders. All individual shareholders will be equal in that company bulletins will be distributed to everyone; not only annual and interim reports but also information on topical subjects. Feedback from owners is welcome even outside the official environment of our annual general meeting.

Our customers are the center of increasing attention in matters of environmental performance. Many plants have applied for and been awarded certifications under the ISO 14000 standard. To meet the requirements as a supplier, we released our own environmental policy three years ago. Having gone through the auditing process, we have recently been awarded the ISO 14001 certificate. It is good to see our employees' keen interest in the subject and their commitment to reducing the amount of waste, recycling raw materials and sorting out recyclable materials to cut back on the amount of landfill waste. All this will contribute to higher profitability of our business.

Much to our satisfaction, we witnessed a boom in our buyers' market. In the pulp and paper industry the outlook for 1998 is good. Along with growing company sizes, the industry's competition to increase capacity has calmed down. Supply and demand seem to be in balance in North America and Europe. Our prospects for the future are bright.

We will expand forming fabric capacity in Juankoski in 1998; the press felt division in Tampere is investing to improve product quality, and the separation continues of filter fabrics production from paper machine clothing into an independent factory.

Fanafel has launched a project to increase the volumes of dry filtration and laundry products. On the whole, Tamfelt's

Executive Board: Front (left) Jarmo Järviö, Risto Hautamäki, Seppo Holkko, Hannu Laine, and Esko Pessi. Back (left) Jaakko Räsänen, Kaarina Tasanen, Jyrki Nuutila, and Kristian Lundström.



investments were high in 1997, and in 1998 they will be higher still.

As we embark on our company's third century, I would like to thank all our customers, partners and suppliers for the successful bicentennial year and good cooperation. Our employees deserve recognition for their commitment in the service of our customers.

Risto Hautamäki

BICENTENNIAL CELEBRATION IN PICTURES



Tamfelt's 200th anniversary was celebrated in many ways. The actual foundation date is May 17, but for practical reasons the main celebration was held on May 16. There were about a dozen events, beginning with the award ceremony of bicentennial donations at Tamfelt on May 7. A total of 115,000 markka was granted as scholarships to vocational institutes, etc.



The company chronicle, written by docent Holger Wester, was published at a press conference held on May 14. It was also an occasion for the final rehearsal of the bicentennial poem. The conference was attended by a large audience of media representatives, who had an opportunity to interview the last three presidents about the company's past, present and future.



To commemorate the anniversary, the President of the Republic had honored 21 of Tamfelt's employees with the decorations of the Order of the White Rose of Finland and the Finnish Order of the Lion. The medals were awarded on May 15 in the company's club house.



The Bicentennial Seminar and the accompanying program were attended by almost 400 visitors from the world over. The program included tours of the factory, attendance at the anniversary concert, and an excursion to Helsinki. The lectures given in the seminar and the ensuing discussion got the unreserved attention of customers and trade journals.

The seminar was opened by President Risto Hautamäki.

On May 16 the Board of Directors, the President and personnel representatives laid wreaths on the graves of the first directors of Tampereen Verkatehdas, A.I. Frietsch and Carl Zubr, in Pyyinikki Church Park in Tampere.





The open-doors day May 14 attracted some 400 visitors - retired employees and family members - to tour the factory. At the end of the tour there were refreshments and a special program for children.



Before the main celebration, employees from Juankoski had an opportunity to tour the plant.

The subsidiaries Fanafel Lda. in Portugal and Tamfelt, Inc. in the United States, celebrated the anniversary with a picnic party at Restaurant Riabela in Torreina on May 24 and in Borderland State Park in Sharon on May 31.



The celebrations were rounded off with an impressive exhibition of Tamfelt's history at the Museum Center Vapriikki. The exhibition was open from October 17, 1997 through January 25, 1998 and attracted 6,500 visitors. The large opening audience was entertained by a wind instrument quintet.

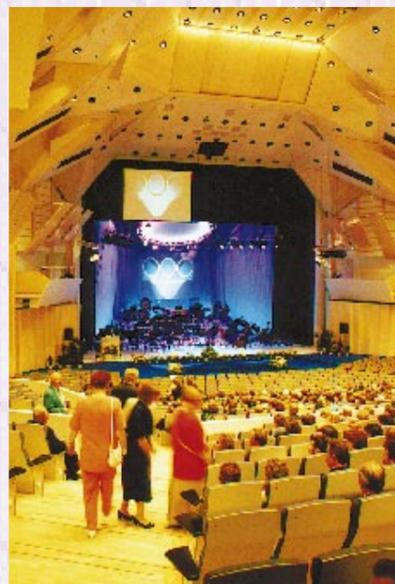


The welcoming address was held by Mikael von Frenckell, Chairman of the Board, and Tamfelt stockholder in the fifth generation.

The sparkling concert was given by Tampere Philharmonic Orchestra conducted by Atso Almila with the opera singers Jaana Mäntynen and Matti Salminen and pop singer Juice Leskinen.



Kari Aronpuro recited his anniversary poem together with a group of high school students.

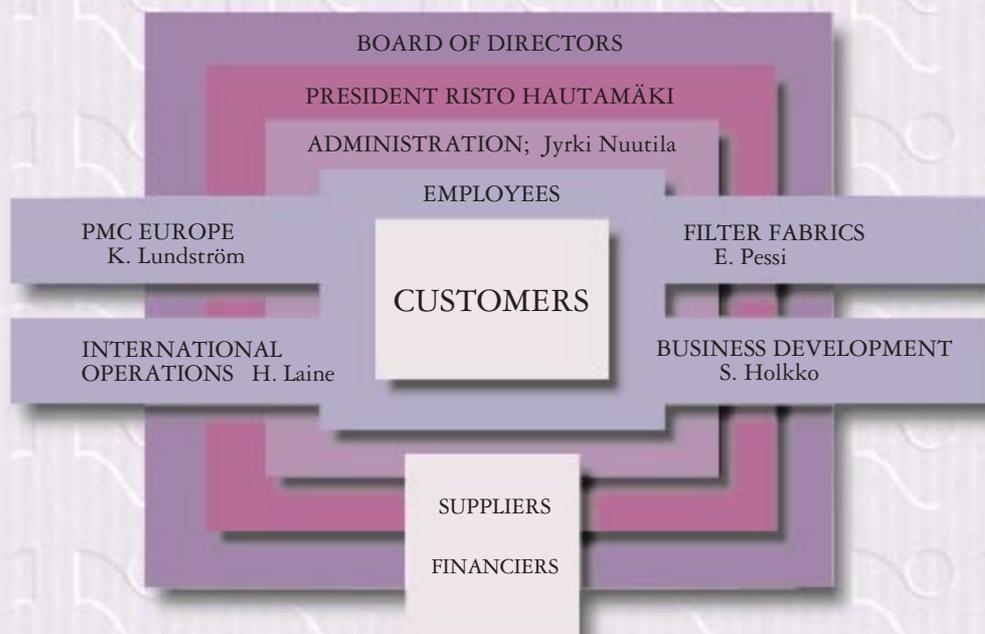


The anniversary concert on May 16 filled the main auditorium of Tampere Hall to capacity. The warm "family occasion" gathered the company's personnel, retired employees, customers and people from other interest groups.

After the concert there was a buffet dinner laid out on eight tables on the three floors of Tampere Hall.



ORGANIZATION



BOARD OF DIRECTORS

Mikael von Frenckell, Chairman, born 1947. Term expiring 1999. Holds 50,000 shares in Tamfelt Corp.

Axel Cedercreutz, Vice Chairman, born 1939. Term expiring 1999. Holds 126,252 shares in Tamfelt Corp.

Martin Lilius, born 1947. Term expiring 1998. Holds 3,004 shares in Tamfelt Corp.

Vesa Kainu, born 1947. Term expiring 1999. Holds no shares in Tamfelt Corp.

Jouko Oksanen, born 1951. Term expiring 1998. Holds no shares in Tamfelt Corp.

AUDITORS

Eric Haglund
Jari Paloniemi

Eero Suomela
Authorized Public Accountants
KPMG Wideri Oy Ab

EXECUTIVE BOARD

Risto Hautamäki, President and CEO
Jyrki Nuutila, Senior Vice President, Deputy President
Hannu Laine, Executive Vice President, Corporate Planning
Seppo Holkko, Executive Vice President, Business Development from February 1, 1998
Kristian Lundström, Executive Vice President, PMC Europe
Esko Pessi, Executive Vice President, Filter Fabrics
Kaarina Tasanen *
Jarmo Järviö *
Jaakko Räsänen *

* Personnel representatives

ANNUAL REPORT BY THE BOARD OF DIRECTORS

GENERAL

1997 was Tamfelt's bicentennial year. The anniversary was celebrated in many ways throughout the year. A special concert was held in Tampere Hall for the company's employees, pensioners, customers and other interest groups. The Bicentennial Seminar on paper-making and paper machine clothing technology was attended by 270 customers from 18 countries and 70 paper mills. The year ended with an exhibition of the company's history at the Museum Center Vapriikki in Tampere. A chronicle of the company's history was also published.

Today, Tamfelt's entire production consists of technical textiles. Forming fabrics, press felts, dryer fabrics and filter fabrics are delivered mainly to the paper, board and pulp industries. The other major customer segments

are the mining and chemical industries, commercial laundries and sewage treatment plants.

The pulp and paper industry is Tamfelt Group's most important customer segment. Its production volumes grew in all principal markets; most rapidly in the Northern countries and the Far East. Growth continued in the North American and Western European markets as well. This has boosted the consumption of paper machine clothing and Tamfelt's sales. Tamfelt has contributed as full-line or major clothing supplier for several domestic and foreign paper machine start-ups.

