

**PONSSE**



# 2018

**ANNUAL REPORT**



## **PONSSE IN BRIEF**

Ponsse Plc is a company specialising in the sales, manufacture, servicing and technology of cut-to-length method forest machines and is driven by genuine interest in its customers and their business. Ponsse develops and manufactures sustainable and innovative harvesting solutions based on customers' needs.

The company was established by forest machine entrepreneur Einari Vidgrén in 1970, and it has been a leader in timber harvesting solutions based on the cut-to-length method ever since.

With experience from over 14,000 cut-to-length forest machines, this family-owned company is today one of the world's leading manufacturers of forest machines. The sales and service network covers 40 countries and the share of exports is 78 per cent of net sales.

Ponsse is headquartered in Vieremä, Finland. The company's shares are quoted on the NASDAQ OMX Nordic List.

**NET SALES, M€**

**612**

**EMPLOYEES**

**1,635**

**SHARE OF EXPORTS, %**

**78**



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## ***PONSSE IN 2018***

In 2018, all Ponsse's business areas continued to grow. New machine sales showed excellent development and our service and used machine businesses grew. We also launched a record number of new products. Our biggest project was the major expansion of the Vieremä factory. Continuous renewal of operations and products is the foundation of all our operations.







# ***MISSION***

**We will succeed together with our customers and partners through innovative harvesting solutions based on sustainable development.**

Ponsse ensures a high-quality customer service by focusing on harvesting solutions based on the cut-to-length method. It seeks solutions openly and innovatively together with its customers, while continuously reaching for something new and better. There can be no compromises over the high level of quality and reliability of products and services, under any circumstances.



# ***VISION***

**We are the preferred partner in our industry.**

We are continuously and at an ever higher intensity working hard to develop Ponsse in order to become the leader in the field of forest machines based on the cut-to-length method. Continuous development and advancement are what make Ponsse the most desirable partner in its field. That is why Ponsse's products and services are selected again and again, from one generation to the next.

# VALUES

Determinedly on the way paved by Einari Vidgrén,  
the company's founder, since 1970.

## CUSTOMER ORIENTATION

- A genuine interest towards the customer
- Knowing the customer's business
- Availability and rapid response times
- A readiness to serve and support the customer
- Flat organisation

“Practice is the best teacher. And the best specialists are machine operators. It is worthwhile paying close attention to what they say and to keep their words well in mind.” (Einari Vidgrén, 1943-2010)

Ponsse is driven by genuine interest in customers and their business operations. Ponsse knows its customers personally, allowing it to identify their needs. The flat organisational structure ensures that decision-makers are located close to customers.

## INTEGRITY

- Ethical operations and high morals
- Reliability
- Keeping our promises
- Openness

“If you want to succeed in this business, you need to have honest and trustworthy relationships in both directions. Dishonesty takes you nowhere.”

Ponsse's operations are based on honesty, ethics and high morals. Ponsse is reliable, as are its employees. Ponsse keeps its promises, and does not give any empty promises to its customers, stakeholders or colleagues. The customer is never left alone. All activities are characterised by openness.

## PONSSE SPIRIT

- Constructive humility and a tenacious work ethic
- Entrepreneurship and the will to succeed
- Decision-making capacity
- Refusing to compromise in achieving goals

- Assuming responsibility
- Friendliness and fair play
- Listening to personnel and good communication
- Helping co-workers and taking others into consideration

“As we're all part of the same company, everyone can call me Einari.”

During decades, Ponsse and its employees have built their own unique culture and spirit, following Einari's ideas. The Ponsse spirit signifies friendliness and fair play. Ponsse serves its customers reliably and works hard without being overly serious.

Every Ponsse employee is entrepreneurial and willing to succeed. Everyone assumes and bears responsibility for the success of the company. That is why Ponsse makes no compromises over achieving its goals. Therefore, Ponsse employees have the capacity to make decisions and are humble and tenacious when it comes to work.

## INNOVATION

- Continuous improvement of products, services and processes
- Initiative and broad-mindedness
- Chance for change

Einari's definition of the very first PONSSE harvester head in 1986:

“Let's make it ourselves!” It must grapple a tree like a bear, and the log must pass through with a good speed.”

Ponsse is continuously improving its products, services and processes. There must be initiative and broad-mindedness in R&D. This secures the company's competitiveness.

Ponsse employees are broad-minded and believe in what they do. The search for new ideas is not limited to the company's business field only but, regardless of the business area, Ponsse wants to actively learn from the best operators and apply what it has learned to its industry. That is why Ponsse sees that changes offer opportunities for development and advancement.

## **REVIEW BY THE CHAIRMAN OF THE BOARD AND THE PRESIDENT AND CEO**



**J** *We are a value-oriented company with a clear focus on the future. The values based on our history – customer orientation, integrity, innovativeness and the Ponsse spirit – are genuinely important to us at Ponsse, and they illustrate our day-to-day operations. At the same time, we are continuously investing in the sustainable development of functions that take the natural environment, our personnel and the economic environment into account.*



The year 2018 will go down in the company's history as a very busy period due to high demand, major factory investment and challenges in the availability of components. Ponsse had an excellent year: profitability reached 10 percent, and cash flow was at EUR 61 million. We were able to continue on a growing path even with the commissioning of the Vieremä manufacturing facilities, which limited our production capacity. We manufactured nearly as many PONSSE forest machines as in our record year in 2017.

The forest machine industry is cyclical, and has seen strong growth since 2013. The positive changes that have taken place in the forest industry have also reflected on Ponsse's operations. At the same time, we have carried out intensive renewal projects and been able to challenge the markets through the development of operations and products. The overall forest machine market continued to grow in 2018. The Russian market continued on a positive trend and retained its position as the world's largest market area for cut-to-length (CTL) forest machines. Sweden remained the second largest market for environmentally friendly CTL machines, with Finland close behind. Demand was high from the beginning of the year and accelerated significantly in the second half of the year. The market situation remained good throughout the year in nearly all of our market areas.

Since 2010, we have invested around EUR 100 million in product development and around EUR 186 million in fixed assets. The continuous development of the company's operations is essential for us. Our distribution and servicing network develops on an ongoing basis. We develop the organisation and operating methods of our distribution network and want to expand into new areas in an effective manner. Our servicing business grew at a good rate during the year, and was our fastest-growing business. The daily sales and servicing work of the Ponsse network keeps our customers happy and ensures our success over the long term.

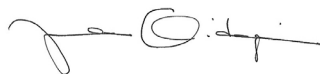
The biggest investment in company history, the expansion of the Vieremä factory, was completed according to plans.

The outcome of this bold investment project was exemplary. The adoption of an entirely new storage system proceeded as planned, and its automation system quickly reached stable operations technologically as well as in the area of operator competence. Commissioning of the new assembly facilities took place after the summer holiday season and was successful even beyond expectations despite the extensive scope of changes required. Challenges in the availability of components and the instability caused by the new production system did not prevent us from achieving normal production schedule by the end of the year. Under these conditions, the successful commissioning of the factory was of primary importance and proved our personnel's extremely high competence, commitment and ability. Once more, I wish to extend my warmest gratitude to all our employees.

Our investments in technology and product development have increased annually. Rapid technological development and digitalisation, in particular, open up new opportunities in the development of products and new services. We continue to do our part to ensure that sustainable logging solutions and the related technology keep moving forward and producing additional value for our customers.

We are a value-oriented company with a clear focus on the future. The values based on our history – customer orientation, integrity, innovativeness and the Ponsse spirit – are genuinely important to us at Ponsse, and they illustrate our day-to-day operations. At the same time, we are continuously investing in the sustainable development of functions that take the natural environment, our personnel and the economic environment into account.

Based in Vieremä, we are focusing and will continue to focus on the sale, maintenance, manufacture and product development of cut-to-length forest machines. Our customers and committed personnel will enable our success also in the future.



Juha Vidgrén  
Chairman of the Board



Juho Nummela  
President and CEO

## MARKET REVIEW



*The increased machine sales are explained by the good business situation of our customers. Both the chemical and the mechanical forest industry are making good results. A functional forestry market will live up not only our machine sales, but also the service businesses. Under busy business conditions, our customers have upgraded their operations, and we have strived to meet their needs by improving our servicing response time and by increasing the proportion of machines with maintenance agreements.*

**T**hroughout its history, Ponsse has taken bold steps to develop its operations. Last year, these steps took us further than ever before. We not only expanded our factory, but also introduced a higher number of new products than in any other year.

Competition has always been extreme in the forest machine market, and last year did not form an exception. Our new machine sales achieved good results, raising our order books to a record level, and our used machine inventories shrank almost in all market areas. Our used machine turnover accelerated towards the end of the year, and was at an excellent level as the year came to a close. In fact, when compared to manufacturing volumes, our used machine sales were at their highest since 2005 when the demand soared due to extensive storms in Sweden.

The increased machine sales are explained by the good business situation of our customers. Both the chemical and the mechanical forest industry are making good results. A functional forestry market will live up not only our machine sales, but also the service businesses. Under busy business conditions, our customers have upgraded their operations, and we have strived to meet their needs by improving our servicing response time and by increasing the proportion of machines with maintenance agreements.

In addition to selling new machines, we want to further increase our role in the harvester head markets. We have worked very hard in harvester head product development in recent years with the aim of meeting the needs of logging companies that acquire a PONSSE harvester head for their track-based forest machines. Our Russian subsidiary OOO Ponsse achieved great success in grapple sales and increased its market share thanks to skilled personnel and a positive market development. Our Canadian retailer also produced strong results in grapple sales.

Russia also held the top position in new machine sales. The rapid change taking place in the Russian market, going over from manual tree-length harvesting to modern, efficient and environmentally friendly logging methods, has created an exceptional situation. Last year, the Russian market demonstrated very strong development, shadowing the traditional CTL markets of Sweden and Finland. The demand for machines even exceeded our viable delivery volumes. We must, however, keep a cool head in machine sales to ensure solid operations. We must grow at a rate that allows our service businesses to keep up, making sure that our customers receive an equally high-quality service in all market areas.

In Swedish machine sales, we continued to hold the role of a challenger. This means that we need to increase our efforts to grow in the Swedish market. We already have skilled and committed personnel in our Swedish subsidiary to lead the continued development of our service business network in Sweden. Our Swedish service network is now based on service partners, but we will also be building our own service

network. Our next own service centre will open in Sandviken in May.

In the global market, Finland took the third place with record harvester sales. In 2018, the top position in Finnish harvester sales was taken by PONSSE Scorpion. In forwarders, PONSSE Buffalo was the number one. Our market share remained within the target range at more than 40 percent. Another new service centre was opened at the beginning of 2019 in Mikkeli.

The strong order book has placed increased pressure on our production operations. The factory extension that opened for operations last autumn plays an important role in our effort to improve the flexibility of our operations. Rapid increase of production volumes will not, however, be possible as we do not under any circumstances want to risk our product quality. Our consistent long-term operations are the foundation on which our customers' trust is built, and we will never compromise on that.

In addition to the development of production facilities, last year also saw evolution of our sales and servicing processes. An increasing proportion of our growth is created in the dealer network, and being able to provide the best possible support for the network is therefore essential. Our regional director organisation, headed by Marko Mattila since 2018, is responsible for providing support for our international network. We continue to develop our service network with new facilities and competence development. Currently, we have service centre investments in progress in Tomsk and in St. Petersburg.

Training is one of our top targets of development. This year, we will also invest in our training organisation and tools to reach a wider range of target groups more effectively. In practice, this means an increased volume of digital training solutions to complement face-to-face training, as well as materials that provide more practical insight than before. The high number of new product launches and the increased customer support personnel working within our service network have placed new emphasis on training as a necessary precondition for success.

We thank all our customers for their trust in us and their feedback, which helps us forward in our product development effort. We continue our work to provide our customers with the best possible support and to aim to create the best products and services.



Jarmo Vidgrén  
Sales and Marketing Director

# EVENTS IN 2018



**24 January** • The most extensive factory expansion in Ponsse's history reached topping-out. At the same time, the factory produced the 13,000th machine manufactured at our home base in Vieremä. The factory area increased from 2.7 hectares to four hectares.



**24 January** • The 13,000th PONSSE machine, a PONSSE Ergo 8W, was delivered to FoWi GmbH & Co in Germany. The machine hand-over also marked the beginning of the 25th year of cooperation between two family companies, Ponsse and the German Wahlers Forsttechnik GmbH.



**6 April** • Ponsse launched the new PONSSE Fox harvester range, specifically designed for thinning and soft terrain logging.

2018

24.1.

6.4.

11.4.

22.5.

29.5.

**11 April** • The new PONSSE K121 loader for PONSSE Elephant and PONSSE Elephant King forwarders was introduced at the Expoforest fair in Brazil. The loader is particularly well suited for steep hillsides and demanding terrain, and it extends our loader range to a new size range.



**22 May** • The Einari Vidgrén Foundation, which honours the life's work of our founder, gave out EUR 143,000 in recognitions. The Einari Awards, the main form of recognition, were awarded to Janne Mutikainen of Koneurakointi Mutikainen Oy, and Janne and Tuomas Paakkola of Iin Metsätyö Oy for exemplary business operations and for a successful transfer of business to the next generation.



**29 May** • Ponsse opened a new service centre in Värnamo. The new centre is operated directly under Ponsse and serving a strong forestry region in Southern Sweden. Niklas Savilahti is one of our long-term customers in the area.





**21 June** • Ponsse and Sotreq entered retailing cooperation in the Minas Gerais forestry region in Brazil. "Ponsse has an unparalleled history in developing logging machines. Combined with Sotreq's after sales support, the result is ground-breaking in our industry", says Chief Operating Officer Marcelo Orberg of Sotreq S.A.