As a supplier of paper machine clothing, Tamfelt concentrates on the large, modern machinery. It is a major supplier in the European market to paper machines over 5 meters wide and a market leader

in forming fabrics engineered for SC paper machines and gap formers. The company holds a large share of the entire clothing market for high-speed newsprint machines. For shoe presses, a rapidly growing technology in new paper machines, Tamfelt has engineered special felts, which have already conquered a valuable market share in new start-ups. The development of the shoe press belt, the newest member of the product family, has advanced into the first successful trial runs, and the sales are expected to increase gradually.

Vigorous competition continued in the market for technical textiles with only modest price increases. The concentration of customers into increasingly large units has weakened the suppliers' negotiating position. On the other hand, Tamfelt's state-of-the-art products and established status as a supplier



*Board of Directors:
(Left) Vesa Kainu,
Mikael von Frenckell,
Jouko Oksanen,
Axel Cedercrutz,
and Martin Liljus.*

to sophisticated, high-speed paper and board machines are key strengths, helping the company to increase its shares of the principal markets.

The production of filter fabrics focuses on technically challenging, heavy fabrics for wet filtration. Tamfelt is a globally significant supplier to pulp mills, iron pelleting plants and color metallurgy plants. Filter fabrics are also manufactured for waste water treatment. The demand for filter fabrics remained good worldwide and the division's entire capacity was utilized. Growing volumes and new products have required serious investment in machinery and equipment. At the same time, the division has become more independent with improved customer service and delivery strength.

Order volumes were up for all product groups and the entire capacity was utilized. Orders for paper machine clothing grew faster than the average volume of the industry, and Tamfelt's position strengthened in the key markets. The exports of filter fabrics and laundry felts grew over 30 %.

SALES AND EARNINGS

Consolidated net sales were FIM 607m, up 14 per cent from FIM 532m in 1996. The parent company's sales grew 15 %. Fanafel was the fastest growing subsidiary. High rate of capacity utilization, better productivity and investment in the elimination of production bottlenecks resulted in improved earnings. Strong export currencies contributed to the good profitability trend. With

the exception of North American activities, all profit centers and subsidiaries improved. Tamfelt Group's net income was FIM 123.6m, up from 84.0m in 1996, representing 20 % of 1997 net sales, compared to 16 % in 1996. Net income before taxes amounted to FIM 137.1m vs. 98.5m a year before. Return on net assets was 26.3 % compared to 20.3, and equity/assets ratio was 76.6 % compared to 75.4 in 1996. Earnings per share rose to FIM 14.85 from 11.20 in 1996.

Despite the high level of investment, Group liquidity remained good. On the balance sheet date, the size of interest-bearing loans was FIM 3m, and the book value of liquid assets was FIM 178m. Special attention was, again, paid to asset management and effective risk-avoiding



The new efficient looms also provide additional capacity for press felt weaving, which is a bottleneck area.

investment. The company invests mainly in interest instruments. The Group's net financial income was FIM 13.5m compared to FIM 14.9m in 1996. It includes FIM 4.5m capital gain on the sales of Sampo Insurance Company's shares.

The balance sheet total at the end of the year was FIM 689m, up 76m from the beginning of the year. Fixed assets increased on account of the high investment rate and working capital grew thanks to higher export volumes.

The parent company's net sales were FIM 526m compared to FIM 456m in 1996, net income FIM 105.9m compared to 74.7m in 1996, and net income before extraordinary items, reserves and taxes FIM 119.9m compared to FIM 87.8m in 1996. Extraordinary items comprise FIM 15.6m group subsidy from Tamfelt Properties. Extraordinary items in 1996 (FIM -5.2m) included the group subsidy and other extraordinary items.

STOCK EXCHANGE

Average stock prices on the Helsinki Stock Exchange rose 33 % in 1997. Tamfelt's common share was up 58 % from 125 to 197 markka, and preferred share 60 % from 121 to 193 markka. The 1997 turnover of Tamfelt's shares in markka grew 63 % from FIM 96m to FIM 157m. A provision was added into Tamfelt's Articles of Association permitting the conversion of common share into preferred



The new conical warping machine in the filter fabrics profit center serves the whole plant.

share, which brings a higher dividend and is the more liquid series of shares. Only a low number of shares were converted during the year.

INVESTMENTS

The heavily growing demand for Tamfelt's technical textiles together with the new products called for a high level of investment. On the other hand, the elimination of production bottlenecks and higher capacity allowed the company to benefit from the booming market.

The Group's gross investment expenditures were FIM 60.1m, compared to FIM 53.0m in 1996, accounting for 10 % of the net sales in both years. A further extension of the forming fabric division was completed at Juankoski. Several new weaving looms started in the PMC Europe profit center in Tampere and Juankoski. Seaming capacity was added at the two plants. The company's delivery capacity improved in filter fabrics and the division was allocated a greater degree of operational independence by equipping it with several new weaving looms as well as a warping and a heat setting unit.

The facilities of the technical service laboratories were improved in Tampere and Juankoski, and considerable funds were expended on testing equipment, software and additional personnel.

RESEARCH AND DEVELOPMENT

Intensive cooperation continued with customers and manufacturers. A high number of programs are under way for the enhancement of paper quality, product runnability on paper machines, and the development of paper machine clothing.

The standardization of press felt materials and manufacturing procedures combined with tighter standards for all raw materials have remarkably improved quality consistency and shortened delivery times. The new-generation Ecostar laminated felt has been a success on large paper machines. Recently it played a crucial role when a new speed record was set in the manufacture of newsprint.

Tamfelt's new loop-seam uniron dryer fabric has passed from trial manufacture into regular production. The buyers' practical experience from the product is good and a number of additional orders have come in.

The R&D of forming fabrics focuses on multilayer applications. The results from testing their dewatering performance under simulated papermaking conditions have been utilized at customer mills. Both paper quality, product runnability and machine start-ups have met the requirements.

The development of shoe press belts has progressed as expected. Material tests have resulted in the development of a new elastomer and a construction which increases

product life. The first grooved Tambelt has been installed on a paper machine.

The cost of research and development was 5 % of the company's net sales.

PERSONNEL

Tamfelt Group employment averaged 1202 people, of which an average of 924 were in the parent company. In 1996, Tamfelt averaged 1162 employees and parent company 864. On the last day of the year, 1229 and 1166 people were on the Group's payroll in 1997 and 1996, respectively. The parent company's employment was 948 and 888, respectively.

The increase of 60 employees in the parent company was mainly to reinforce technical customer service, sales and product development. Employment at the North American subsidiary declined when the production of forming fabrics was discontinued. Fanafel Lda. in Portugal hired new personnel.

The labor turnover at the group level was 5.3 % and in the parent company 4.8 %. The average length of employment was 13 years for both. At the end of the year the average employee age was 41 and 40, respectively.

The total expenditure in personnel training was FIM 2.5m, excluding payroll cost for the training periods. Most of the amount was used by the

parent company. As required by the company's production investments, the majority of training programs focused on new technologies in warping, weaving, seaming and heat setting. Instruction was also given in information technology, languages as well as quality and environmental issues. A new form of training was created, an apprenticeship contract with an emphasis on paper chemistry and papermaking technology.

Absenteeism through sickness is one of the indicators of personnel welfare. In the parent company, the figure was ca. 5 %. It has dropped as the employees have acquired multiple skills, the working environment has improved, and programs are in place to maintain the employees' working ability.

Almost all of the Group's employees work under the payment-by-results system. The impacts are shown in more efficient activities and cost savings.



Capacity has been increased in the weaving mill of the Tampere plant. In the photo a new dryer fabric loom. Its speed is 75 strokes per minute, which is a lot more than that of the older machines.

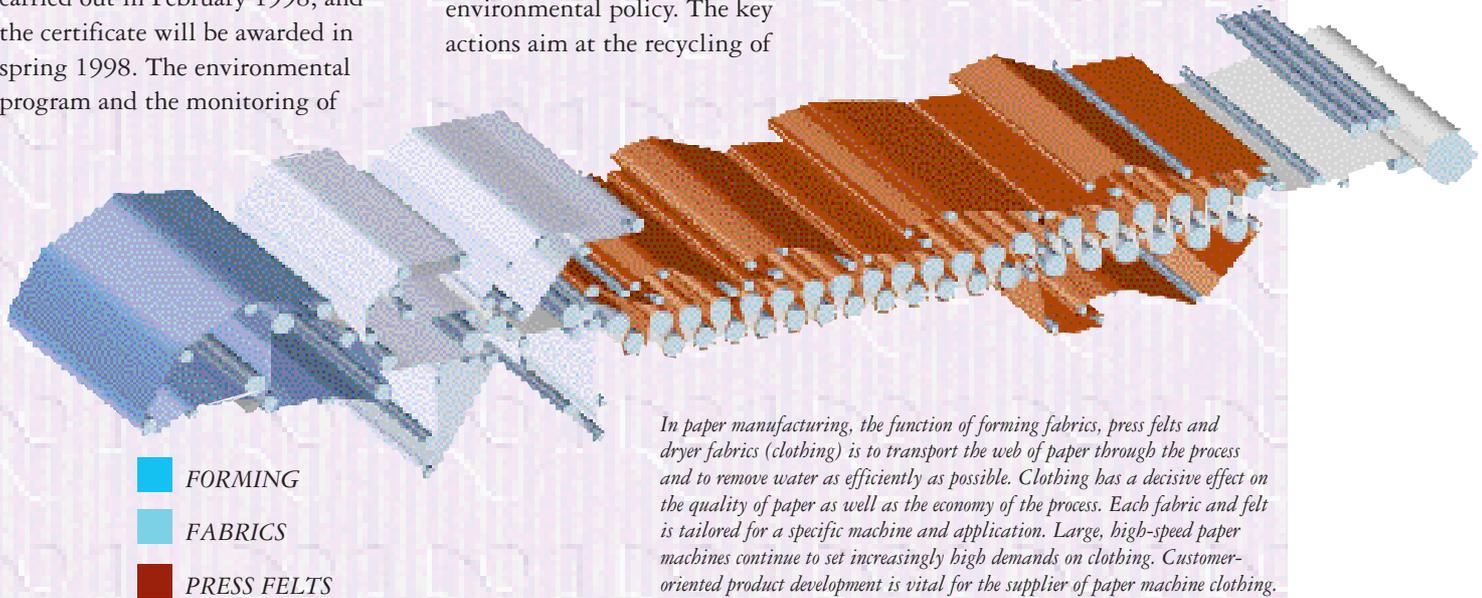
ENVIRONMENT

The implementation of an environmental program covering the Tampere and Juankoski facilities was completed under the SFS-EN ISO 14001 standard. The auditing inspection was carried out in February 1998, and the certificate will be awarded in spring 1998. The environmental program and the monitoring of

compliance with the standard are integrated into Tamfelt's quality system.