**24 August** • The Finnish Minister of Economic Affairs Mika Lintilä opened Ponsse's new factory expansion in Vieremä. According to Lintilä, the investment is a demonstration of the confidence in the future that has been characteristic of Ponsse throughout its history. "The expansion will raise Ponsse's competitiveness to yet another level. Continuous process development, the world's best forest machines and the best quality for customers are excellent goals. However, I believe that the biggest reasons behind Ponsse's success are its strong values and fair game. With a foundation such as this, success is sure to follow", Minister Lintilä said.

**21 November** • Japan Annual Forest Expo

**5 November** • Ponsse's Norwegian subsidiary Ponsse AS celebrated its 20 years of operations.

21.6.

24.8

28.8.

24.9.

9.10.

5.11.

22.11.

2019

**28 August** • A record number of new products were introduced at the FinnMET-KO forestry fair, including the PONSSE Bison forwarder with CVT transmission and the PONSSE Cobra harvester suited for a wide variety of forestry work. Other new products introduced at the fair included the PONSSE Active Crane loader control system and a long track base alternative to be used in forwarders in soft terrain.

**24 September** • Ponsse's President and CEO Juho Nummela received the honorary title of Businessperson of the Year. This was the first time that a second person from the same company has received this acknowledgement. Ponsse's founder Einari Vidgrén was presented with the award in 1997. "Juho Nummela's leadership exhibits respect for the company's roots and the creation of something new together with all Ponsse employees", said the jury.

**9 October** • Ponsse received an award as Finland's most reputable company. The award was presented by Prime Minister Juha Sipilä. Ponsse achieved a record score in the Reputation&Trust analysis, and its responsible operations and ability to renew were assessed to be at historic level. "To grow trust, product and service evaluations must be supplemented by positive views on openness, transparency, acting as an employer and appropriate overall business conduct. Ponsse has retained its position as a pioneer in its field, and commits to the well-being of its employees and the whole community", the jury said.



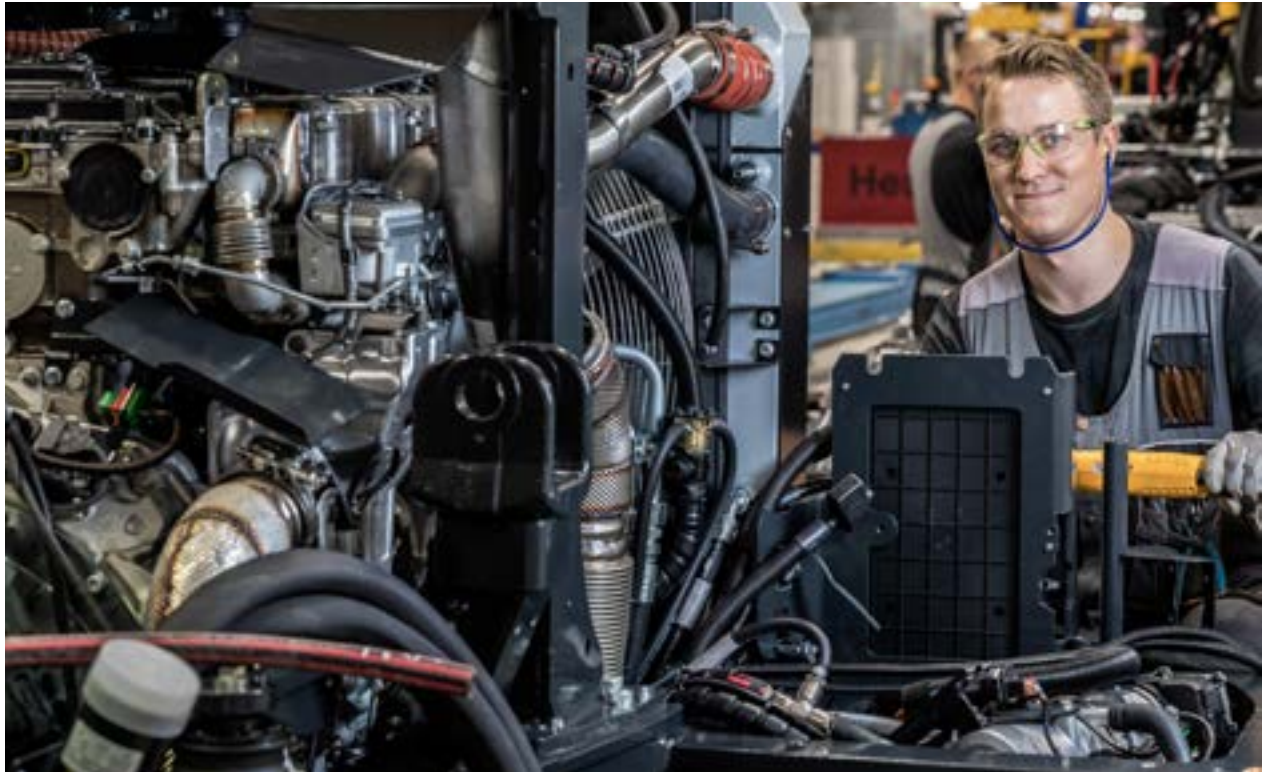
# ***THE MOST ADVANCED FOREST MACHINE FACTORY IN THE WORLD***





### **THE MOST ADVANCED FOREST MACHINE FACTORY IN THE WORLD**

*In autumn 2018, Ponsse commissioned a factory expansion that comprised 1.3 hectares of new production facilities. The expansion is the single largest investment in the company's history. The new facilities mean increasingly smooth and flexible production operations, improved safety and well-being for employees, and better productivity. Above all, they mean higher quality. There is also more capacity for testing and quality control, which now constitute an even more important part of production operations. The factory has now a total of four hectares of floor space.*





## ***PRODUCT FAMILY FOR RESPONSIBLE LOGGING***

**At our home base in Vieremä, we want to build the best forest machines in the world to support our customers' productivity and the health and safety of machine operators. We place strong focus on developing environmentally friendly cut-to-length logging solutions.**

**C**ustomer satisfaction guides our product design in the development of new machine models as well as in the continuous improvement of our existing line-up. The principle of continuous improvement challenges our operations at all levels from R&D to production and service businesses. It is, however, the only way to ensure fast implementation of customer feedback in our products. Customer satisfaction can only be maintained through uncompromised quality. We select for our products materials and components that are able to withstand extreme long-term wear. In our R&D, we look for innovative and responsible solutions.

"In our new products, we have succeeded in extending the forest machine maintenance intervals, reducing the required oil volumes, and allowing the use of biodegradable hydraulic oils. We have also improved our products' fuel economy with our Boost & Save program, which aims to develop our machines' productivity and economy through training and servicing as well as design", says technology and R&D Director Juha Inberg of Ponsse Plc.

According to Inberg, R&D at Ponsse always aims to extend the service life of the product and its components. "The environmental impact of forest machines mainly consists





of emissions during operation as well as the consumption of fuel, fluids and parts. In our new machine range, we have for example reduced head loss in hydraulics, which in turn reduces fuel consumption.”

PONSSE forest machines have a long lifecycle and high recycling rate. More than 90 percent of the materials used in our machines can be recycled. The operating life of a machine may be several decades, and older machines are often used as back-up fleet to balance seasonal variation in logging. Nearly all components of a forest machine can be replaced or refurbished. Our high degree of internal manufacturing allows the production of parts for the needs of used machines and servicing. We also refurbish used machines and parts to further extend the machines' lifecycle.

#### **LESS DAMAGE TO THE TERRAIN WITH EVEN DISTRIBUTION OF WEIGHT**

Our soil-saving machine range, which includes eight-wheel harvesters and eight and ten-wheel forwarders, account for more than 90 percent of our machine sales. Eight wheels mean minimal damage to the terrain as the weight of the machine and the load is evenly distributed on several wheel pairs, which

keeps the ground pressure at a low level.

In soft terrain, forwarding puts more stress on the soil than the harvester. A forwarder travels the same trail several times when bringing wood to roadside storage. For this reason, development of forwarders has taken priority in our work for the prevention of damage to the terrain. The low ground pressure of the eight-wheel forwarders, as well as the ten-wheel forwarders with a special track, allow logging in soft terrain. Even distribution of ground pressure also means that large forwarders can be built. A large carrying capacity reduces the number of times that the forwarder uses the same trail. This is only possible with low ground pressures.

**”** *The environmental impact of forest machines mainly consists of emissions during operation as well as the consumption of fuel, fluids and parts. In our new machine range, we have for example reduced head loss in hydraulics, which in turn reduces fuel consumption.*

## PRODUCT FAMILY FOR RESPONSIBLE LOGGING



Last year, we introduced a long track-based alternative into our forwarder range. The new model reduces the ground pressure of a track-based machine up to 17 percent compared to a standard track model.

### **PEAK YEAR FOR PRODUCT LAUNCHES**

Last year, records were broken in Ponsse's product launch activities. We introduced new products in all our categories, including two completely new machine models.

Our new forwarder, PONSSE Bison Active Frame, is the result of long-term R&D effort. The new generation forwarder is specifically designed for long forwarding distances. The CVT transmission, combined with the Active Frame active suspension, effectively reduces sideways movements that cause great stress to operators particularly over longer forwarding distances. The new PONSSE K121 loader was introduced for the largest forwarders, PONSSE Elephant and PONSSE Elephant King. The high slewing and lifting power, increased reach, new loader geometry and good controllability speed up load handling in any environment.

In the PONSSE Active Crane loader control system, introduced last year, the forwarder operator controls the grapple movement instead of individual functions. Two control levers are available for easy operation: one for controlling the grapple's height from the ground and the other for selecting the direction of the movement. Once the appropriate grapple location has been given to the machine, it will perform the lift and use the boom and extension automatically. A new addition to the harvester range was introduced with the PONSSE Cobra, which has been developed for varying conditions. High-quality basic solutions make PONSSE Cobra a reliable harvester with good fuel economy. Ease of use and the good balance of the machine make it comfortable for the operator.

Advanced technical solutions are used in modern forest machines. Machines monitor their own operation with increasing detail and produce data that can be used in solutions that make the operator's work easier and improve the economy and safety of the machine. The data is used in such applications as PONSSE Manager, the administration tool for logging companies, which produces reports on the machine's



performance and monitors its condition.

PONSSE also introduced Stage V forest machine engines that use the latest engine technology and meet strict emission requirements. Forest machines must be environmentally friendly and reliable, and the new engine technology supports these goals with better fuel economy.

### **CUT-TO-LENGTH LOGGING**

The PONSSE product family is the most comprehensive cut-to-length logging range, and it covers all size categories and logging site types. In environmentally friendly cut-to-length logging, the tree is felled, limbed and cut to the appropriate length at the logging site. The efficient method produces accurately measured quality timber that has a high utilisation rate.

Compared to other mechanised harvesting methods, benefits of the CTL method include good productivity level and environmental friendliness. Fuel consumption per cubic metre of timber is also considerably lower than when using the tree-length method, as fewer and lighter machines are used. With the CTL method, nutrient-rich leaves, needles, branches and

crown are left in the forest. This will help ensure adequate nutrients for the remaining trees and new seedlings, which is particularly important if the soil itself lacks nutrients. In logging sites with sensitive terrain, the harvester will cover the trail with branches to support the forwarder. This will help reduce damage to the terrain. The CTL method also brings benefits in the area of logistics. The timber can be taken directly to further processing, reducing the need for transport.

CTL machines are designed for a wide variety of tasks, and the same machine can be used for everything from thinning to regeneration felling. The total cost also remains below that of competing harvesting methods. Eight-wheeled machines put less strain on the ground and are well suited for soft terrain and steep hillsides.

# **FIRST-RATE SERVICING – THE KEY TO PROFITABLE MACHINE OPERATION**



**The most important drivers for the development of PONSSE service businesses include controlled servicing costs, maximum productivity and the high usability of the machines. The goal is to guarantee a functional and productive machine so that the customer is able to focus on their own core operations.**

In 2018, our customers' busy working schedules reflected on the demand for our maintenance services. With the utilization rate of machines already high, logging companies seek to boost their operations through careful servicing of the machines. The sales of PONSSE Active Care service agreements grew at a steady rate. Service agreements improve the financial and operational predictability of companies through fixed maintenance costs and reliable machines. High availability of machines can only be maintained by regular servicing. Regular reviews of settings and adjustments will improve productivity and lower the fuel consumption. Another factor that has helped increase the number of service agreements is the higher resale value of the machines that have a service agreement.

According to Service Director Tapio Mertanen of Ponsse Plc, the quality of service depends directly on the personnel's

professional skills.

"The work of a professional servicing crew ensures the maximum productivity of machines. Trained personnel are also able to perform preventive maintenance that will help avoid unplanned production outages. Efficient servicing brings us definite competitive advantage. The effectiveness and quality of the servicing operations, together with the machine's productivity level, are the most crucial factors when calculating total cost of ownership over the long term", Tapio Mertanen says.

Ponsse has the longest scheduled maintenance intervals in the markets, and the pricing of the service agreements is very competitive. According to Mertanen, easy serviceability of the machines is one of the goals of product development.

"We aim to minimise the environmental impact from the use and servicing of the machine, and to maximise the

**The work of a professional servicing crew ensures the maximum productivity of machines. Trained personnel are also able to perform preventive maintenance that will help avoid unplanned production outages. Efficient servicing brings us definite competitive advantage.**

machine's serviceability as part of the overall effort to ensure high usability. Product development has not only extended the maintenance intervals, which means savings for our customers, but also improved the machines' usability and environmental friendliness. With longer service intervals, the need for parts, oil and liquids is reduced. Less transport fuel is also spent when the machines do not need to be transported to servicing as often as before", Mertanen says.

#### **NEW SOLUTIONS IDENTIFIED TOGETHER WITH THE CUSTOMERS**

As the machines and the operating environment change, service businesses also look for new solutions. New services are always developed together with the customers and the service network. One of the most prominent steps forward in recent years has been the adoption of solutions based on new digital technology. Digitalisation has allowed the development of entirely new services as well as new tools for the service network to enhance their operations and quality.

Examples of digital services include the PONSSE Parts Online ordering system that boasts rapidly growing user numbers. The system offers a real-time view on the availability and price of spare parts as well as machine-specific information. Digital solutions have the additional benefit of continuous further development. For example, the content of the PONSSE Service Applications for mobile devices expands on an ongoing basis. Last year, we launched two applications developed together with our customers: the PONSSE Active Manual and the Online Service booking system. Both are unique in our industry.

The systems also offer forestry entrepreneurs an opportunity to learn more about the developing machine and service ranges. The available range of PONSSE wearing parts and forest machine supplies expanded in 2018 with new, competitively priced high-quality alternatives. Choices of parts and maintenance products also make a difference for the machine's lifetime environmental impact.

Last year, we continued to develop the training provided for our service business network. We continually train the members of our network within their own markets as well as at the factory. Last year we invested in training facilities that



allow bringing a machine indoors for training at the Iisalmi service centre. A training container that can be transported on site was introduced for training courses on the Stage V engine models which meet the requirements of new emission standards. The training container for the lower emission class Tier4F engines will be used in our training courses in North America, where emission limits are still less stringent than in Europe. We also continued to organise international skills competitions for mechanics and spare parts salesmen. In these competitions, the participants test their skills in both theoretical and practical tasks. The competition gathers together specialists of the PONSSE service network from many countries.

At the moment, the PONSSE service business network comprises 197 service centres. The expanding network brings services closer to the customer and continues to provide increasing support for the operations of our local customer base. Local support is essential when working in a wide variety of different logging conditions. In addition to establishing new service centres, we continue to invest in existing facilities, tools and skills.

Since 2011, we have used our own audit system, Effective and Safe Workshop (ESW), as the tool for developing our service business network. By the end of 2018, we had completed a total of 339 audits at our own service centres as well as those of our retailers and contractual service partners. The audits have proven to be an important tool for the systematic development and harmonisation of our operations.

# BOARD OF DIRECTORS

The Board was selected by the Annual General Meeting on 9 April 2018.

## SELECTING BOARD MEMBERS

According to the Articles of Association, the Ponsse Plc Board consists of at least five and at most eight members. The Board members are selected by the Annual General Meeting which – according to the Articles of Association – must be held by the end of June each year. The period of office of the

Board members ends at the next Annual General Meeting. The Board selects a chairperson for the period of office from among its members.

## BOARD MEETINGS

During the year under review, the Board convened nine times. The Board members actively participated in the meetings – the attendance rate was 90,7%.

### Chairman of the Board

#### JUHA VIDGRÉN, b. 1970

Master of Pedagogy  
Ponsse Plc, Board Member since 2000  
Shareholding in Ponsse Plc on 31 December 2018:  
6,207,000 shares  
Epec Oy, Chairman of the Board

#### Work experience

Ponsse Plc, Deputy to the CEO 2003  
Ponsse Plc, Public Relations Manager 2000–2003  
Ponsse Plc, Press Officer 1998–2000

#### Other key positions of trust

Einari Vidgrén Foundation, Chairman of the Board  
Einari Vidgrén Oy, Board Member  
Klaffi Tuotannot Oy, Board Member  
Suomen Filmitöollisuus (SF) Oy, Board Member  
Vieremän Kylänraitti Association, Chairman of the Board  
Vieremän Oriyhdistys Association, Chairman of the Board

### Deputy Chairman of the Board

#### MAMMU KAARIO, b. 1963

Board professional  
Master of Law, MBA  
Ponsse Plc, Board Member since 2010  
Shareholding in Ponsse Plc on 31 December 2018:  
4,500 shares  
Independent of the company and major shareholders

#### Work experience

Partnera Oy, Managing Director 2016–2017  
Korona Invest Oy, Investment Manager 2011–2016  
Unicus Oy, Partner 2006–2011  
Conventum Corporate Finance Oy, Director 1998–2005  
Prospectus Oy, Director 1994–1998  
Kansallis-Osake-Pankki, Specialist 1988–1994

#### Other key positions of trust

Aspo Oy, Deputy Chairman of the Board  
CapMan Oy, Deputy Chairman of the Board  
Lapti Oy, Board Member  
Makai Holding Oy, Chairman of the Board  
PerusTerveys Suomi Oy, Chairman of the Board  
Robit Oy, Deputy Chairman of the Board  
SstatzZ Oy, Board Member



JUHA VIDGRÉN



MAMMU KAARIO



MATTI KYLÄVAINIO

## Board members

### MATTI KYLÄVAINIO, b. 1974

Keitele Forest Oy, Director of sawmill operations  
M.Sc. (Econ.)  
Ponsse Plc, Board Member since 2016  
Independent of the company and major shareholders

#### Work experience

Keitele Forest Oy, Director of sawmill operations 2014–  
Keitele Forest Oy, Sales Director 2006–2014  
Keitele Forest Oy, Export Manager 1999–2006

#### Other key positions of trust

Keitele Forest Oy, Board Member

### JUHA VANHAINEN, b. 1961

Apetit Oyj, President and CEO  
Master's degree in engineering (process technology)  
Ponsse Plc, Board Member since 9 April 2018  
Independent of the company and major shareholders

#### Work experience

Stora Enso Oyj, Country Director and Board  
Member 2007–2015  
Stora Enso Oyj, Managerial positions 1990–2007  
Kemi Oy, engineer 1988–1990

#### Other key positions of trust

Elintarviketeollisuusliitto ry, Board Member  
Wihuri Group, Board Member

### JANNE VIDGRÉN, b. 1968

Commercial College Graduate  
Ponsse Plc, Board Member since 2013  
Shareholding in Ponsse Plc on 31 December 2018:  
3,691,742 shares

#### Work experience

Ponsse Plc, Area Director 2007–2017  
Ponsse Plc, Area Export Manager 2001–2007  
Ponsse Plc, Marketing Manager 1994–2001

### JUKKA VIDGRÉN, b. 1983

Mutant Koala Pictures, Managing Director  
Bachelor of Culture and Arts  
Ponsse Plc, Board Member since 2011  
Shareholding in Ponsse Plc on 31 December 2018:  
3,764,778 shares

#### Work experience

Mutant Koala Pictures, Entrepreneur since 2004

#### Other key positions of trust

Einari Vidgrén Foundation, Board Member  
PAVA ry, Board Member  
Suomen Filmitöollisuus SF, Chairman of the Board



# MANAGEMENT TEAM



Petri Härkönen, Tapio Mertanen, Paula Oksman, Juha Inberg, Juho Nummela, Tommi Väänänen, Jarmo Vidgrén

## **Juho Nummela, b. 1977, Chairman of the Management Team**

Dr.Tech.

President and CEO

Member of the Management Team since 2 January 2005

Joined Ponsse in 2002

**Previous main positions:** Ponsse Plc, Factory Director 2006–2008, Ponsse Plc, Quality and IT Director 2005–2006

**Shareholding in Ponsse Plc on 31 December 2018:**

58,995 shares

## **Jarmo Vidgrén, b. 1975**

Commercial College Graduate in Marketing

Group Sales and Marketing Director and Deputy to the CEO

Member of the Management Team since 22 October 2001

Joined Ponsse in 1997

**Previous main positions:** Ponsse Plc, Vice President responsible for the North-European business area 2007–2008, Ponsse Plc, Sales Director, Finland 2004–2008, Ponsse Plc, Area Sales Manager 2001–2004, Ponsse AB, Warranty Handler and Area Sales Manager, used machines 1999–2001

**Shareholding in Ponsse Plc on 31 December 2018:**

3,684,263 shares

## **Petri Härkönen, b. 1969**

M.Sc. (Tech.)

CFO

Member of the Management Team since 1 October 2009

Joined Ponsse in 2009

**Previous main positions:** Suunto Oy, Director, Operations and Quality 2007–2009

**Shareholding in Ponsse Plc on 31 December 2018:**

7,670 shares

## **Juha Inberg, b. 1973**

Dr. Tech.

Director, Technology and R&D

Member of the Management Team since 1 January 2009

Joined Ponsse in 2003

**Previous main positions:** Ponsse Plc, R&D Engineer 2003–2006, Engineering Manager 2006–2008

**Shareholding in Ponsse Plc on 31 December 2018:**

12,796 shares

## **Tapio Mertanen, b. 1965**

Technician (technical college), MTD

Service Director

Member of the Management Team since 3 May 2010

Joined Ponsse in 1994

**Previous main positions:** Ponsse Plc, Distribution Development Director 2007–2010, Ponsse Plc, Service Director 2004–2007, Ponsse Plc, After Sales Manager 1997–2004, Ponsse Plc, Parts Manager 1995–1997

**Shareholding in Ponsse Plc on 31 December 2018:**

1,200 shares

## **Paula Oksman, b. 1959**

MA

Director of Human Resources and Ponsse Academy

Member of the Management Team since 1 August 2005

Joined Ponsse in 2005

**Previous main positions:** Genencor International Oy, Manager of Human Resources 1996–2005 University of Jyväskylä, Continuing Education Centre, Head of Training Division 1987–1996

**Shareholding in Ponsse Plc on 31 December 2018:**

6,436 shares

## **Tommi Väänänen, b. 1973**

B. Eng.

Director, supply chain

Member of the Management Team since 1 October 2013

Joined Ponsse in 2013

**Previous main positions:** Metso Corporation, Metso Automation, Director, Analyzers Product Group 2010–2013, Director, Kajaani Operations 2006–2010

**Shareholding in Ponsse Plc on 31 December 2018:**

6,416 shares



## AREA DIRECTORS AND SUBSIDIARY MANAGING DIRECTORS



Jarmo Vidgrén



Fernando Campos



Gary Glendinning



Carl-Henrik Hammar



Jussi Hentunen



Jyri Kylä-Kaila



Risto Kääriäinen



Jaakko Laurila



Eero Lukkarinen



Marko Mattila



Tuomo Moilanen



Clément Puybaret



Dean Robson



Pekka Ruuskanen



Sigurd Skotte



Janne Tarvainen



Martin Toledo

### Jarmo Vidgrén, b. 1975

Sales and Marketing Director,  
Deputy to the CEO  
Joined Ponsse in 1997

### Fernando Campos, b. 1982

Managing Director, Ponsse Latin  
America Ltd. since 1 August 2018  
Joined Ponsse in 2006

### Gary Glendinning, b. 1970

Managing Director, Ponsse Machines  
Ireland Ltd  
Area Director: Croatia, Hungary,  
Romania, Serbia and Slovenia  
Joined Ponsse in 1997

### Carl-Henrik Hammar, b. 1974

Managing Director, Ponsse AB  
Joined Ponsse in 2015

### Jussi Hentunen, b. 1983

Area Director: Baltic countries, Poland,  
Slovakia and the Czech Republic  
Product Manager, used machines  
Joined Ponsse in 2006

### Jyri Kylä-Kaila, b. 1979

Managing Director, Epec Oy since  
1 January 2019

### Risto Kääriäinen, b. 1971

Managing Director, Ponsse China  
(Beihai Ponsse Trading Co. Ltd)  
Area Director, Japan  
Joined Ponsse in 2007

### Jaakko Laurila, b. 1970

Area Director: Russia and Belarus,  
Managing Director, OOO Ponsse  
Joined Ponsse in 2002

### Eero Lukkarinen, b. 1965

Area Director: North American Dealers  
Joined Ponsse in 2012

### Marko Mattila, b. 1973

Director, Ponsse dealer network since  
1 August 2018  
Joined Ponsse in 2007

### Tuomo Moilanen, b. 1965

Area Director: Austria and  
Germany  
Joined Ponsse in 2011

### Clément Puybaret, b. 1980

Managing Director, Ponsse S.A.S  
Joined Ponsse in 2006

### Dean Robson, b. 1987

Managing Director, Ponsse UK Ltd.  
since 1 January 2018  
Joined Ponsse in 2004

### Pekka Ruuskanen, b. 1968

Managing Director, Ponsse North  
America Inc.  
Joined Ponsse in 1998

### Sigurd Skotte, b. 1962

Managing Director, Ponsse AS  
Joined Ponsse in 2011

### Janne Tarvainen, b. 1968

Area Director: Australia, South Africa,  
Spain and Portugal  
Joined Ponsse in 2017

### Martin Toledo, b. 1971

Managing Director, Ponsse Uruguay Ltd.  
Area Director: Argentina and Chile  
Joined Ponsse in 2005

# **CORPORATE SOCIAL RESPONSIBILITY (CSR) AT PONSSE**

PONSSE sees corporate social responsibility as a continuum, underlying its value-based operations in which sustainable development plays an important role.



# CORPORATE SOCIAL RESPONSIBILITY (CSR) AT PONSSE

Corporate responsibility is central to the values, strategy and good governance of Ponsse Plc. The aim of this responsibility review is to describe our responsibility principles and practices, and to report on our operations in a transparent manner. The responsibility review includes information besides that which is required for financial reporting.

## FOUNDATION BUILT ON VALUES

Ponsse sees corporate social responsibility as a continuum, underlying its valuebased operations in which sustainable development plays an important role. Our company has a strong value base that has steered Ponsse employees throughout the history of our company to do honest work, to respect people and cooperation, and to promote a desire to develop our operations and community.

For Ponsse, the perspectives of sustainable development have brought forward innovative solutions in our products, services and operations that conserve natural resources. Ponsse operating principles have also always included the supporting of the local community through farsighted management, investments in operations and facilities, and the offering of jobs and opportunities for cooperation.

Based on these values, our responsibility efforts and objectives specifically emphasise

- fair and ethical operating methods
- support for personal wellbeing and lifelong learning
- environmentally conscious and innovative operations and R&D that conserve natural resources
- sustainable business and financial management, and support for the continuity of our stakeholders.