The company's environmental aims and targets to support sustainable development have been published in Tamfelt's environmental policy. The key actions aim at the recycling of

materials and the reduction of slowly-decaying landfill waste. The measures have helped to cut down on the amount of waste in proportion to the volume of production, and the sorting of waste has become more effective.



- FORMING
- FABRICS
- PRESS FELTS

In paper manufacturing, the function of forming fabrics, press felts and dryer fabrics (clothing) is to transport the web of paper through the process and to remove water as efficiently as possible. Clothing has a decisive effect on the quality of paper as well as the economy of the process. Each fabric and felt is tailored for a specific machine and application. Large, high-speed paper machines continue to set increasingly high demands on clothing. Customer-oriented product development is vital for the supplier of paper machine clothing.

PROFIT CENTERS

PMC EUROPE

PMC Europe manufactures forming fabrics, press felts, dryer fabrics and shoe press belts for the paper, board and chemical pulp industries. High-quality technical and laboratory services support Tamfelt's paper machine clothing products.

PMC Europe's growth in the key markets was, again, higher than the average growth in the industry. The product groups registered an 8 to 18 % higher order volume than

in the previous year, while the average growth was 0 to 8 %.

Canvassing for important reference customers in the new Far Eastern marketplace has progressed as expected. Technical service resources have been added in the area. The staff has been trained locally and in Finland.

Cooperation with papermakers and paper machine manufacturers has been a focus of continued attention. Customers have shown

their confidence in PMC Europe's excellence by choosing Tamfelt as clothing supplier to new state-of-the-art paper machines.

PMC Europe's R&D and products have contributed in world record level production technology.

The customers' have enjoyed high rates of operation throughout the year, which has permitted all the divisions to run their production machinery at full capacity. More workforce has been hired by the

Juankoski and Tampere plants. The favorable trend is expected to continue in 1998.

MAJOR START-UP DELIVERIES IN 1997

CUSTOMER	MACHINE	GRADE	MACHINE SUPPLIER
FINLAND UPM-Kymmene, Kaipola Enso Fine Papers, Oulu	PM 6 rebuild PM 7 new	LWC Fine paper	Valmet (start-up 2/97) Valmet (start-up 4/97)
SWEDEN Holmen Paper, Hallstavik Assi Domän Skärblacka	PM 3 rebuild PM 7 rebuild	SC MG	Valmet (start-up 4/97) Valmet (start-up 12/97)
AUSTRIA SCA Laakirchen KNP Leykam, Gratkorn	PM 10 rebuild PM 11 new	SC Fine paper	Valmet (start-up 2/97) Voith-Sulzer (start-up 10/97)
POLAND Celuloza Swiecie	PM 1 rebuild	Sack paper	Beloit Walmsley (start-up 4/97)
INDIA ITC Bhadrachalam Paperboards	BM 4 new	Folding boxboard	Valmet (start-up 9/97)



The world's largest LWC machine, PM4 at Rauma, started up on January 8, 1998. Tamfelt contributed as clothing supplier for the start-up and continues as the main supplier.



The forming fabric looms from Peachtree City plant have been relocated in the newest extension of the Juankoski weaving mill completed in early 1997.



The heat setting unit relocated in the Juankoski finishing mill is the widest in the plant.

Technical excellence and customer service resources have been heavily invested in. A higher number of experts and operational models are available to assist product development, customer service and sales in solving technical problems in paper machines and help the customers improve their competitive position. The resulting new constructions have increased sales.

Increasing sales and higher degree of processing have required heavy investments. Further expenditures will be aimed at reorganizing the manufacturing processes of press felts and dryer fabrics at the Tampere plant in an effort to build a flexible process-guided plant, where the potential of the new machines can be fully exploited. At the Juankoski plant this has already been achieved with new machinery and buildings.

PMC NORTH AMERICA

TF Group, Inc. manufactures and supplies fabrics for the North American paper and board industries. Technical service and cooperation with Tamfelt's other profit centers are important for the exchange of Tamfelt's special know-how.

TF Group's net sales to non-group customers remained at the level of the previous year. Inter-group sales decreased drastically as the delivery of unfinished forming fabrics to Juankoski was discontinued and the Tampere plant increased its capacity in press felts. Sales to new corporate customers grew, and Tamfelt was chosen as clothing supplier for the start-up of an ultra-sophisticated SC paper machine in Canada. The financial goal of a positive operating income is yet to be reached.

The share of seamed press felts in TF Groups's deliveries has continued to grow. It is expected to come close to a third of the net sales in 1998.

The weaving of forming fabrics in Peachtree City ended in the beginning of 1997. The looms were relocated in Juankoski and the premises were sold in North America. The manufacture of forming fabrics was concentrated at the Juankoski plant, whose delivery strength and service level are expected to remain good in the North American market.



The finishing capacity of filter fabrics has been increased with an efficient new continuous heat-setting unit.

FANAFEL LDA.

Fanafel in Portugal supplies felts for leading commercial laundries worldwide. It is the European market leader in ironer felts for laundries. In addition, the company produces paper machine clothing for press and dryer sections for pulp and paper industries. Products needed in environmental protection are in increasing demand and they have grown into an important part of the company's activities.

Fanafel's net sales grew and profitability improved. Exports accounted for over 65 %. The main export areas were Spain, France and Belgium.

A decision was made to significantly increase Fanafel's production capacity and expand the facility. The first stage of the expanded operation will be in use by the second half of 1998.

FILTER FABRICS

The profit center supplies filtration media used in special applications in the forest, mining and chemical industries. It concentrates on wet filtration and produces heavy filter fabrics with high filtering capacity, heavy-duty construction, and wear-resistant properties. Filter fabrics production was

reorganized in 1997.

Rearrangements for a new, unified plant are going on. The new looms which arrived in 1997 are already in place in the new weaving mill. The premises leave room for future growth, and they provide the special conditions needed for elaborate product solutions.

The profit center has undertaken the entire warping for the Tampere plant, and its performance has been improved in quality and quantity by new machine acquisitions. The finishing capacity was increased by substantial outlays in heat-setting processes.

The sales grew one-fifth from the previous year. A good 80 % of filter fabric sales consisted of exports to 40 countries.

Close cooperation with several big filter equipment manufacturers - all market leaders in their own specific areas - provides a good base for product development. The manufacturers keep engineering increasingly cost-effective equipment in an effort to contribute to sustainable development.

The objective now is effective use of the new premises and machines. The profit center's competitive ability will improve as production costs are reduced and the

manufacture of new products becomes possible.

OUTLOOK

While competition is increasingly fierce, Tamfelt's prospects for 1998 are expected to remain good. Pulp and paper industries are operating at nearly full capacity. New paper machines increase clothing consumption in the segment where Tamfelt is most competitive.

Growing volumes, however, require high investments to alleviate production bottlenecks.

In Southeast Asia Tamfelt has several big paper machine projects, which can be expected to lag behind schedule.

Tamfelt's activities, however, should not be affected by local problems in an area accounting for less than 5 % of the company's net sales. Economic prospects for the mining industry are still good.

Tamfelt has a high volume of orders in hand. The company's market position is expected to strengthen and its performance is expected to remain good in 1998.

Photos: Jorma Rajamäki, J-P Juvonen, Rainer K. Lampinen, Tere T. Tolvanen, Jarmo Hietaranta, Kimmo Torkkeli, Seppo Välimäki, Barbara Hartnett and Anabela Libório.

CONSOLIDATED STATEMENT OF INCOME JAN. 1 - DEC 31.