**Working responsibly is the duty of every Ponsse employee.**



## PRODUCT AND SERVICE

- R&D expenses MEUR 18
- Gross investments in fixes assets MEUR 33



## SUSTAINABLE FORESTRY

### Cut-to-length method (CTL)

PONSSE forest machines are based on the cut-to-length (CTL) logging ensuring economical use of wood raw materials.

### Minimal impact to topsoil

8-wheel harvesters and the 10w forwarder designed for soft forest environment keep damage to a minimum.

### Fuel efficiency

Continuous development to further reduce consumption of fossil fuels.

## FINANCIAL DATA

NET SALES

# MEUR 612

CASH FLOW FROM BUSINESS OPERATIONS

# MEUR 61



## PERSONNEL

- Average number of employees in the Group: 1 635 of whom 59% in Finland and 41% in other countries.
- Average employment duration 7,2 yrs
- Voluntary turnover 6,1%
- Incentive programme coverage 100%



## OPERATION AND COLLABORATION

- Active operation in 40 countries
- Number of service offices 197
- 75% of suppliers are Finnish
- 78% of turnover generated outside Finland



## LIFE CYCLE MANAGEMENT

### Benefits of service agreements

- Longer maintenance cycles
- Fewer maintenance products
- Less waste from maintenance
- Waste management and recycling at Ponsse

### Environmentally friendly service products and spare parts

- Recycling – Budget Parts
- Remanufacturing – Reman Parts
- Older models – Classic Parts
- Biodegradable oils
- Digital services 24/7



## NATURAL RESOURCES

- We pay special attention to the energy efficiency of our premises and we prefer renewable energies.
- Water in our production is circulated in a closed system and is reused several times.
- Material efficiency is improved with thorough planning and good logistics.
- The minimisation, proper processing and recycling of waste is essential in all our activities.

## PROFITABILITY

- Operating result MEUR 62 equalling 10% of net sales

## SOLVENCY

- Equity ratio 54%
- Net gearing ratio 9%

## STAKEHOLDERS

**Personnel:** salaries MEUR 85

**Owners:** dividends MEUR 21

**Suppliers:** purchases MEUR 322

**Customers:** investments in R&D and fixed assets MEUR 50

**Society:** paid taxes, customs, duties and payroll taxes MEUR 42

## RESPONSIBILITY AT PONSSE

### RESPONSIBILITY WORK AT PONSSE

The framework of our responsibility efforts comes from national and international laws, regulations, employer obligations and commitments. We actively monitor the changes in the requirements in our operating areas and participate in the development work. We see change as an opportunity and as part of continuous improvement. Through responsibility reporting, we seek to improve our operations and the transparency of our objectives.

At the group level, our responsibility work is guided by our Code of Conduct, approved by the Board of Directors in late 2016. Our Code of Conduct has guidelines for the following: legality, human and labour rights, equality, health and safety, the environment, integrity, prevention of money laundering, fair competition, company assets and feedback. The purpose of the Code of Conduct is to develop our operations and ensure uniform operating principles and practices on the group level. Code of Conduct training will be among the first development tasks in our responsibility efforts. The group-level feedback channel and process are also an important part of this whole.

In 2018, we have strongly advanced our One Ponsse programme that emphasises the importance of shared

and individual responsibility and transparency. One Ponsse will also be a central part of the development of our responsible operating methods and the training of our ethical principles. The One Ponsse practices will apply to all employees and companies in the group. The shift in operating methods started with a training programme for all supervisors that was expanded to cover all our employees and which we will continue. Managers and supervisors play an important role in guaranteeing a uniform operating culture, and they are responsible for making sure that every Ponsse employee knows their responsibilities and acts according to our shared rules. Working responsibly is the duty of every Ponsse employee.

The focus areas of social responsibility, environmental responsibility and financial responsibility, including their objectives and components, are all described in the Ponsse responsibility model. Ponsse's management is committed to developing and leading responsibility together with our personnel and partners. Ponsse has always been a responsible actor, and we wish to continue being a reliable partner going forward. We began our target-orientated responsibility work and reporting in 2016.

### MEETING STAKEHOLDER EXPECTATIONS

	CUSTOMERS	PERSONNEL	PARTNERS*	OWNERS	SOCIETY AUTHORITIES	COMMUNITY	MEDIA
ETHICAL AND MORAL RESPONSIBILITY	Securing customer success	Investments in skills, well-being at work and the work climate	Developing partners and cooperation	Responsible business based on values	Responsible corporate citizenship	Participation in local community development	Active and open communication
RESPONSIBILITY TOWARDS STAKEHOLDERS	Operations driven by customer needs	Reliable and equal employer	Long-term partnerships	Sustainable growth and performance	Transparency and long-term business	Support for the well-being of the local community	Fair and prompt communication
RESPONSIBILITY BASED ON LAWS AND STANDARDS	Respecting our obligations for products and service contracts	Adhering to our obligations as an employer	Observing contracts and obligations	Profitable business	Complying with laws and regulations	Following local laws and regulations	Following stock market legislation in our communication

\* Partners include: suppliers, subcontractors, educational institutions, retailers, authorised service partners and financial institutions.

## ***DIRECTING RESPONSIBILITY WORK***

Ponsse maintains strong, long-term relationships with its customers and partners. We engage in active and open interaction with our stakeholders, driven by honesty and our objective of continuous improvement in products, services and operations. Knowing our customers personally is of particular importance to us, as it allows us to develop in the right direction. In our operations, we also strive to consider the families and stakeholders of our customers. We are a visible part of the community wherever Ponsse offices are located, and we include local actors when choosing our partners for cooperation. We do our part to create regional well-being by acting as a responsible employer and practicing profitable, sustainable and environmentally conscious business.

We respect the special characteristics of local cultures and take the perspective of the local community into account when putting our values into practice.

Our responsibility stakeholders include customers, personnel, partners, owners, the authorities, financial institutions, communities, societies and media. The expectations of these stakeholders have influenced our choice of focus areas for responsibility, development targets and communication decisions. Through cooperation with our stakeholders, we seek an improved understanding of their expectations and grasp of the responsibility of Ponsse products, services and operations. In addition to meeting the expectations of our stakeholders, our responsibility efforts have identified responsibility related to laws and standards, as well as ethical and moral responsibility.

Our aim is to improve our responsibility equally on each of these three levels.

Ponsse strives to be a responsible corporate citizen and that is why we wish to promote open taxation policy.

## ***RESPONSIBILITY AS PART OF STRATEGIC MANAGEMENT***

At Ponsse, responsibility and sustainable development are linked firmly to strategic management. Our responsibility work is guided by general management practices and systems. Responsibility targets and development needs are assessed annually as part of the company's strategy process.

The defining of the Ponsse responsibility model has provided new perspectives into current management practices, and they are updated whenever necessary.

## ***BUSINESS MODEL***

Ponsse Plc specialises in the sale, production, maintenance and technology of cut-to-length method forest machines, and is driven by a genuine interest in its customers and their business operations. Ponsse develops and manufactures sustainable and innovative harvesting solutions based on customer needs.

The Ponsse Group consists of the parent company Ponsse Plc and its Finnish subsidiary Epec Oy, as well as the subsidiaries in Sweden, Norway, Russia, France, the United Kingdom, Ireland, the United States, Brazil, Uruguay and China. The foreign subsidiaries act as local dealerships for the service and sales of forest machines. Epec Oy is an independent technology company that develops, manufactures and produces products and services related to machine control.

Their head office and main functions are located in Finland, mainly in the municipality of Vieremä. The municipality is home to the company's forest machine factory and the majority of R&D. In addition, the company support functions, such as financial administration, human resources management, IT management, quality control, communications and product lines are mainly located in Vieremä. R&D is also located in Kajaani, Seinäjoki and Tampere. The company has a central spare parts warehouse in Iisalmi that serves the company's service points in Finland, their retailers abroad and the company's own foreign subsidiaries.

The company factory is where the final assembly of forest machines and harvester heads takes place, as well as a large portion of the manufacturing of forest machine main components. For instance, these main components include forest machine bodies, cabins and loaders. Finnish suppliers make up 75 per cent of the company's supplier base. The company exercises no significant sourcing from so-called low-cost countries. In addition to Finland, the most technologically challenging and expensive components are sourced from Germany and Sweden, among other countries.

## ***TRENDS, RISKS AND OPPORTUNITIES***

As part of defining responsibility, we have identified trends and their related risks and opportunities in our business environment. Among the trends affecting the management of responsibility, the sensitivity to change of the global business environment, digitalisation and the rise in importance of corporate responsibility and sustainable development have become pronounced in

## RESPONSIBILITY AT PONSSE

particular. Ponsse understands responsibility work as something that enables and facilitates our business. This thinking receives material support from our products and services, which contribute to the use of renewable timber. Ponsse products use the raw material as efficiently as possible, minimise logging damage and other environmental impacts, and enable machine forestry.

As the business environment starts to change more quickly, knowing the global customer network and operating cultures, listening to customer needs and maintaining relationships will become increasingly important. In a global business environment, keeping up with laws, rules and regulations on both the national and local level will be a great challenge for all companies. These factors create pressure to guarantee sufficient resources and experts, and for information to be distributed throughout the organisation. The risk is that the expectations of the stakeholders or changes in the business environment are not identified in time. Our substantial investments in our sales and service network, closeness to the customer and the identification of customer needs in different markets are both strengths and business advantages for us. We have assigned responsibility for the monitoring of laws and regulations to the different functions of our organisation, and we bring in external specialists when necessary.

Digitalisation has made information and services increasingly electronic. For forest machines, digitalisation means automated functions that support the work of the operator and improved efficiency for the operations of timber harvesting companies. Forest machines are now able to send information about faults and service notes anywhere on the globe. However, there are very

different people and areas around the world, and the opportunity for the use digital service remains low in some of our market areas. The digital world has also brought with it an evergreater information security risk, which must be taken into account when business, customer and personal data are handled in electronic services. Risks related to digitalisation have been identified, and they are managed from the point of view of information, operations, products and services.

The growing importance of corporate responsibility and sustainable development has also increased the awareness and expectations of customers and other stakeholders. Throughout the years, the PONSSE forest machines have been developed with environmental values in mind.

We have identified a significant risk in this area, namely how to ensure uniform responsibility methods in a global working work community and partner network.

To minimise the risk, we use group-level, function-specific and local instructions and auditing tools. Even with the criteria constantly becoming more rigorous, most of our service centres have been able to improve through investments, training and changes to operations. As part of our responsibility work, we have made specific investments in a uniform operating culture and to reach our objectives. These aims have also been advanced by the One Ponsse programme.

Despite the new challenges, increasing the transparency and target-orientation of responsible operations is a great opportunity for us, as we are able to develop together with the entire supplier and customer network of Ponsse.

### *PONSSE AS PART OF SUSTAINABLE FORESTRY*





**We do our part to create regional well-being by acting as a responsible employer and practicing profitable, sustainable and environmentally conscious business.**

#### **MANAGEMENT AND MANAGEMENT SYSTEMS**

The management of Ponsse Plc is based on current legislation, Ponsse's articles of association and the policies set by the company's administrative bodies. The company complies with the rules of Nasdaq Helsinki Ltd ("stock exchange rules"), including the Finnish Corporate Governance Code approved by the Securities Market Association (Corporate Governance 2015). The corporate governance principles of Ponsse are guided by the Corporate Governance Code. The company also complies with the regulations and guidelines issued by the Financial Supervision Authority.

The objective of management systems is to standardise our operations on the group level and ensure the continuous improvement of the company. We use international standards in our internal audits, including quality management (ISO 9001), environmental management (ISO 14000), occupational health and safety (OHSAS 18001/ISO 45001) and accounting. Ponsse Plc is ISO 9001 and ISO 14001 certified. We have not adopted a responsibility management standard, but instead steer our operations according to our values, sustainable development perspectives and the EU corporate social responsibility reporting requirements. Each subsidiary is responsible for implementing the standards specific to their country and following them with the support of the group's quality function. Work has begun at Ponsse to adopt the ISO 45001 standard for occupational health and safety in the current year. We have identified our development targets in our audits.

As part of our development work, we will ensure that the targets we have set for responsible management will be included in the current audit systems and practices.

#### **THE PONSSE RESPONSIBILITY MODEL**

Ponsse defines responsibility as the responsibility of the company and individuals for the social, environmental and financial effects of their actions, communication and decisions. These effects impact stakeholders, so-

ciety, nature and the success of the company. Responsibility is a target-orientated activity and a part of our everyday operations, decision-making and management. It crosses organisational boundaries, including our most significant partners, who participate in the production and delivery of our products and services to customers.

#### **SOCIAL RESPONSIBILITY**

At Ponsse, social responsibility is our responsibility for products and services, personnel, and honest and ethical operations and communication. The Ponsse values, Code of Conduct and other internal instructions lay out our commitment to following laws and regulations, respecting human rights and labour rights, and observing fair trade and competition. These social responsibility principles must be respected and followed by every Ponsse employee in their own work. The same requirement is placed on our partners who participate in the production of our products and services. Failure to implement the responsibility programme has been identified as the most significant risk for social responsibility, as this would prevent us from achieving the uniform operating culture, group-level practices and partner network practices that are our goal.

#### **RESPECTING HUMAN RIGHTS AND COMBATING CORRUPTION AND BRIBERY**

The solid tradition of the company's values steers Ponsse employees towards honest work, to respect people and cooperation, and promotes a desire to develop our operations and community. Furthermore, the operations of the company are guided by national and international laws and regulations, employer obligations and commitments, and the Code of Conduct.

The company began deployment of the Code of Conduct in 2017 with the responsibility and Code of Conduct training of our financial and human resources functions personnel. Our aim is to continue this work in 2018 with further training of our personnel, as well as communication.