(FIM 1 000)

	1997	%	1996	%
NET SALES	607 313	100	531 765	100
Increase (+) or decrease (-) in finished goods inventories	17 673		16 657	
Production for own use	2 077		1 259	
Other operating income	8 587		6 974	
Costs and expenses				
Materials, supplies and products				
Purchases during the year	124 362		108 996	
Increase (-) or decrease (+) in inventories	-4 630		-630	
External services	8 230		4 152	
Personnel expenses	238 691		216 271	
Rents	2 630		3 463	
Other costs and expenses	<u>112 832</u>		<u>103 182</u>	
	-482 115		-435 434	
OPERATING INCOME BEFORE DEPRECIATION	153 535	25	121 221	23
Depreciation on fixed assets and other long-term expenditure	-29 887		-37 645	
OPERATING INCOME	123 648	20	83 576	16
Financial income and expenses				
Interest income	6 550		10 638	
Other financial income	12 504		11 478	
Interest expenses	-600		-3 700	
Other financial expenses	<u>-4 961</u>		<u>-3 480</u>	
	13 493		14 936	
INCOME BEFORE EXTRAORDINARY ITEMS, TAXES AND MINORITY INTEREST/ INCOME BEFORE TAXES AND MINORITY INTEREST	137 141	23	98 512	19
Income taxes	-38 379		-24 319	
Minority interest	-63		-38	
NET INCOME FOR THE YEAR	<u>98 699</u>	16	<u>74 155</u>	14

CONSOLIDATED BALANCE SHEET DEC. 31

(FIM 1 000)

ASSETS	1997	%	1996	%
FIXED ASSETS AND OTHER LONG-TERM INVESTMENT				
Intangible assets				
Intangible rights	3 360		3 084	
Consolidated goodwill	808		1 617	
Other long-term expenditure	2 733		3 011	
	<u>6 901</u>	1	<u>7 712</u>	1
Tangible assets				
Land and water	5 686		8 166	
Buildings	55 683		53 303	
Machinery, equipment and furniture	150 358		115 590	
Other tangible assets	458		473	
Advance payments and construction in progress	6 178		15 306	
	<u>218 363</u>	32	<u>192 838</u>	32
Financial assets				
Shares and holdings	1 519		1 501	
Loans receivable	4 049		4 827	
	<u>5 568</u>	1	<u>6 328</u>	1
CURRENT ASSETS				
Inventories				
Raw materials and consumables	28 431		23 676	
Work in progress	68 805		54 037	
Finished products	75 039		68 846	
	<u>172 275</u>	25	<u>146 559</u>	24
Receivables				
Sales receivable	85 790		71 809	
Loans receivable	788		707	
Prepaid expenses and accrued income	20 062		16 679	
Other receivables	1 063		684	
	<u>107 703</u>	15	<u>89 879</u>	14
Securities				
Shares and holdings	6 816		1 823	
Other securities	81 073		92 964	
	<u>87 889</u>	13	<u>94 787</u>	16
Cash in hand and at bank	90 107	13	75 052	12
	<u>688 806</u>	100	<u>613 155</u>	100

LIABILITIES	1997	%	1996	%
STOCKHOLDERS' EQUITY				
Restricted equity				
Capital stock	66 450		66 450	
General reserve	15 522		15 522	
Non-restricted equity				
Contingency reserve	19 806		19 806	
Other non-restricted equity	322 508		274 867	
Net income for the year	98 699		80 754	
	<u>522 985</u>	76	<u>457 399</u>	75
MINORITY INTEREST	377	0	314	0
CREDITORS				
Long-term liabilities				
Other long-term liabilities	1 948		2 459	
Deferred tax liability	39 924		41 341	
	<u>41 872</u>	6	<u>43 800</u>	7
Current liabilities				
Loans from financial institutions	504		13 795	
Advance received	5 905		6 280	
Accounts payable	26 525		22 013	
Accrued liabilities and deferred income	88 021		68 576	
Other current liabilities	2 617		978	
	<u>123 572</u>	18	<u>111 642</u>	18
	<u>688 806</u>	100	<u>613 155</u>	100

CONSOLIDATED STATEMENT OF CASH FLOWS

(FIM 1 000)

	1997	1996
OPERATING ACTIVITIES		
Internal financing		
Operating income	123 648	83 576
Depreciation	29 887	37 645
Financial income and expenses	13 493	14 936
Taxes	<u>-38 379</u>	<u>-24 319</u>
	128 649	111 838
CHANGE IN WORKING CAPITAL		
Increase (-) or decrease (+) in inventories	-25 716	-18 145
Increase (-) or decrease (+) in short-term receivables	-17 824	18 430
Increase (+) or decrease (-) in interest-free short-term debt	24 715	-417
	<u>-18 825</u>	<u>-132</u>
Cash flow from operations	109 824	111 706
INVESTMENT		
Capital expenditure in fixed assets	-60 053	-53 039
Sales of fixed assets	8 922	3 596
Translation adjustments of fixed assets	<u>-3 488</u>	<u>-2 288</u>
	-54 619	-51 731
Cash flow before financing	55 205	59 975
FINANCING		
Increase (-) or decrease (+) in long-term receivables	778	588
Increase (+) or decrease (-) in long-term loans	-511	-32 081
Increase (+) or decrease (-) in deferred tax liability	-1 417	-2 566
Increase (+) or decrease (-) in short-term loans	-14 847	-34 095
Dividends	-38 021	-21 920
Share subscription		2 227
Exchange rate differences on long-term loans		1 983
Exchange rate differences on short-term loans	2 062	2 195
	<u>-51 956</u>	<u>-83 669</u>
Calculated increase in liquid assets increase (+) or decrease (-)	<u>3 249</u>	<u>-23 694</u>
Adjustments ¹⁾	4 908	570
Balance-sheet increase (+) or decrease (-) in liquid assets	<u>8 157</u>	<u>-23 124</u>

The items of this Statement are not directly deducible from the Balance Sheet on account of changes in the Balance Sheet items.

¹⁾ including translation adjustments.

STATEMENT OF INCOME JAN. 1 - DEC. 31

Parent company (FIM 1 000)

	1997	%	1996	%
NET SALES	526 216	100	455 928	100
Increase (+) or decrease (-) in finished goods inventories	17 411		17 160	
Production for own use	2 077		1 259	
Other operating income	7 257		5 226	
Costs and expenses				
Materials, supplies and products				
Purchases during the year	106 778		103 906	
Increase (-) or decrease (+) in inventories	-4 405		-1 781	
External services	7 891		3 731	
Personnel expenses	200 565		175 627	
Rents	19 790		19 986	
Other costs and expenses	92 177		80 235	
	-422 796		-381 704	
OPERATING INCOME BEFORE DEPRECIATION	130 165	25	97 869	21
Depreciation on fixed assets and other long-term expenditure	-24 270		-23 144	
OPERATING INCOME	105 895	20	74 725	16
Financial income and expenses				
Interest income	2 837		5 396	
Other financial income	16 550		10 569	
Interest expenses	-1 691		-272	
Other financial expenses	-3 671		-2 627	
	14 025		13 066	
INCOME BEFORE EXTRAORDINARY ITEMS, RESERVES AND TAXES	119 920	23	87 791	19
Extraordinary income and expenses				
Extraordinary income	15 600		16 700	
Extraordinary expenses	-15 600		-21 912	
	15 600		-5 212	
INCOME BEFORE RESERVES AND TAXES	135 520	26	82 579	18
Increase (-) or decrease (+) in accelerated depreciation	-45 199		-17 939	
Increase (-) or decrease (+) in voluntary reserve	51 379		27 437	
Income taxes	-39 726		-26 669	
NET INCOME FOR THE YEAR	101 974	19	65 408	14

BALANCE SHEET DEC. 31

Parent company (FIM 1 000)

ASSETS	1997	%	1996	%
FIXED ASSETS AND OTHER LONG-TERM INVESTMENT				
Intangible assets				
Intangible rights	3 766		3 897	
Other long-term expenditure	<u>2 521</u>		<u>2 867</u>	
	6 287	1	6 764	1
Tangible assets				
Land and water	4 294		4 294	
Buildings	13 315		6 335	
Machinery, equipment and furniture	132 181		95 347	
Other tangible assets	458		473	
Advance payments and construction in progress	<u>5 500</u>		<u>15 236</u>	
	155 748	21	121 685	18
Financial assets				
Shares and holdings	205 104		205 086	
Loans receivable	<u>54 781</u>		<u>51 200</u>	
	259 885	33	256 286	39
CURRENT ASSETS				
Inventories				
Raw materials and consumables	24 273		19 868	
Work in progress	58 729		46 327	
Finished products	<u>59 345</u>		<u>54 335</u>	
	142 347	19	120 530	18
Receivables				
Sales receivable	66 775		54 961	
Loans receivable	695		3 852	
Prepaid expenses and accrued income	<u>28 847</u>		<u>28 671</u>	
	96 317	13	87 484	13
Securities				
Shares and holdings	2 053		1 823	
Other securities	<u>27 370</u>		<u>39 000</u>	
	29 423	4	40 823	6
Cash in hand and at bank	66 669	9	32 200	5
	<u>756 676</u>	100	<u>665 772</u>	100

LIABILITIES	1997	%	1996	%
STOCKHOLDERS' EQUITY				
Restricted equity				
Capital stock	66 450		66 450	
General reserve	15 522		15 522	
Non-restricted equity				
Contingency reserve	19 806		19 806	
Other non-restricted equity	268 538		241 151	
Net income for the year	<u>101 974</u>		<u>65 408</u>	
	472 290	63	408 337	61
RESERVES				
Total accelerated depreciation	137 444	18	92 245	14
Voluntary reserve				
Other reserves			51 379	8
CREDITORS				
Long-term liabilities				
Other long-term liabilities	1 862	0	2 223	0
Current liabilities				
Advance received	5 904		6 279	
Accounts payable	21 355		25 468	
Accrued liabilities and deferred income	77 459		59 387	
Other current liabilities	<u>40 362</u>		<u>20 454</u>	
	145 080	19	111 588	17
	<u>756 676</u>	100	<u>665 772</u>	100

STATEMENT OF CASH FLOWS

Parent company (FIM 1 000)	1997	1996
OPERATING ACTIVITIES		
Internal financing		
Operating income	105 895	74 725
Depreciation	24 270	23 144
Financial income and expenses	14 025	13 066
Extraordinary items	15 600	-5 212
Taxes	<u>-39 726</u>	<u>-26 669</u>
	120 064	79 054
CHANGE IN WORKING CAPITAL		
Increase (-) or decrease (+)		
in inventories	-21 817	-18 941
Increase (-) or decrease (+)		
in short-term receivables	2 567	2 139
Increase (+) or decrease (-)		
in interest-free short-term debt	<u>13 584</u>	<u>5 776</u>
	-5 666	-11 026
Cash flow from operations	114 398	68 028
INVESTMENT		
Capital expenditure in fixed assets	-58 000	-52 797
Sales of fixed assets	<u>126</u>	<u>2 474</u>
	-57 874	-50 323
Cash flow before financing	56 524	17 705
FINANCING		
Increase (-) or decrease (+) in		
long-term receivables	3 372	-31 969
Increase (+) or decrease (-)		
in long-term loans	-361	1 138
Increase (+) or decrease (-)		
in short-term loans	19 908	18 910
Dividends	-38 021	-21 920
Stock subscription		2 227
Exchange differences on long-term receivables	<u>-6 953</u>	<u>-1 225</u>
	-22 055	-32 839
Calculated increase in liquid assets		
increase (+) or decrease (-)	<u>34 469</u>	<u>-15 134</u>
Balance-sheet increase (+) or decrease (-)		
in liquid assets	<u>34 469</u>	<u>-15 134</u>

SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated accounts cover the parent company and those companies in which Tamfelt Corp., directly or indirectly, holds over 50 % of the voting stock. A 50 % share has been consolidated according to instructions governing joint companies. Other associated undertakings have been consolidated according to their capital contribution.

The acquisition method has been adopted for consolidation.

A surplus of the purchase price of the shares in subsidiary company over their underlying net worth at the date of acquisition is shown in the consolidated accounts as goodwill, to be amortized over five years using the straight line method.

All inter-group transactions, pending margins, internal balances, and internal profits have been eliminated. Minority interests are deducted in the statement of income as an item of net income, and in the balance sheet as an item of stockholders' equity.

The income statements of the foreign group companies have been translated into markka at the average exchange rate for the year. Their balance sheets have been translated at the average rate quoted by the Bank of Finland on the balance sheet date. The resulting two-rate differences, together with the conversion adjustments resulting from the application of the acquisition method, and the exchange rate differences of equity-ranked inter-group loans are dealt with as translation adjustment in the non-restricted equity.

Change in accelerated depreciation and voluntary reserve has been split between change in deferred tax liability and income for the year. Total accelerated depreciation and voluntary reserve have been divided between equity and the deferred tax liability included in creditors.

NET SALES

For the computation of net sales, indirect taxes, discounts, and exchange rate differences have been deducted from the sales revenue.

FOREIGN CURRENCIES

The parent company receivables and liabilities are booked at the average exchange rate quoted by the Bank of Finland on the balance sheet date. Current hedging instruments for foreign denominated items are entered at the value of the date, including the effect of interest.

FIXED ASSETS AND DEPRECIATION

Fixed assets are stated in the balance sheet at acquisition cost less annual depreciation according to plan. Total accelerated depreciation is recorded as a separate item in reserves.

Planned depreciation is computed using the straight line method over the useful economic life of the asset. The most common periods are:

Intangible rights	3 to 10 years
Consolidated goodwill	5 years
Other long-term expenditure	10 years
Buildings	25 to 50 years
Machinery and equipment	4 to 15 years
Other tangible assets	10 years

INVENTORIES

Inventories are valued at lower of cost or market, at either the purchase price, or estimated net realizable value, whichever is lower. The purchase price is defined using the direct cost of acquisition or manufacture on the FiFo principle.

For foreign subsidiaries, inventories are valued in accordance with local practice and also include indirect costs of production.

SECURITIES

Bonds are entered in assets at acquisition cost, allocating the difference between acquisition cost and nominal value as an increase or decrease of acquisition cost, according to maturity. In the final accounts, however, they are not valued higher than the market price. Shares and holdings are stated at the acquisition cost or market price, whichever is lower.

Nominal interest income from bonds is booked in interest income. The difference between acquisition cost and nominal value is allocated as an increase or decrease of interest income. If bonds are sold in advance of maturity date, a gain is entered in other financial income and a loss in other financial expenses.

RESEARCH AND DEVELOPMENT

The R&D expenditure is booked as expenses of the financial period during which they arose, with the exception of equipment purchases, which are depreciated according to plan over five years by the straight line method.

TAXES

Computed estimates of taxes are entered in the statement of income of the domestic group companies. Foreign subsidiary taxes are presented in the consolidated statements as booked in their respective original accounts.

PENSION LIABILITY IN FINLAND

Liability for working employees is covered by pension insurance corporations. The parent company is responsible for voluntary, unregistered old age pensions. Corresponding figures are shown in the pledged assets included in Financial Data.

FINANCIAL DATA

STATEMENT OF INCOME (FIM 1 000)

NET SALES

Tamfelt's line of business is technical textiles.

Net sales in the various market areas

	Consolidated				Parent company			
	1997	%	1996	%	1997	%	1996	%
Nordic countries	314 616	52	297 807	56	314 000	60	291 346	64
Other Europe	190 256	31	146 490	28	151 982	29	112 017	25
North America	63 733	10	59 145	11	25 377	5	26 705	6
Far East	25 062	4	10 738	2	23 298	4	9 982	2
Other countries	13 646	2	17 585	3	11 559	2	15 878	3
Total	607 313	100	531 765	100	526 216	100	455 928	100

PERSONNEL EXPENSES AND FRINGE BENEFITS

	Consolidated		Parent company	
	1997	1996	1997	1996
Wages and salaries	192 572	173 425	161 730	140 405
Fringe benefits	432	399	432	395
Pension expenses	24 857	23 472	21 952	20 834
Other nonwage personnel expenses	21 262	19 374	16 883	14 388
Total	239 123	216 670	200 997	176 022

Remunerations

Presidents and directors	1 966	1 937	1 249	1 209
Other remunerations	185 498	166 216	149 721	133 428
Total	187 464	168 153	150 970	134 637

Employment

average	1 202	1 162	924	864
year-end	1 229	1 166	948	888

DEPRECIATION

Planned depreciation

	Consolidated		Parent company	
	1997	1996	1997	1996
Intangible rights	1 053	1 053	1 593	1 459
Consolidated goodwill	808	808	-	-
Other long-term expenditure	539	264	345	148
Buildings	123	7 586 ^{*)}	392	163
Machinery, equipment and furniture	27 349	27 926	21 925	21 366
Other tangible assets	15	8	15	8
Total	29 887	37 645	24 270	23 144

^{*)} In 1996 included USD 1.1m. (FIM 5.1m) depreciation on loss of value, of which FIM 2.3m. entered as income from the sales of a building in 1997

INTER-GROUP FINANCIAL INCOME AND EXPENSES

	Parent company	
	1997	1996
Financial income from group companies		
Interest income from short-term receivables	78	120
Financial expenses paid to group companies		
Interest income from short-term debt	1 385	76

EXTRAORDINARY INCOME AND EXPENSES

Group subsidy from Tamfelt Properties	15 600	16 700
Compositions granted	-	-19 504
Sale of Pirkanmaan Uusi Värjäamo Oy	-	-2 408
	<u>15 600</u>	<u>-5 212</u>

CHANGE OF VOLUNTARY RESERVE

(increase + or decrease -)

	Parent company	
	1997	1996
Investment reserve	-	-27 437
Transition reserve	-51 379	-
	<u>-51 379</u>	<u>-27 437</u>

TAXES

	Consolidated		Parent company	
	1997	1996	1997	1996
Taxes for the year	40 321	26 547	40 250	26 331
Taxes for earlier years	-524	338	-524	338
Change in deferred tax liability	-1 418	-2 566		
Total	<u>38 379</u>	<u>24 319</u>	<u>39 726</u>	<u>26 669</u>

BALANCE SHEET (FIM 1 000)

INTANGIBLE AND TANGIBLE ASSETS 1997

	Acquisition cost Jan. 1	Increase Jan. 1 through Dec. 31	Decrease Jan. 1 through Dec. 31	Translation differences	Acquisition cost Dec. 31	Accumulated depreciation according to plan Dec. 31	Book value Dec. 31
CONSOLIDATED							
Intangible rights	15 161	1 461			16 622	-13 262	3 360
Consolidated goodwill	5 699				5 699	-4 891	808
Other long-term expenditure	3 854	271	-8		4 117	-1 384	2 733
Land and water	8 166		-2 896	416	5 686		5 686
Buildings	97 938	7 853	-12 527	1 795	95 059	-39 376	55 683
Machinery, equipment and furniture	448 229	56 210	-3 797	8 271	508 913	-358 555	150 358
Other tangible assets	765				765	-307	458
Advance payments and construction in progress	15 306	9 564	-15 306	-3 386	6 178		6 178
Total	595 118	75 359	-34 534	7 096	643 039	-417 775	225 264
Machinery and equipment							129 378
PARENT COMPANY							
Intangible rights	19 228	1 461			20 689	-16 924	3 765
Other long-term expenditure	3 455				3 455	-933	2 522
Land and water	4 294				4 294		4 294
Buildings	6 512	7 371			13 883	-569	13 314
Machinery, equipment and furniture	342 168	58 834	-1 492		399 510	-267 328	132 182
Other tangible assets	765				765	-307	458
Advance payments and construction in progress	15 236	5 500	-15 236		5 500		5 500
Total	391 658	73 166	-16 728		448 096	-286 061	162 035
Machinery and equipment							115 966