Our Code of Conduct obligates us to honour and follow the principles stipulated in the Universal Declaration of Human Rights of the United Nations. We do not condone the use of child labour or other forms of forced labour. We support the freedom of association, and every employee has the right to belong to a trade

## RESPONSIBILITY AT PONSSE


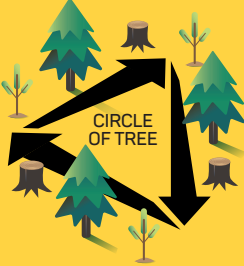

union and participate in co-determination at their workplace. We do not discriminate against our employees or applicants based on gender, nationality, religion, race, age, disability, sexual orientation, political opinion, trade union membership or social or ethnic origin. We seek to build a workplace that is desirable for all of our employees where they will be treated with equal respect and dignity. We also seek to promote a culture of equal opportunity and diversity. We do not condone any form of harassment or workplace bullying.

We are committed to combating corruption in all its forms, including extortion and bribery. We do not use bribes or other unlawful payments, nor do we authorise these payments to gain or maintain business. We do not offer or accept favours, gifts or benefits that

could reasonably be expected to affect decision-making at our company, or which exceed the limits of normal entertainment expenses. No cases of corruption were found in 2018. The purpose of the Code of Conduct is to ensure uniform operating principles and practices on the group level, as well as develop our operations. Every new Ponsse employee will be inducted in the Code of Conduct. Managers and supervisors play an important role in guaranteeing a uniform operating culture, and they are responsible for making sure that every Ponsse employee knows their responsibilities and acts according to our shared rules. Working responsibly is the duty of every Ponsse employee.

We aim to identify potential risks and manage them. Currently, we have not identified any risks related to

### THE PONSSE RESPONSIBILITY MODEL

<p><b>SOCIAL</b></p> 	<p><b>PRODUCT AND SERVICE</b></p> <p><b>Goal:</b> Responsibility for the quality, ethical compliance and safety of products and services. Responsibility for the health and safety of customers.</p> <p><b>Areas:</b> Quality / Safety / Ethics / Customer satisfaction</p>	<p><b>PERSONNEL</b></p> <p><b>Goal:</b> Developing, safe workplace. Responsible, healthy, competent employees.</p> <p><b>Areas:</b> Human and employee rights / Occupational well-being and competence / Safety / Equality, fairness and diversity</p>	<p><b>OPERATION AND COLLABORATION</b></p> <p><b>Goal:</b> We operate and communicate with our partners honestly and ethically in the spirit of collaboration.</p> <p><b>Areas:</b> Ethical practices / Responsibility of partners / Communication and collaboration</p>
<p><b>ENVIRONMENTAL</b></p> 	<p><b>SUSTAINABLE FORESTRY</b></p> <p><b>Goal:</b> Innovative products supporting sustainable forestry and the preservation of nature.</p> <p><b>Areas:</b> CTL method / Environmental burden / Environmental communications</p>	<p><b>LIFE-CYCLE MANAGEMENT</b></p> <p><b>Goal:</b> Services supporting the environmentally sustainable use of our products.</p> <p><b>Areas:</b> Service network / Processes / Competence / Product and service range</p>	<p><b>NATURAL RESOURCES</b></p> <p><b>Goal:</b> We operate in a uniform, environmentally sustainable manner, utilise state-of-the-art technology and save natural resources.</p> <p><b>Areas:</b> Environmental management / Energy efficiency / Water consumption / Emissions / Waste</p>
<p><b>ECONOMIC</b></p> 	<p><b>COMPANY FINANCES</b></p> <p><b>Goal:</b> Balanced, sustainable company finances.</p> <p><b>Areas:</b> Cash flow from business operations / Profitability / Solvency</p>	<p><b>MANAGEMENT</b></p> <p><b>Goal:</b> Reliable, developing financial management.</p> <p><b>Areas:</b> Proactive financial management / Sustainable financing solutions / Investments and risk management</p>	<p><b>STAKEHOLDERS</b></p> <p><b>Goal:</b> Supporting stakeholders' continuity.</p> <p><b>Areas:</b> Customers / Employees / Owners / Suppliers / Society</p>

human rights violations or our efforts against corruption and bribery.

Every new subcontractor commits to the terms of the Ponsse Supplier Code of Conduct, which gives them a framework to follow with regard to laws, human rights, child labour, forced labour, freedom of association, discrimination, terms of employment, health and safety, the environment, bribery and corruption, money laundering, and fair competition. For their part, these prevent human rights violations, bribery and corruption. We aim to gradually have all our subcontractors sign the Supplier Code of Conduct by 2020.

**RESPONSIBLE PRODUCTS AND SERVICES**

Customer satisfaction and the quality of our products and services have a strong influence on our operations. We wish to make the best forest machines in the world that will support the profitability of our customers' business, as well as the health and safety of their staff. Attention is also given to safety and correct ways of working in our marketing, training and customer service.

For our products, we select materials that can withstand heavy long-term use, and we seek to find innovative and responsible solutions in the development of our

products and services. In our services, we have particularly invested in the safety of the maintenance service process, the skills of our personnel and the tools we use. We take responsibility for the maintenance service event and the necessary tools on behalf of our customer. We actively monitor the changes in requirements and react quickly to R&D needs, according to customer needs.

As part of our development work, we wish to improve our understanding of the expectations of customers and society for the responsibility of products and services, and we seek innovative solutions that support our responsibility targets.

**HEALTHY, EQUAL AND SKILLED PERSONNEL**

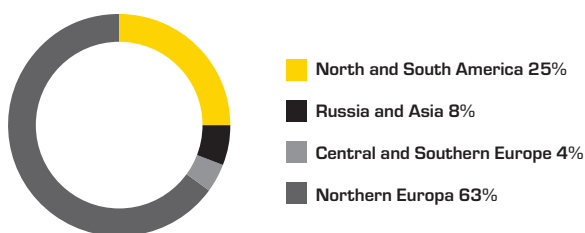
Ponsse has always emphasised the importance and appreciation of its personnel. The input and role of every employee is an important part of our whole. We want our employees to be safe and healthy, and feel that they have a meaningful job in which they want to continuously improve.

As an employer, we want to make sure that we respect international human rights and labour rights in all our operations, and that we offer equal opportunities

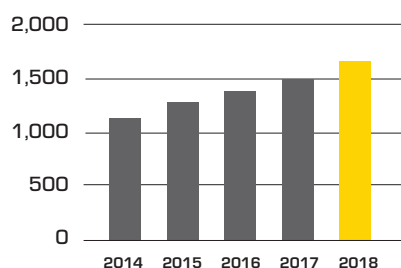
**KEY FIGURES AND RATIOS**

The social responsibility key figures and ratios reflect the development and status of Ponsse personnel.

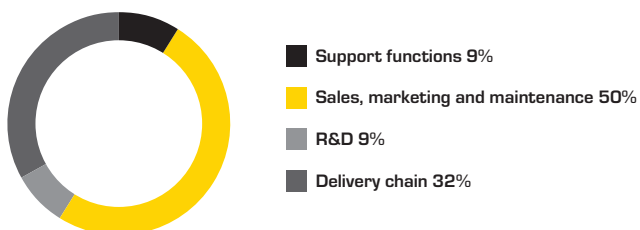
**PERSONNEL BY REGION 2018**



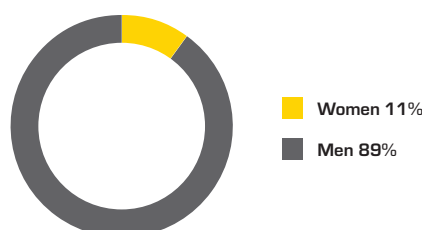
**AVERAGE WORKFORCE**



**PERSONNEL BY FUNCTION 2018**



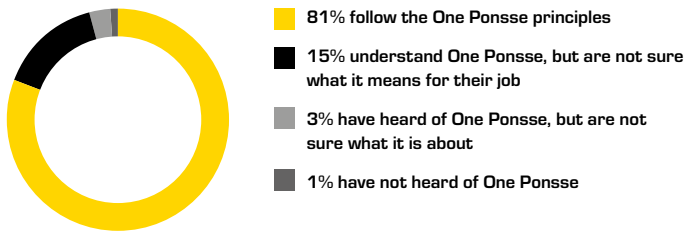
**GENDER RATIO 2018**



## RESPONSIBILITY AT PONSSE

### ONE PONSSE TRAINING

N=1,251 Ponsse employees



for job applicants, professional development, trade union membership and the selection of the members of the organisation's administrative bodies. Our principle is to select the best and most suitable person for the position. Ponsse also values equality in communication. We aim to communicate openly and transparently, as every Ponsse employee must follow the same working principles, and the equal treatment of all employees is an absolute requirement for a good and constructive atmosphere of cooperation.

In 2018, we undertook extensive training and communication of our One Ponsse principles and management targets. The One Ponsse principles are as follows: Customers Are at the Heart of it All, Cooperation and Taking Responsibility, Agile Execution and Transparency, Common Practices, and Open and Proactive Communication (communications aimed at understanding). One Ponsse is a way of working that concerns every Ponsse employee with the customer at as the starting point. In accordance with One Ponsse, we bear responsibility for what we do and for our common goals, without any organisational boundaries. Communication in the organisation is open and active, and we work with respect for each other and our common practices. This is visible to our customers as first-rate service and a rapid response to customer needs.

Our human resources management is based on active cooperation and interaction, value-based management and decision-making, care for well-being at work, consistent remuneration and rewards, as well as the continuous improvement of skills. We define both operational targets and development targets all the way from the company level to the function level and down to personal progress through, for example, performance appraisals and everyday management situations. We develop the skills of Ponsse personnel in

**Our responsibility work is aimed at ensuring that everyone feels that they work in the same company with the same principles and objectives.**

various ways, according to the requirements of their job and taking note of their personal wishes. As part of our responsibility work, we improve the systematic quality, monitoring and transparency of the development of skills and well-being at work at the group level. We also carry out regular personnel satisfaction surveys every other year in all our companies. A full 100 per cent of our personnel are included in performance reward systems. Ponsse makes continuous investments in training and its development. We provide internal training for our own personnel, and also training for our customers.

Occupational safety and health is important for every Ponsse employee. The monitoring and development of occupational safety and health at Ponsse have been done as both a general effort and according to the requirements of different functions and local units. Ponsse employees are encouraged to be active in the development of safety and health, as well as to take responsibility for following common ways of working. Through responsibility work, we seek to develop a common safety programme that combines the best practices in order to improve and harmonise safety and health activities and transparency throughout the whole group. Our objective for safety and health is to steadily reduce occupational accidents and for Ponsse to become fully accidentfree on the group level.

The main occupational safety and health indicator for the company is LTIF, Lost-Time Injury Frequency. LTIF means the number of absences of at least one day from

accidents for every one million working hours. In 2018, LTIF was 19 for the factory and maintenance functions in Finland. The figure was 21 in 2017 and 25 in 2016. The year 2018 was the first time we measured LTIF in our subsidiaries. The Ponsse global service businesses network had an LTIF of 4.3, and the group had an LTIF of 12.6. Epec Oy had an LTIF of 12.6 in 2018.

In 2018, Ponsse had a total of 41 accidents resulting in sick leave with the following distribution:

- 18 lasted fewer than three days
- 23 lasted more than three days

The majority of the injuries were minor. In 2018, there were no occupational accidents at Ponsse that resulted in serious injury or death.

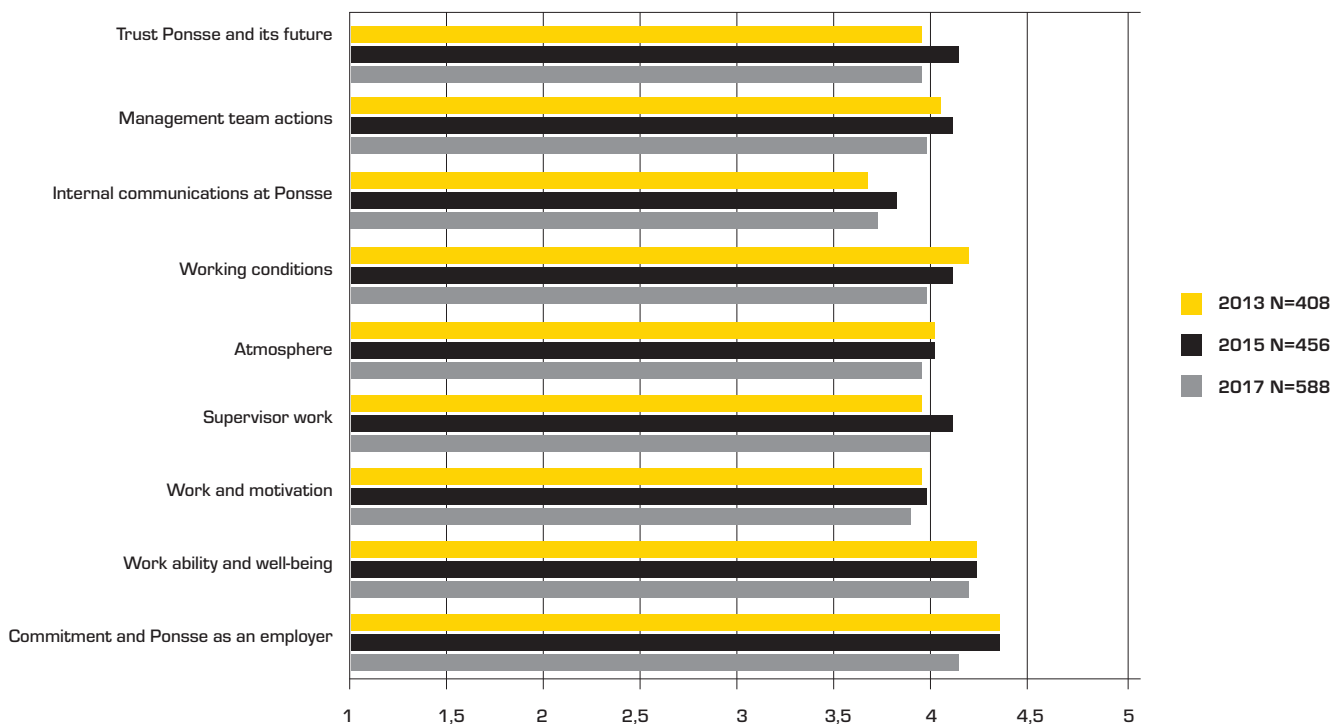
Safety observations saw positive development in 2018, which has helped the company to improve occupational safety by reducing discrepancies. This has

reduced accidents, such as eye and finger injuries. In 2018, 653 safety observations were made in Finland. The figure was 776 in 2017. We have achieved this result thanks to our continuous improvement programme aimed at reducing accidents.