INTANGIBLE AND TANGIBLE ASSETS 1996

	Acquisition cost Jan. 1	Increase Jan. 1 through Dec. 31	Decrease Jan. 1 through Dec. 31	Translation differences	Acquisition cost Dec. 31	Accumulated depreciation according to plan Dec. 31	Book value Dec. 31
CONSOLIDATED							
Intangible rights	13 550	1 612	-131	130	15 161	-12 077	3 084
Consolidated goodwill	5 699				5 699	-4 082	1 617
Other long-term expenditure	2 094	2 477	-717		3 854	-843	3 011
Land and water	7 999			167	8 166		8 166
Buildings	94 759	2 354		825	97 938	-44 635	53 303
Machinery, equipment and furniture	416 975	35 429	-8 255	4 080	448 229	-332 639	115 590
Other tangible assets	765				765	-292	473
Advance payments and construction in progress	4 161	15 328	-4 161	-22	15 306		15 306
Total	546 002	57 200	-13 264	5 180	595 118	-394 568	200 550
Machinery and equipment							102 119
PARENT COMPANY							
Intangible rights	17 616	1 612			19 228	-15 331	3 897
Other long-term expenditure	1 100	4 155	-1 800		3 455	-588	2 867
Land and water	4 294				4 294		4 294
Buildings	6 512				6 512	-177	6 335
Machinery, equipment and furniture	310 442	35 863	-4 137		342 168	-246 821	95 347
Other tangible assets	765				765	-291	473
Advance payments and construction in progress	4 069	15 236	-4 069		15 236		15 236
Total	344 798	56 866	-10 006		391 658	-263 208	128 449
Machinery and equipment							82 215

SHARES AND HOLDINGS OWNED BY THE GROUP AND THE PARENT COMPANY (1000)

	Percentage of group ownership %	Percentage of group voting power %	Group ownership in equity FIM	in net income FIM	Percentage of parent company ownership	Shares owned by parent company Par value	Book value FIM
GROUP COMPANIES							
Fanafel Lda	98.2	98.2	20 568	3 447	72	PTE 304 136	15 870
TF Group, Inc. *	100	100	-2 823	-2 618	100	USD .	.
Tamfelt (UK) Ltd	100	100	190	0	100	GBP .	181
Tamfelt Properties	100	100	194 384	66	100	FIM 83 109	187 535
Tampereen Verkatehdas Oy	100	100	23	0	100	FIM 10	10
Kiinteistö Oy Juvanmänty	100	100	53	0	0	-	-
Kiinteistö Oy Saarensahra	100	100	185	0	0	-	-
							203 596

ASSOCIATED COMPANIES

Alakoski Oy	39	39	165	-177	39	FIM 4	4
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OTHER PARENT COMPANY SHARES AND HOLDINGS

	Number of shares	Par value	Book value
HEX Ltd, Helsinki Securities and Derivatives Exchange, Clearing House	20 000	10 mk	150
Condominiums and real estate companies			495
Other shares and holdings			224
Connection fees			635
			1 504

* Including subsidiaries Formtec Forming Fabrics, Inc., Tamfelt, Inc., Tamfelt Canada, Inc. and Formtec Forming Fabrics of Canada, Inc.

FIXED ASSETS TAX VALUES

	Consolidated		Parent company	
	1997	1996	1997	1996
Land	4 489	4 091	3 881	3 881
Buildings	64 729	62 139	4 185	4 185
Shares and holdings	2 639	4 953	238 669	200 132

Tax values include the domestic fixed assets of parent company and group.
In the absence of tax value, book value is shown.

LONG-TERM INVESTMENT AND LOANS RECEIVABLE/GROUP COMPANIES AND ASSOCIATED COMPANIES

Long-term investment in shares and loans receivable	Parent company	
	1997	1996
Group companies		
Shares	203 596	203 596
Loans receivable	50 732	46 373
Total	<u>254 328</u>	<u>249 969</u>
Associated companies		
Shares	4	4
Loans receivable	2 722	3 111
Total	<u>2 726</u>	<u>3 115</u>

CURRENT ASSETS

Receivables and liabilities/Group companies and associated companies	Parent company	
	1997	1996
Group companies		
Sales receivable	58	3 096
Loans receivable	-	3 267
Prepaid expenses and accrued income	15 600	19 160
Accounts payable	621	7 693
Accrued liabilities and deferred income	205	76
Other short-term debt	40 000	20 000
Current assets stock		
	Consolidated	Parent company
	Book value	Market value
	6 816	9 005
		Book value
		2 053
		Market value
		4 044

STOCKHOLDERS' EQUITY

	Consolidated		Parent company	
	1997	1996	1997	1996
Capital stock Jan. 1	66 450	66 000	66 450	66 000
Stock issue		450		450
Capital stock Dec. 31	<u>66 450</u>	<u>66 450</u>	<u>66 450</u>	<u>66 450</u>
General reserve Jan. 1	15 522	13 745	15 522	13 745
Stock subscription		1 777		1 777
General reserve Dec. 31	<u>15 522</u>	<u>15 522</u>	<u>15 522</u>	<u>15 522</u>
Restricted equity Dec. 31	<u>81 972</u>	<u>81 972</u>	<u>81 972</u>	<u>81 972</u>
Contingency reserve Jan. 1	19 806	19 806	19 806	19 806
Contingency reserve Dec. 31	<u>19 806</u>	<u>19 806</u>	<u>19 806</u>	<u>19 806</u>
Other non-restricted equity Jan. 1	355 621	296 217	306 559	263 071
Dividend	-38 021	-21 920	-38 021	-21 920
Change in translation adjustment	4 908	570		
Net income for the year	98 699	80 754	101 974	65 408
Other non-restricted equity Dec. 31	<u>421 207</u>	<u>355 621</u>	<u>370 512</u>	<u>306 559</u>
Non-restricted equity Dec. 31	<u>441 013</u>	<u>375 427</u>	<u>390 318</u>	<u>326 365</u>
Total stockholders' equity	<u>522 985</u>	<u>457 399</u>	<u>472 290</u>	<u>408 337</u>
Distributable earnings	338 351	269 120	390 318	326 365

PARENT COMPANY CAPITAL STOCK AND TYPES OF SHARES DEC. 31

	1997		1996	
	Number of shares	FIM	Number of shares	FIM
Common stock (20 votes/share)	2 599 272	25 992 720	2 600 000	26 000 000
Preferred stock (1 vote/share)	4 045 728	40 457 280	4 045 000	40 450 000
Total	<u>6 645 000</u>	<u>66 450 000</u>	<u>6 645 000</u>	<u>66 450 000</u>

VOLUNTARY RESERVE AND DEFERRED TAX LIABILITY

	Consolidated		Parent company	
	1997	1996	1997	1996
Accumulated depreciation Jan. 1	95 692	77 094	92 245	74 306
Changes during the year	46 275	18 598	45 199	17 939
Accumulated depreciation Dec. 31	<u>141 967</u>	<u>95 692</u>	<u>137 444</u>	<u>92 245</u>
Other voluntary reserve Jan. 1	51 956	79 719	51 379	78 816
Changes during the year	-51 337	-27 763	-51 379	-27 437
Other voluntary reserve Dec. 31	<u>619</u>	<u>51 956</u>	<u>51 379</u>	<u>51 379</u>
Accumulated depreciation and other voluntary reserve Dec. 31	<u>142 586</u>	<u>147 648</u>	<u>137 444</u>	<u>143 624</u>
Tax liability from reserves	-39 924	-41 341		
Reserves from equity	<u>102 662</u>	<u>106 307</u>		

CREDITORS

	Consolidated		Parent company	
	1997	1996	1997	1996
Liabilities due within five years or later				
Other long-term liabilities	375	750	375	750

PLEGDED ASSETS AND CONTINGENT LIABILITIES

	Consolidated		Parent company	
	1997	1996	1997	1996
a) Own debt				
Mortgages in land and buildings	1 802	24 743	500	9 500
b) Consolidated debt				
Guarantees			504	13 096
c) For others				
Guarantees	200	-	200	-
d) Other own liabilities				
Bill liabilities	199	107	-	-
Leasing liabilities	6 288	3 200	-	-
Pension liabilities	1 101	1 367	1 101	1 367
Total	9 590	29 417	2 305	23 963

DERIVATIVE VALUES DEC. 31, 1997

Forward contracts 17 123 050 FIM

OTHER DATA

RISK MANAGEMENT

The means of hedging against currency risks include cash flow matching, forward contracts, and options.

The parent company has no loans denominated in foreign currency. Subsidiary loans are in the currency of the particular country. Current risk positions result only from foreign exchange purchases and sales in operating activities and from inter-group financial arrangements.

The current exchange rate risk involved in sales and purchases is mainly covered by forward contracts.

In certain cases, even current foreign exchange positions arising from unfilled orders or pending offers are hedged against.

The group does not cover subsidiary equity or currency risks involved in equity-ranked loans.

In liquid fund investments, Tamfelt avoids risks. The company invests mainly in monetary instruments. Limited amounts of liquid funds can be placed in shares. The Board of Directors has confirmed principles for the taking of interest risks and risks with partners.