Observations can be made through a separate application. Every Ponsse employee can use the mobile application to take a picture of the problem they have discovered and send notice to have it corrected. The focus areas for occupational safety and health in 2018 were

- the identification and management of risks to occupational safety and health
- safe working instructions, follow-up and maintenance
- safety matter handling in the line organisation
- safety matter control.

#### EMPLOYEE WELL-BEING SURVEY RESULTS



Employee well-being survey results for the Vieremä factory for 2013, 2015 and 2017. The next survey will be held in 2019.

## RESPONSIBILITY AT PONSSE

### **HONESTY AND COOPERATION**

The honesty, ethical nature and communality of operations and communication are important principles for Ponsse and aims that come from our values. Our Code of Conduct sets the conditions and targets for honest business, trade, co-operation with stakeholders and the equal treatment of people.

The internationality that has resulted from the growth and expansion of the company has introduced new challenges in the form of cultural and operating environment differences, as well as varying distances. Our responsibility work is aimed at reinforcing our common foundation, finding new ways of working and communicating, and ensuring that everyone feels like they are working in the same company with the same principles and objectives.

We can achieve these results with common, ethical ways of working based on our values, competence, communication and through cooperation.

### **ENVIRONMENTAL RESPONSIBILITY**

At Ponsse, the management of environmental responsibility is based on the objectives defined in the Code of Conduct, where we commit to abide by environmental legislation and practices that conserve and maintain the environment. We also use an ISO 14001 environmental management system. Our environmental responsibility is guided by sustainable development targets for the conservative use of natural resources. In particular, we take these perspectives into account in our R&D, services and production.

Our common environmental objectives also influence our investments, where we give priority to environmentally sustainable products and services.

We have identified environmental damage related to products and service businesses as the most significant risk for environmental responsibility. With active customer feedback and business environment monitoring playing an important role, our R&D is constantly looking to prevent environmental damage from our products. In addition, every customer is trained extensively in the use of their machine, which will prevent the occurrence of problems and accidents proactively. The focus areas of our responsibility work are supporting sustainable forestry, managing the product life cycle and the sustainable use of natural resources. Environmental management is implemented as part of our strategy process, where we have defined our environmental requirements and targets.

**”The long life cycle and high recyclability of our products support our environmental objectives.**

### **ENVIRONMENTAL IMPACTS OF PRODUCTS**

The environmental impacts of our products are mostly related to their in-use emissions and the consumption of liquids and spare parts. The long life cycle and high recyclability of our products support the environmental objectives of sustainable development. Technical improvements have enabled, among other things, longer maintenance intervals for forest machines, reduced oil use and emissions into the environment, as well as the use of biodegradable hydraulic oils in our products.

The soil-saving forest machines of our product selection – eight-wheeled harvesters and low surface pressure forwarders with eight or ten wheels – account for more than 90 per cent of our machine sales. Refurbished machines and parts are one result of us achieving our sustainable development objectives. Nearly all of the components in forest machines can be replaced or refurbished. Our high rate of inhouse production also enables us to make parts for refurbished machines and spare part production. Our new machine range features lower fuel consumption and a longer product and component service life.

Ponsse specialises in the manufacturing of cut-to-length forest machines. Compared to other mechanised harvesting methods, the CTL method has better productivity and is more environmentally friendly. The CTL method fuel consumption per cubic metre of timber is also considerably lower than that of the treelength method, as fewer and lighter machines are used. With the CTL method, nutrientrich leaves, needles, branches and crowns are left in the forest. This will help ensure adequate nutrients for the remaining trees and new saplings, which is particularly important if the soil itself lacks nutrients. In sites with a sensitive soil, the harvester will also leave a trail of branches for the forwarder to drive on. This reduces the damage caused to the terrain by harvesting. In the CTL method, the timber can be taken directly to further processing, reducing the need for logistics.

We have improved the fuel economy of our products and it is being implemented through our Boost & Save programme. One measure of the programme has been to improve hydraulic flow in machines, which helps reduce fuel consumption.

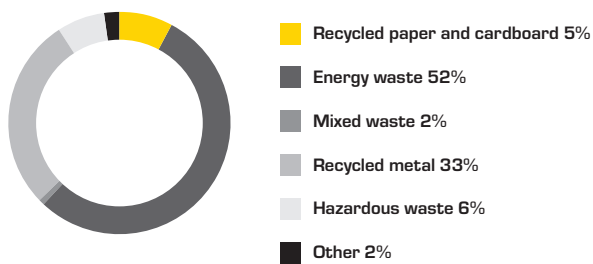
**KEY FIGURES AND RATIOS**

The key figures and ratios for environmental responsibility concern the environmental aspects of Ponsse manufacturing and the operation of the Vieremä factory in 2016–2018.

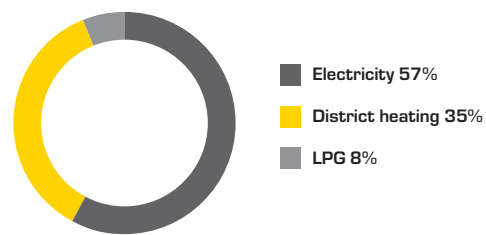
**USE OF NATURAL RESOURCES AND WASTE**

Measuring point (Production, Vieremä)	2016	2017	2018
Energy consumption	10,785	11,633	12,601
Electricity (MWh)	6,439	6,714	7,228
District heat (MWh)	3,561	4,024	4,388
LPG (MWh)	785	925	985
Total water consumption (m <sup>3</sup> )	8,915	11,140	10,473
Emissions, VOC (kg)	11,456	14,081	14,149
Total amount of waste (t)	1,467	1,343	1,549
Personnel (Vieremä)	723	806	597

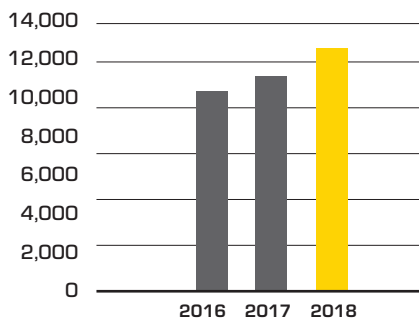
**WASTE RECYCLING, VIEREMÄ 2018**



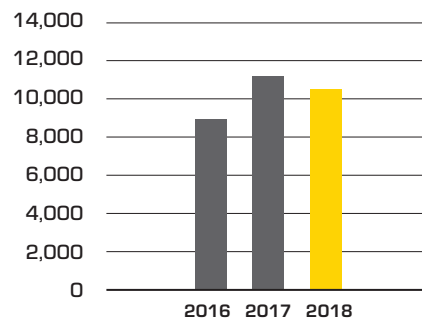
**ENERGY CONSUMPTION 2018 (MWH)**



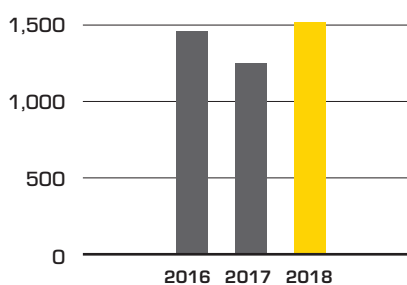
**TOTAL ENERGY CONSUMPTION (MWH)**



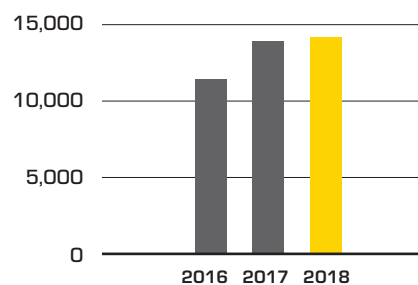
**TOTAL WATER CONSUMPTION (M<sup>3</sup>)**



**TOTAL AMOUNT OF WASTE (T)**



**EMISSION, VOC (KG)**



## RESPONSIBILITY AT PONSSE

By weight, over 90 per cent of our forest machines is recyclable material.

### **ENVIRONMENTAL IMPACTS OF THE SUPPLY CHAIN**

The major environmental impacts of the supply chain come from production. The environmental impacts of production result from the use of energy and natural resources, VOC (volatile organic compound) emissions from surface treatment, the handling and storage of chemicals, and the emissions from product testing. The use of water is not a major environmental concern due to our manufacturing method. Water is used to wash machines during product testing and to wash items during surface treatment. In surface treatment, we use the same water multiple times to minimise consumption. By monitoring figures, we have identified the factors that influence the consumption of electricity to be production volumes, production equipment operating hours and the number of personnel.

The greatest environmental impacts of purchasing and logistics are due to emissions from transport. We manage the environmental impacts of transport by minimising distances, scheduling deliveries and developing better packaging solutions. We replace our transport equipment regularly, which continuously improves the ecofriendliness of our vehicle fleet. Our vehicles have a life cycle of about five years.

The primary objective for purchasing and logistics is the efficient use and cycling of storage, which affect energy consumption through, for example, space requirements. We also aim to minimise packaging waste and to recycle and reuse effectively. Ponsse has delegated its producer responsibility for packaging to the producer organisations of the packaging industry. The cost-effective producer responsibility system funded by private enterprises ensures that only a fraction of total packaging usability is left unexploited. The annual rate is only a few percentage points.

In facility maintenance, we consider environmental values in our investments and invest in optimal building automation control, energy-efficient and water-conserving solutions, renewable energy, and predictive equipment maintenance. We only purchase electricity produced by renewable means for our factory. In addition, all Ponsse offices in Finland use energy produced from renewable sources. We have also begun to install

**All Ponsse offices in Finland use energy produced from renewable sources.**

smart motionactivated LED lighting during renovations and in new buildings. This amounts to nearly five per cent of our total energy consumption where lighting has been fully replaced with the LED system. In 2017, we installed solar panels on the factory roof for our own energy production. They generate an estimated 169,000 kWh annually, which is equal to the annual consumption of some 100 flats. The roof of the new factory area was roofed with bitumen felt that neutralises harmful atmospheric emissions from traffic and manufacturing, improving air quality. The roofing makes for cooler air on the roof, which is utilised in ventilation to reduce energy consumption.

Overall, we aim to develop and select solutions that will improve our energy efficiency and reduce the use of natural resources.

### **ENVIRONMENTAL IMPACTS OF SERVICES**

The objective of Ponsse service businesses is to guarantee a functional, productive and longlasting machine for customers, so that they can focus on their core business. The environmental aspect here is to minimise the environmental impacts related to machine use and maintenance, and to maximise its service life. The choice of parts and maintenance products also makes a difference for the machine's lifetime environmental impact.

With regard to spare parts, remanufactured parts and products (re-man parts), used budget parts and classic parts for end-of-life products support the long service life and material efficiency of products.

The major environmental impacts of service businesses are related to machine maintenance events and products, maintenance waste handling, service personnel and customer travel, and the transportation of machines. The most significant impacts in a service event are the water used to wash the machine and the hazardous waste that is produced. The Ponsse service network uses a common operating model for waste handling and common service facility requirements, including retailers and service business partners.

Maintenance agreements offer customers improved



machine reliability, predictable maintenance and retention of machine value. Our R&D has enabled longer maintenance intervals for machines, which has allowed us to reduce the consumption of oil and other liquids, as well as the consumption of fuel in transport. When Ponsse services a machine, we take responsibility for the appropriate handling of the waste on behalf of the customer. Maintenance agreements together with digital 24/7 services and customer support have cut down on needless logistics. We monitor the performance of our entire service business network through audits to ensure continuous and parallel improvement. We aim to upgrade the service business audits to include our environmental targets in the coming years, so that we can improve the responsibility of our services and operations even further. We have begun the process of engaging trusted and responsible partners.

The most notable risk for service businesses is unexpected environmental damage from machines. We uphold our high level of quality with internal measurements, common operating instructions, training and internal audits. One of the most noteworthy common responsibility practices has been the Ponsse audit system, Effective and Safe Workshop (ESW), which includes both inhouse and contract partner services. A total of 339 audits have been completed so far, 59 of which took place in 2018.

#### **ENVIRONMENTAL IMPACT MONITORING**

At the Vieremä factory, Ponsse is currently monitoring water consumption, VOC emissions and the total amount of waste, among other things. In 2018, monitoring was expanded to the service business network and our functions abroad with the monitoring of the group's total energy consumption and water consumption. We aim to compile a report on the total amount of waste in 2019.

The company started group-wide monitoring of energy consumption in 2017. In 2018, the total energy consumption of the company was 22.7 GWh (2017: 21.4 GWh), and the different functions consumed the following amounts:

Vieremä factory.....	12,6 GWh
Service business network.....	8,9 GWh
Epec Oy.....	1,1 GWh

#### **TOTAL ENERGY CONSUMPTION**

The total energy consumption of the group rose to 22.7 GWh in 2018 from the 21.44 GWh in 2017. Energy consumption increased both at the factory and in the service business network due to the growth in the number of personnel and machines. The total energy consumption includes building electricity use, heating energy and cooling energy. This metric does not include fuel for transport.