CONSOLIDATED FINANCIAL SUMMARY

(FIM 1 000)

	1993	1994	1995	1996	1997
Net sales	461 452	451 837	501 939	531 765	607 313
Change %	5.0	-2.1	11.1	5.9	14.2
Exports and foreign subsidiaries	269 036	244 507	276 435	303 108	365 983
% of sales	58.3	54.1	55.1	57.0	60.3
Operating income	43 601	46 563	71 154	83 576	123 648
% of sales	9.4	10.3	14.2	15.7	20.4
Net income before taxes and minority interest ^{*)}	43 900	40 510	76 328	98 511	137 141
% of sales	9.5	9.0	15.2	18.5	22.6
Return on equity %	11.5	9.5	13.4	17.2	20.1
Return on net assets %	11.7	11.2	16.8	20.3	26.3
Equity/assets ratio %	53.2	59.1	65.2	75.4	76.6
Gross investment	19 066	21 905	38 941	53 039	60 053
% of sales	4.1	4.8	7.8	10.0	9.9
Average employment during the period	1 155	1 153	1 133	1 162	1 202

RETURN ON EQUITY %

$$\frac{\text{Net income before extraordinary items, taxes and minority interest - taxes}}{\text{Equity + minority interest (average)}} \times 100$$

RETURN ON NET ASSETS %

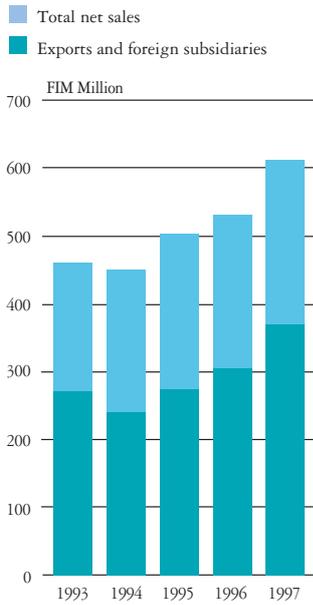
$$\frac{\text{Net income before extraordinary items, taxes and minority interest + interest and other financial expenses}}{\text{Balance sheet total - interest-free liabilities (average)}} \times 100$$

EQUITY/ASSETS RATIO %

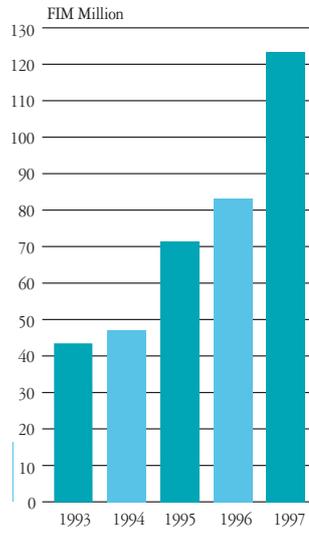
$$\frac{\text{Equity + minority interest}}{\text{Balance sheet total - advance received}} \times 100$$

^{*)} Extraordinary items do not exist.

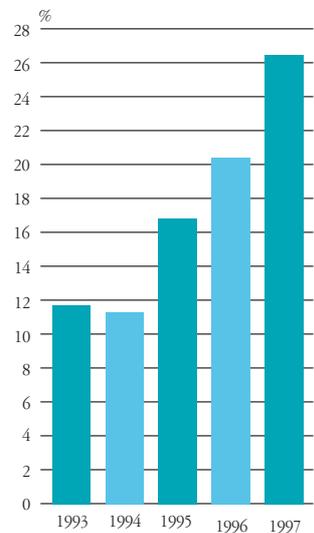
NET SALES, CONSOLIDATED



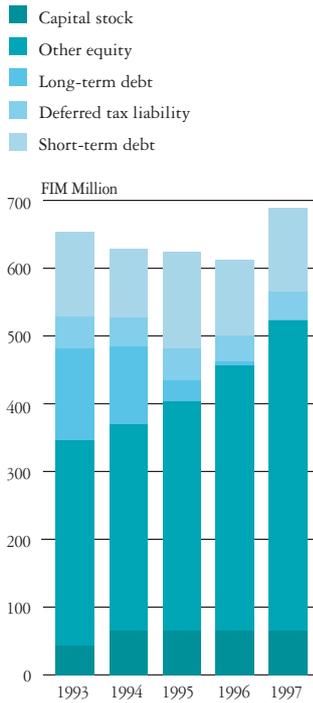
OPERATING INCOME, CONSOLIDATED



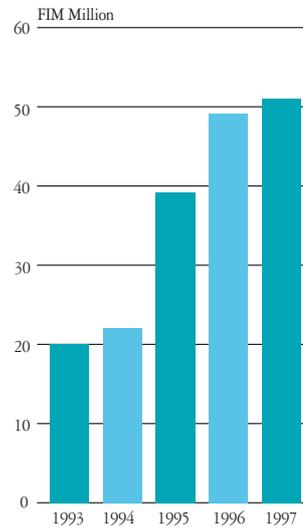
RETURN ON NET ASSETS, CONSOLIDATED



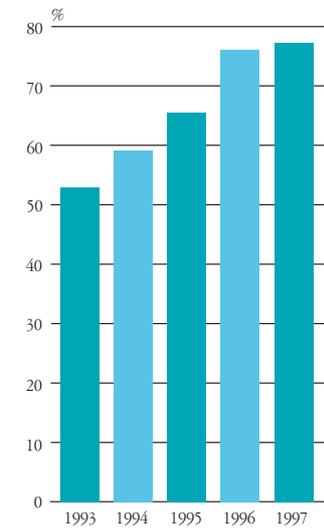
FINANCING, CONSOLIDATED



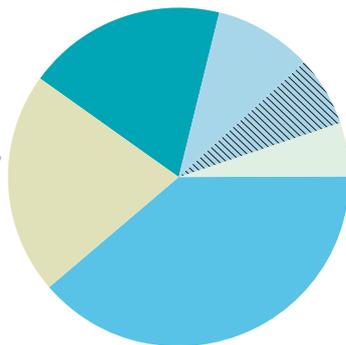
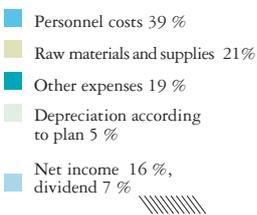
NET INVESTMENTS, CONSOLIDATED



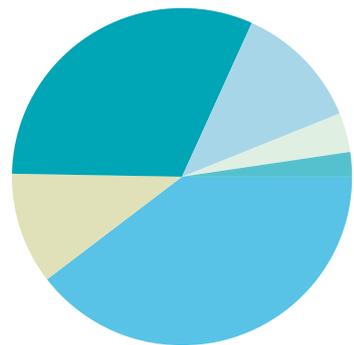
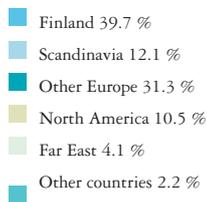
EQUITY/ASSETS RATIO, CONSOLIDATED



DISTRIBUTION OF INCOME 1997, CONSOLIDATED



NET SALES IN VARIOUS MARKET AREAS 1997, CONSOLIDATED



STOCK ANALYSIS

CAPITAL STOCK AND TYPES OF SHARES

The capital stock of Tamfelt Corp. consists of common stock and preferred stock. The par value is 10 markka for each type of share. Preferred shares receive a two percentage points higher dividend than common shares whenever the Annual General Meeting decides that a dividend be issued. Common shares carry twenty votes and preferred shares one vote. If requested by the holder, a common share can be converted into a preferred share on conditions specified in the Articles of Association.

The company's capital stock is FIM 66,450,000 compared to 66,450,000 in 1996. After the conversions made in 1997, the capital stock consists of 2,599,272 common shares and 4,045,728 preferred shares (2,600,000 and 4,045,000 in 1996, respectively). The total number of votes is 56,031,168 (56,045,000).

TRENDS AND TRADE VOLUMES

The HEX general index rose 33 % in 1997. Tamfelt common stock rose 58 % and preferred stock 60 %. The highest quotation for a common share was 210 markka and the lowest 126 markka. The highest quotation for a preferred share was 215 markka and the lowest 123 markka.

Trading in Tamfelt common stock on the Helsinki Stock Exchange amounted to FIM 13.3 million (17.4) and preferred stock to FIM 144.1 million (78.9). The numbers traded were 78,552 (164,383) common shares and 789,600 (819,084) preferred shares.

The turnover of common shares was 3.0 % (6.3) of the company's total common stock. The turnover of preferred shares was 19.5 % (20.4).

CAPITAL STOCK OWNERSHIP

At the end of 1997 (1996) the company had 1,653 (1,629) stockholders and two (two) ownership registrations in the name of a nominee. The number of shares registered in the name of a nominee was 116,560 (164,263). The number of shares yet to be transferred

to the book-entry securities system is 6,372 (7,926), or 0.10 % (0.12). Five (six) board members, President and Senior Vice President held a total of 118,974 (158,222) common and 65,539 (106,663) preferred shares corresponding to 2.8 % (4.0) of the capital stock and a 4.4 % (5.8) voting power. Nine (eleven) persons subject to the disclosure requirement held a total of 185,992 (266,468) shares corresponding to 2.8 % (4.0) of the capital stock and a 4.4 % (5.9) voting power.