Electricity and heating had the following shares of total energy consumption:

electricity.....	12,2 GWh
heating.....	10,52 GWh

#### **TOTAL WATER CONSUMPTION**

The total water consumption of the group was 23,159.6 m<sup>3</sup> in 2018. The total water consumption consisted of the following:

Vieremä.....	11,651 m <sup>3</sup>
Service business network.....	10,798,6 m <sup>3</sup>
Epec Oy.....	710 m <sup>3</sup>

#### **ECONOMIC RESPONSIBILITY**

At Ponsse, economic responsibility refers to the balanced and sustainable development of finances that takes into account stakeholders and environmental aspects. Ponsse values highly a good balance of operational growth, profitability and cash flow from business operations.

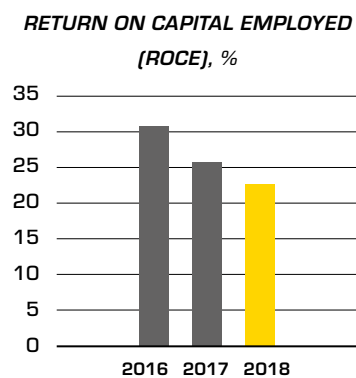
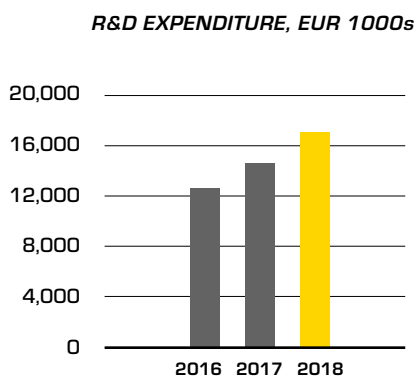
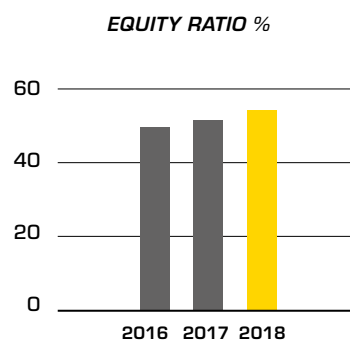
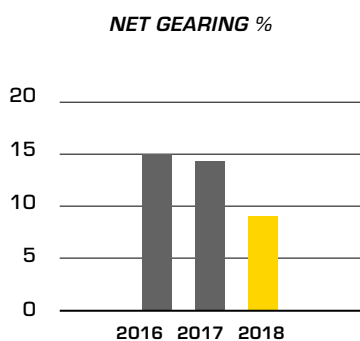
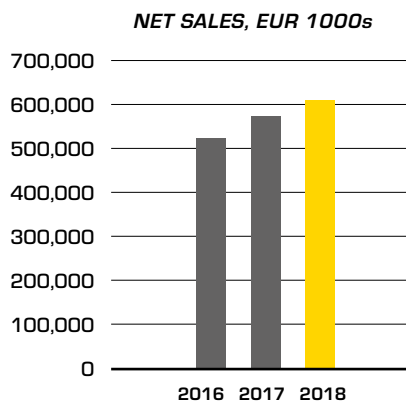
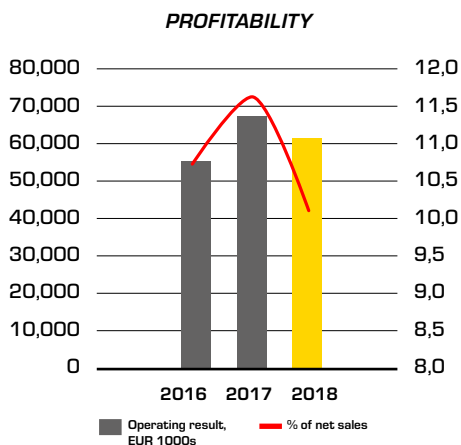
#### **BALANCED AND SUSTAINABLE COMPANY FINANCES**

We aim to grow responsibly. For Ponsse, this means that the longterm development of operations and the building of a strong financial position to secure continuity will be emphasised in decision-making. In practice, the objective of the company is to grow in a profitable manner while producing a positive cash flow. This will secure absolute solvency, good financial standing and liquidity for the company. To ensure operational development and continuity, Ponsse is continuously making major investments in R&D, the supply chain and the service business network in Finland and abroad.

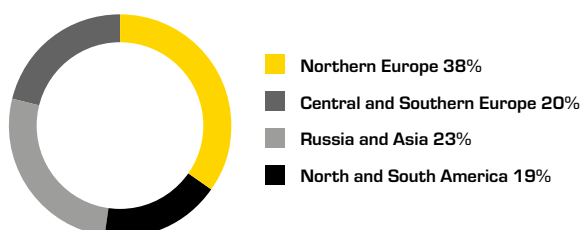
## RESPONSIBILITY AT PONSSE

### KEY FIGURES AND RATIOS

The key figures and ratios of the company are based on the above indicators for responsible and balanced financial development.



### NET SALES BY REGION 2018



**P**onsse aims to be a responsible corporate citizen consistent with its values.

#### **RELIABLE AND PROGRESSIVE FINANCIAL MANAGEMENT**

Throughout its history, Ponsse has had a strong personal and family ownership, and the management of the company has clearly promoted its values. Our financial management emphasises a predictive and active approach with the aim of improving the company's ability to react to changes in the economic situation by using analyses, scenarios and situational awareness to aid decision-making.

Sustainable financing solutions are used as part of the company's responsible financial management to ensure that the necessary investments can be made and that we can adapt to any economical fluctuation that is directly related to our business. We make our investments for the long term and the related risk management is included in the decisionmaking.

#### **SUPPORT FOR STAKEHOLDER CONTINUITY**

One basic function of responsible financial development and management is to ensure that the company will be able to meet its obligations to its key stakeholders. The main obligations of the company are to remunerate our personnel, pay dividends to our owners, pay suppliers for goods and services, pay social taxes, and keep our customer promises.

### **TAX POLICY AND TAX FOOTPRINT**

#### **TAX POLICY**

Ponsse aims to be a responsible corporate citizen consistent with its values. Ponsse also seeks to be a pioneer of the forest machine industry as a proponent of open tax policy. Ponsse's tax policy describes the company's main principles regarding taxation, which are based on its values and Code of Conduct. The tax policy of Ponsse Plc is prepared by the chief financial officer and approved by the Board of Directors.

#### **MAIN PRINCIPLES REGARDING TAXATION**

Ponsse complies with the current tax laws and regulations in all countries where the company has operations.

Ponsse complies with the OECD Transfer Pricing Guidelines and reviews the market basis of the group's internal pricing at regular intervals.

Ponsse is committed to paying the respective statutory taxes wherever it operates and results are produced without delay.

Ponsse reports and releases its fiscal information in accordance with the current legislation and the transparency goals of the company's tax policy.

At Ponsse, the objective of tax management is predictable and effective taxation with high morals.

#### **COMPLIANCE WITH THE TAX POLICY AND OPENNESS OF TAXATION**

The Ponsse tax policy applies to all Ponsse employees who work with Ponsse business and their taxation in particular. Ponsse also requires the company's external advisers to comply with its tax policy in instances where the reporting and other tasks related to taxes have been outsourced.

Ponsse pursues open cooperation and discussion with the Tax Administration. The company also seeks the Tax Administration's advance ruling or opinion on the most significant business transactions

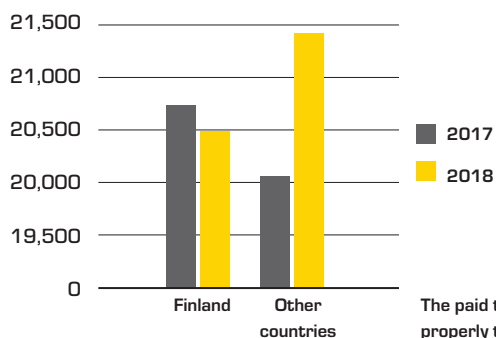
#### **STRUCTURE OF BUSINESS**

Ponsse's business is always conducted for a commercial purpose, and the company has been structured in accordance with the business. The parent company's operations cover product development, sourcing, production, logistics, sales, maintenance services and group management. Ponsse subsidiaries outside Finland operate as local sales companies and provide maintenance services. The Finnish subsidiary Epec Oy designs and manufactures control systems which it sells to the parent company and external customers. All of the subsidiaries are in the direct ownership of the parent company.

## RESPONSIBILITY AT PONSSE

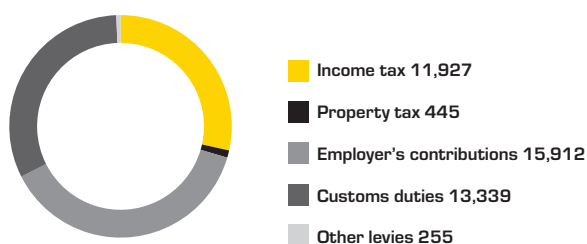
### TAX FOOTPRINT

#### PAID TAXES IN TOTAL (EUR 1000s)

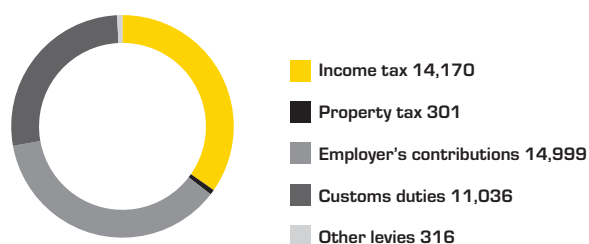


The paid taxes include income taxes, employer's contributions, customs duties, property taxes and other levies.

#### PAID TAXES BY TYPE 2018 (EUR 1000s)



#### PAID TAXES BY TYPE 2017 (EUR 1000s)



EUR 1000s	2018			2017		
	FINLAND	OTHER COUNTRIES	TOTAL	FINLAND	OTHER COUNTRIES	TOTAL
NET SALES	488,855*	364,629*	612,435**	470,803*	349,009*	576,553**
RESULT BEFORE TAXES	52,029	6,228	58,257	52,138	9,106	61,245
PERSONNEL	998	694	1,692	910	636	1,546
INCOME TAX	9,776	2,151	11,927	10,604	3,566	14,170
PROPERTY TAX	238	208	445	145	156	301
EMPLOYER'S CONTRIBUTIONS	10,434	5,478	15,912	9,921	5,078	14,999
CUSTOMS DUTIES	44	13,295	13,339	22	11,014	11,036
OTHER LEVIES	3	252	255	38	278	316
PAID TAXES IN TOTAL	20,494	21,384	41,879	20,730	20,092	40,822

\*] Unconsolidated \*\*] Consolidated

## RESPONSIBILITY DEVELOPMENT

Ponsse has identified the targets for the development of responsibility in its materiality assessment. The assessment was used to analyse the focus areas of our responsibility model and the subsequent targets in relation to the expectations of the stakeholders and relevance for business. The action plan will be tracked and updated annually as part of our strategy work. Our objectives will be specified further during the planning of the new strategic period.

For our development tasks, we have selected targets that we can use to create a shared understanding and operating culture of responsibility at Ponsse Group and to integrate responsibility into our management system. A significant portion of the current development work concerns tools that build or measure responsibility and enable common ways of working.

### ACTION PLAN IN THIS STRATEGY PERIOD

FOCUS AREA: OBJECTIVE	MEASURES	OBJECTIVE
<b>PERSONNEL:</b> We are a progressive and safe place to work	<ul style="list-style-type: none"> <li>Communicate and implement the responsibility model throughout the entire group</li> <li>Analyse safety and health management and start to create a common model</li> <li>Define a feedback channel and deploy it on the group level</li> </ul>	<ol style="list-style-type: none"> <li>A common responsibility programme for the group</li> <li>A systematic safety and health programme for the group</li> <li>A single channel in use for responsibility feedback</li> </ol>
<b>HONESTY AND COOPERATION:</b> We act and communicate honestly, ethically and communally	<ul style="list-style-type: none"> <li>Start Ethical Operating Principle training</li> <li>Define the responsibility survey for stakeholders and include it in the staff survey</li> <li>Define and start the implementation of the responsibility communication plan and materials</li> <li>Responsibility criteria that include audits</li> </ul>	<ol style="list-style-type: none"> <li>Ponsse employees commit to the Code of Conduct</li> <li>Ponsse responsibility work meets stakeholder expectations</li> <li>Functional responsibility communication</li> <li>Responsibility targets included in audits</li> </ol>
Our supply chain and customer service act responsibly	<ul style="list-style-type: none"> <li>Increase the number of engaged suppliers annually</li> <li>Begin engaging sales and service business partners</li> </ul>	<ol style="list-style-type: none"> <li>A responsible supply chain</li> <li>Responsible and uniform customer service</li> </ol>
<b>SUSTAINABLE FORESTRY:</b> Innovative products supporting sustainable forestry and the preservation of nature	<ul style="list-style-type: none"> <li>Increase customer awareness of CTL and grow the market for CTL</li> <li>Identify and describe the environmental impacts of products, update objectives and indicators</li> </ul>	<ol style="list-style-type: none"> <li>Further the use of the CTL method</li> <li>Reduce the environmental impacts of products</li> </ol>
<b>LIFE CYCLE MANAGEMENT:</b> Services supporting the environmentally sustainable use of our products	<ul style="list-style-type: none"> <li>Define the environmental programme and start its implementation</li> <li>Increase the number of maintenance agreements</li> </ul>	<ol style="list-style-type: none"> <li>The group has an environmental programme for the service businesses</li> <li>Grow the sale of maintenance services that support the environmentally sustainable use of our products</li> </ol>
<b>NATURAL RESOURCES:</b> Environmental awareness and sustainable as part of everyday work	<ul style="list-style-type: none"> <li>Commit our functions and subsidiaries to common objectives</li> <li>Find new solutions to conserve natural resources, to minimise waste and for recycling</li> </ul>	<ol style="list-style-type: none"> <li>Commitment to environmental targets</li> <li>Minimise the use of natural resources and the production of waste</li> </ol>
<b>COMPANY FINANCES:</b> Balanced and sustainable company finances	<ul style="list-style-type: none"> <li>Cash flow min. EBITDA</li> <li>EBIT <math>\geq</math> 12%</li> <li>Recycling of capital <math>\geq</math> 2</li> </ul>	<ol style="list-style-type: none"> <li>Secure a balanced and sustainable financial position for the company in the long term</li> </ol>

# ***FINANCIAL STATEMENTS***

Ponsse Plc's financial statements 2018 include Board of Director's report, consolidated financial statements (IFRS) and parent company's financial statements (FAS).