STOCK OWNERSHIP ON THE BASIS OF CLASSIFICATION OF INSTITUTIONAL SECTORS DEC. 31, 1997

Category	Number of owners	%	Shares owned	%	Number of votes	%
120 Private non-financial corporations	148	8.9	568 008	8.6	5 901 479	10.5
200 Financial and insurance institutions	34	2.0	1 762 354	26.5	13 286 443	23.7
300 General government	13	0.8	553 824	8.3	1 865 964	3.3
400 Non-profit institutions	84	5.1	1 056 948	15.9	9 236 790	16.5
500 Households	1 357	82.1	2 514 423	37.8	24 937 368	44.5
600 ^{*)} Rest of the world	19	1.1	182 271	2.7	760 764	1.4
Total	1 655	100.0	6 637 828	99.9	55 988 808	99.9
Waiting register			800	0.0	800	0.0
Shares not transferred to book-entry system			6 372	0.1	41 560	0.1
Issued number			6 645 000	100.0	56 031 168	100.0

^{*)} Including ownerships registered in the name of a nominee

STOCK OWNERSHIP BY SIZE DEC. 31, 1997

Number of shares	Number of owners	%	Shares owned	%	Number of votes	%
1 - 500	969	58.5	180 442	2.7	1 173 914	2.1
501 - 5 000	519	31.4	824 410	12.4	5 885 193	10.5
5 001 - 10 000	62	3.7	446 246	6.7	3 289 235	5.9
10 001 - 50 000	78	4.7	1 754 088	26.4	15 512 121	27.7
50 001 - 100 000	13	0.8	863 170	13.0	7 706 704	13.7
100 001 - 999 000	14	0.9	2 569 472	38.7	22 421 641	40.0
Total	1 655	100.0	6 637 828	99.9	55 988 808	99.9
Waiting register			800	0.0	800	0.0
Shares not transferred to book-entry system			6 372	0.1	41 560	0.1
Issued number			6 645 000	100.0	56 031 168	100.0

LARGEST OWNERSHIP REGISTRATIONS BY VOTING POWER DEC. 31, 1997 (DEC. 31, 1996)

1	(1)*) Pension-Varma, Mutual Insurance Company	8.9	%	(9.0)
2	(2) Industrial Insurance Company Ltd	5.0	%	(5.0)
3	(3) Valmet Corporation.....	4.4	%	(4.4)
4	(5)*) Nova Life Insurance Company Ltd	4.3	%	(3.6)
5	(4) von Frenckell, Christoffer	3.8	%	(3.8)
6	(6) Waldemar von Frenckell Foundation	3.5	%	(3.5)
7	(7) Cedercreutz, Axel	3.0	%	(3.0)
8	(8) Samfundet Folkhälsan i Svenska Finland	2.5	%	(2.5)
9	(9) House of Nobility	1.8	%	(1.8)
10	(10) Insurance Company of Finland Limited	1.8	%	(1.8)
	TOTAL	39.0	%	(38.4)

LARGEST OWNERSHIP REGISTRATIONS BY NUMBER OF SHARES DEC. 31, 1997 (DEC. 31, 1996)

1	(1)*) Pension-Varma, Mutual Insurance Company.....	6.0	%	(7.0)
2	(3) Industrial Insurance Company Ltd	5.0	%	(5.0)
3	(8) Local Government Pensions Institution.....	3.3	%	(2.4)
4	(2)*) Nova Life Insurance Company Ltd.....	2.8	%	(5.4)
5	(4) Valmet Corporation	2.7	%	(2.7)
6	(5) Waldemar von Frenckell Foundation	2.7	%	(2.7)
7	(6) von Frenckell, Christoffer	2.7	%	(2.7)
8	(7) Suomi Mutual Life Assurance Company	2.6	%	(2.6)
9	(9) Samfundet Folkhälsan i Svenska Finland	2.3	%	(2.3)
10	(10) Cedercreutz, Axel	1.9	%	(2.0)
	TOTAL	32.0	%	(34.8)

*) On September 3, 1997 Pension-Varma, Mutual Insurance Company disclosed that Nova Life Insurance Company Ltd now is considered part of Group Pension-Varma Mutual Insurance Company. As a result, the threshold of one-tenth of the voting rights and the capital stock of Tamfelt Corp. was exceeded by Group Pension-Varma. On October 21, 1997 Pension-Varma, Mutual Insurance Company disclosed that the portion of Tamfelt's capital stock owned by Group Pension-Varma, Mutual Insurance Company fell below the threshold of one-tenth.

STOCK SUMMARY	1993	1994	1995	1996	1997
Earnings/share (FIM) ²⁾	5.85	5.10	7.80	11.20	14.85
Equity/share Dec. 31 (FIM) ²⁾	52	56	61	69	79
DIVIDEND					
Dividend (FIM million) ¹⁾	13.56	17.30	21.90	38.02	42.01
Dividend/share (FIM)					
common	6.00	2.50	3.20	5.60	6.20
preferred	6.40	2.70	3.40	5.80	6.40
Adjusted dividend/share (FIM) ²⁾					
common	2.00	2.50	3.20	5.60	6.20
preferred	2.13	2.70	3.40	5.80	6.40
Dividend/earnings (%)	35.3	51.3	42.5	51.3	42.6
Effective dividend yield Dec. 31 (%)					
common	2.1	3.3	4.3	4.5	3.1
preferred	2.3	3.7	5.1	4.8	3.3
P/E ratio Dec. 31					
common	16.6	14.7	9.5	11.1	13.3
preferred	15.7	14.3	8.5	10.8	13.0
TRENDS AND TRADING					
Unadjusted trading price at year-end					
common	291.00	75.00	74.00	125.00	197.00
preferred	275.00	73.00	66.50	121.00	193.00
Adjusted trading price at year-end ²⁾					
common	97.00	75.00	74.00	125.00	197.00
preferred	91.70	73.00	66.50	121.00	193.00
Change of adjusted trading price (%)					
common	62.6	-22.7	-1.3	68.9	57.6
preferred	83.3	-20.4	-8.9	82.0	59.5
Highest trading price (FIM) ²⁾					
common	100.00	103.30	80.00	126.00	210.00
preferred	91.70	101.70	77.00	125.00	215.00
Lowest trading price (FIM) ²⁾					
common	60.00	71.00	58.00	75.00	126.00
preferred	51.70	70.00	55.00	69.00	123.00
Trading volume (FIM million)					
common	28.2	17.8	14.8	17.4	13.3
preferred	114.4	49.6	44.4	78.9	144.1
Trading volume (number of shares) ³⁾					
common	366 942	201 803	218 612	164 383	78 552
preferred	1 532 445	571 210	710 462	819 084	789 600
Trading volume/total stock %					
common	9.4	7.8	8.4	6.3	3.0
preferred	56.8	14.3	17.8	20.4	19.5
CAPITAL STOCK AND NUMBER OF SHARES					
Capital stock Dec. 31 (FIM million)	44.0	66.0	66.0	66.45	66.45
common	26.0	26.0	26.0	26.00	25.99
preferred	18.0	40.0	40.0	40.45	40.46
Stock exchange value Dec. 31 (FIM million)	625.8	487.0	458.4	814.4	1 292.9
Number of shares Dec. 31 (1 000)	2 200	6 600	6 600	6 645	6 645
common	1 300	2 600	2 600	2 600	2 599
preferred	900	4 000	4 000	4 045	4 046
Average number of shares (1 000) ²⁾	6 600	6 600	6 600	6 608	6 645
Adjusted number of shares Dec. 31 (1 000) ²⁾	6 600	6 600	6 600	6 645	6 645
Number of shareholders Dec. 31	1 738	1 765	1 773	1 629	1 653
Nominee-registered ownerships Dec. 31	3	3	3	2	2
EARNINGS/SHARE					
Net income before extraordinary items, taxes and minority interest - taxes - minority interest	<hr/>				
Year-end number of shares adjusted for issue	<hr/>				
EQUITY/SHARE					
Equity	<hr/>				
Year-end number of shares adjusted for issue	<hr/>				
PRICE/EARNINGS (P/E)					
Year-end trading price adjusted for issue	<hr/>				
Earnings/share (EPS)	<hr/>				

¹⁾ 1997 Board of Directors' proposal²⁾ Adjusted for share issue³⁾ Trading volume made commensurable with current par value.

BOARD OF DIRECTORS' PROPOSAL TO ANNUAL GENERAL MEETING

Consolidated distributable earnings total
FIM 338,351,000.00.

Parent company distributable earnings total
FIM 390,318,533.77, of which

- retained earnings from previous years	268,538,045.68
- net income for the year	<u>101,974,061.90</u>
	<u>370,512,107.58</u>

The Board proposes that this sum be appropriated as follows:

- a dividend of FIM 6.20 a share paid on 2,599,272 common shares	16,115,486.40
- a dividend of FIM 6.40 a share paid on 4,045,728 preferred shares	25,892,659.20
- to be retained	<u>328,503,961.98</u>
	<u>370,512,107.58</u>

Helsinki, February 23, 1998

Mikael von Frenckell Axel Cedercreutz
Martin Lilius Vesa Kainu
Jouko Oksanen
 Risto Hautamäki
 President

AUDITORS' REPORT

To the shareholders of Tamfelt Corp.

We have audited the accounting records and the accounts, as well as the administration by the Board of Directors and the President of Tamfelt Corp. for the year ended December 31, 1997. The accounts prepared by the Board of Directors and the President include the report of the Board of Directors, consolidated and parent company income statements, balance sheets, cash flow statements and notes to the accounts. Based on our audit we express our opinion on these accounts and the parent company's administration.

We have conducted the audit in accordance with Finnish Generally Accepted Auditing Standards. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether

the accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. The purpose of our audit of the administration has been to examine that the Board of Directors and the President have complied with the rules of the Finnish Companies Act.

In our opinion, the accounts have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The accounts give a true and fair view, as defined in

the Accounting Act, of both the consolidated and parent company result of operations for the year 1997 as well as of the financial position at the year end. The accounts can be adopted and the members of the Board of Directors and the President of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors on how to deal with the retained earnings is in compliance with the Finnish Companies Act.

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

Tampere, March 5, 1998

Eric Haglund

Jari Paloniemi

Authorized Public Accountant

Authorized Public Accountant

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