# INFORMATION FOR SHAREHOLDERS

Ponsse Plc's Annual General Meeting for 2019 will be held on Wednesday 3 April 2019 at the company's registered office at Ponssentie 22, FI-74200 Vieremä, Finland, commencing at 11:00 a.m. Finnish time.

## **ELIGIBILITY TO ATTEND**

To be eligible to attend the AGM, shareholders must be registered by 22 March 2019 in the company's share register maintained by Euroclear Finland Oy. Shareholders who hold shares under their own names are automatically registered in the company's share register. A shareholder with nominee registration can be temporarily added to the company's share register. This must be done by 10 a.m. Finnish time on 29 March 2019 for the purpose of attending the AGM. Holders of nominee-registered shares are advised to acquire instructions from their administrator regarding registration in the share register; the issuance of powers of attorney and registration for the AGM in good time.

## **REGISTRATION**

Shareholders wishing to attend the AGM should notify the company of their intention to do so by 4 p.m. Finnish time on Friday 29 March 2019, either by writing to Ponsse Plc, Share Register, FI-74200 Vieremä, Finland, by calling +358 (0)20 768 800, by sending a fax +358 20 768 8690, or by contacting the company online at [www.ponsse.com/agm](http://www.ponsse.com/agm). Written notifications must arrive before the above-mentioned deadline. Please submit any powers of attorney accompanying the advance registration.

## **DIVIDEND**

Ponsse Plc's Board of Directors will propose to the AGM that a dividend of EUR 0,80 per share be paid for 2018. The dividend shall be paid to all shareholders who are listed in the share register maintained by Euroclear Finland Oy as a company shareholder on the record date, 5 April 2019. The dividend shall be paid on 12 April 2019.

## **SHARE REGISTER**

Ponsse Plc's shares and shareholders are listed in the shareholder register maintained by Euroclear Finland Oy. Shareholders are requested to report any change of address and other matters related to their shareholding to the book-entry securities register in which they have a book-entry securities account.

## **FINANCIAL REPORTS IN 2019**

In addition to the financial statements and the Annual Report for 2018, Ponsse Plc will issue three interim reports. Interim reports for the financial period 2019 will be published as follows:

- January–March	16 April 2019
- January–June	13 August 2019
- January–September	22 October 2019

The interim reports will be published in Finnish and English on the Ponsse website at [www.ponsse.com](http://www.ponsse.com).

## **ORDERING FINANCIAL PUBLICATIONS**

This Annual Report is available in Finnish and English. You may order Annual Reports from the following address:

Ponsse Plc  
Ponssentie 22  
FI-74200 Vieremä, Finland  
Tel. +358 (0)20 768 800  
Fax +358 (0)20 768 8690  
E-mail: [corporate.communications@ponsse.com](mailto:corporate.communications@ponsse.com)

The Annual Report will also be available online at [www.ponsse.com](http://www.ponsse.com).

## **INVESTOR RELATIONS**

Ponsse maintains a silent period, which begins at the end of each reporting quarter and ends at the publication of the result for the quarter or financial period in question. During the silent period, Ponsse does not comment on the company's financial situation, the market or the outlook. During the period, Ponsse's top management does not meet representatives of capital markets or financial media or comment on matters concerning the company's financial situation or the general outlook.

Should you have any questions regarding Ponsse's business operations, please consult the following people:

Juho Nummela  
President and CEO  
Tel. +358 (0)40 049 5690  
E-mail: [juho.nummela@ponsse.com](mailto:juho.nummela@ponsse.com)

Petri Härkönen  
CFO  
Tel. +358 (0)50 409 8362  
E-mail: [petri.harkonen@ponsse.com](mailto:petri.harkonen@ponsse.com)

## **INVESTMENT ANALYSES**

The following companies, among others, follow Ponsse as an investment object:

Carnegie Investment Bank AB, Finland Branch  
Inderes Oy  
Nordea Bank Finland Plc  
Pohjola Bank Plc



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Ponsse's consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards, IFRS. The financial statements of the parent company have been prepared in accordance with the Finnish Accounting Standards, FAS, which the company conformed with prior to the 2005 financial period. The notes constitute an essential part of the financial statements. A sum of single figures may differ from the totals presented in the financial statements, as all figures have been rounded.

# BOARD OF DIRECTORS' REPORT FOR THE PERIOD JANUARY-31 DECEMBER 2018

## GENERAL

Ponsse Group recorded net sales amounting to EUR 612.4 million (in 2017, EUR 576.6 million) and an operating result of EUR 61.7 (67.4) million for the period. Result before taxes was EUR 56.3 (57.8) million. Earnings per share were EUR 1.56 (EUR 1.60).

## NET SALES

Consolidated net sales for the period under review amounted to EUR 612.4 (576.6) million, which is 6.2 per cent more than in the comparison period. International business operations accounted for 77.6 (77.3) per cent of net sales.

Net sales were regionally distributed as follows: Northern Europe 37.6 (38.0) per cent, Central and Southern Europe 20.0 (18.6) per cent, Russia and Asia 22.5 (20.1) per cent, North and South America 19.2 (22.9) per cent and other countries 0.7 (0.5) per cent.

## PROFIT PERFORMANCE

The operating result amounted to EUR 61.7 (67.4) million. The operating result equalled 10.1 (11.7) per cent of net sales for the period under review. Consolidated return on capital employed (ROCE) stood at 22.6 (26.4) per cent.

Staff costs for the period totalled EUR 85.3 (80.3) million. Other operating expenses stood at EUR 55.2 (49.7) million. The net total of financial income and expenses amounted to EUR -5.3 (-9.7) million. Exchange rate gains and losses with a net effect of EUR -4.0 (-7.8) million were recognised under financial items for the period. Result for the period under re-

view totalled EUR 43.7 (44.8) million. Diluted and undiluted earnings per share (EPS) came to EUR 1.56 (1.60).

## STATEMENT OF FINANCIAL POSITION AND FINANCING ACTIVITIES

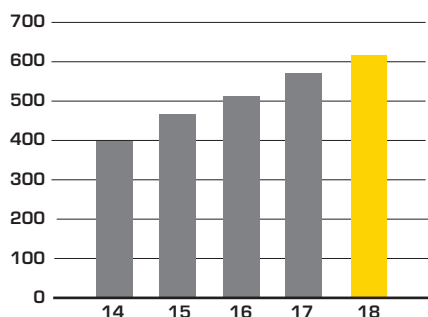
At the end of the period under review, the total consolidated statements of financial position amounted to EUR 379.1 (345.2) million. Inventories stood at EUR 126.6 (122.3) million. Trade receivables totalled EUR 43.4 (41.5) million, while liquid assets stood at EUR 51.1 (42.6) million. Group shareholders' equity stood at EUR 200.2 (176.8) million and parent company shareholders' equity (FAS) at EUR 180.1 (162.9) million. The amount of interest-bearing liabilities was EUR 69.6 (68.2) million. The company has used five per cent of its credit facility limit. The parent company's net receivables from other Group companies stood at EUR 76.7 (85.3) million. The parent company's receivables from subsidiaries mainly consisted of trade receivables. Consolidated net liabilities totalled EUR 18.4 (25.5) million, and the debt-equity ratio (net gearing) was 9.2 (14.4) per cent. The equity ratio stood at 54.0 (51.9) percent at the end of the period under review.

Cash flow from operating activities amounted to EUR 61.3 (56.5) million. Cash flow from investment activities came to EUR -31.8 (-37.7) million.

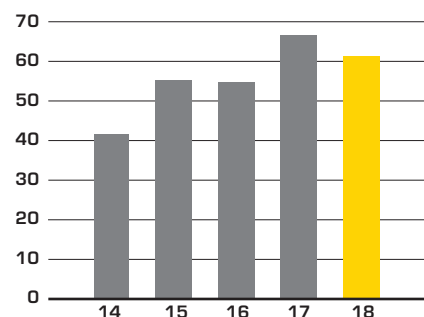
## ORDER INTAKE AND ORDER BOOKS

Order intake for the period totalled EUR 785.7 (582.1) million, while period-end order books were valued at EUR 294.9 (124.6) million.

NET SALES, MEUR



OPERATING RESULT, MEUR



### **DISTRIBUTION NETWORK**

The subsidiaries included in the Ponsse Group are Ponsse AB, Sweden; Ponsse AS, Norway; Ponsse S.A.S., France; Ponsse UK Ltd, the United Kingdom; Ponsse Machines Ireland Ltd, Ireland; Ponsse North America, Inc., the United States; Ponsse Latin America Ltda, Brazil; Ponsse Uruguay S.A., Uruguay; OOO Ponsse, Russia; Ponsse Asia-Pacific Ltd, Hong Kong; Ponsse China Ltd, China and Epec Oy, Finland. The Group includes also the property company Ponsse Centre, Russia. Sunit Oy, Finland, is an associate in which Ponsse Plc has a holding of 34 per cent.

### **R&D AND CAPITAL EXPENDITURE**

Group's R&D expenses during the period under review totalled EUR 17.5 (14.8) million, of which EUR 6.1 (4.7) million was capitalised.

Capital expenditure totalled EUR 32.5 (37.8) million. It consisted in addition to capitalised R&D expenses of investments in buildings and ordinary maintenance and replacement investments for machinery and equipment.

### **ANNUAL GENERAL MEETING**

Annual General Meeting was held in Vieremä, Finland 9 April 2018. The AGM approved the parent company financial statements and the consolidated financial statements, and members of the Board of Directors and the President and CEO were discharged from liability for the 2017 financial period.

The AGM decided to pay a dividend of EUR 0.75 per

share for 2017 (dividends totaling EUR 20,975,181). No dividend were paid to shares owned by the company itself (33,092 shares). The dividend payment record date was 11 April 2018, and the dividends were paid on 18 April 2018.

Annual General Meeting authorised the Board of Directors to decide on the acquisition of treasury shares so that shares can be acquired in one or several instalments to a maximum of 250,000 shares. The maximum amount corresponds to approximately 0.89 per cent of the company's total shares and votes.

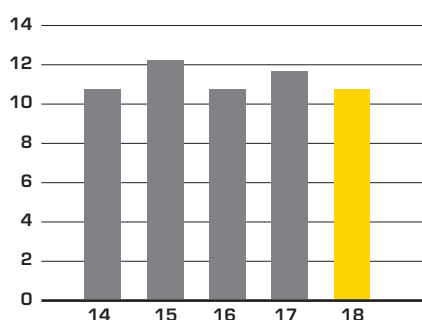
The shares will be acquired in public trading organised by NASDAQ OMX Helsinki Ltd ("the Stock Exchange"). Furthermore, they will be acquired and paid according to the rules of the Stock Exchange and Euroclear Finland Ltd.

The Board may, pursuant to the authorisation, only decide upon the acquisition of the treasury shares using the company's unrestricted shareholders' equity.

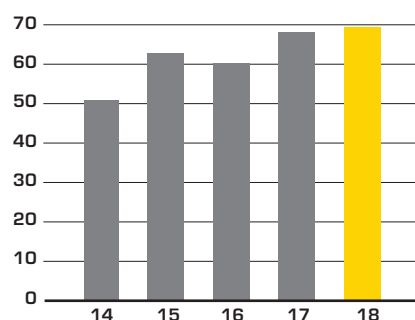
The authorisation is proposed for use in supporting the Company's growth strategy in the Company's potential corporate acquisitions or other arrangements. In addition, the shares can be issued to the Company's current shareholders, used for increasing shareholders' ownership value by invalidating shares after their acquisition or used in personnel incentive systems. The authorisation includes the right of the Board to decide upon all other terms and conditions of the share issue.

The authorisation is valid until the next Annual General Meeting; however, no later than 30 June 2019. The previous authorisations are cancelled.

**OPERATING RESULT, % OF NET SALES**



**INTEREST-BEARING LIABILITIES, MEUR**



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The AGM authorised the Board of Directors to decide on the assignment of treasury shares held by the company against payment or free of charge so that a maximum of 250,000 shares will be issued on the basis of the authorisation. The maximum amount corresponds to approximately 0.89 per cent of the company's total shares and votes.

The authorisation includes the right of the Board to decide upon all other terms and conditions of the share issue. Thus, the authorisation includes a right to organise a directed issue in deviation of the shareholders' subscription rights under the provisions prescribed by law.

The authorisation is proposed for use in supporting the Company's growth strategy in the Company's potential corporate acquisitions or other arrangements. In addition, the shares can be issued to the Company's current shareholders, sold through public trading or used in personnel incentive systems. A directed share issue may be free of charge only if there is a particularly weighty financial reason for it, one that is beneficial for all the company's shareholders.

The authorisation is valid until the next Annual General Meeting; however, no later than 30 June 2019. The previous authorisations are cancelled.

### **BOARD OF DIRECTORS AND THE COMPANY'S AUDITORS**

Juha Vidgrén acted as Chairman of the Board and Mammu Kaario as Vice Chairman of the Board. Members of the Board were Matti Kylävainio, Juha Vanhainen (starting from 9 April 2018), Janne Vidgrén and Jukka Vidgrén. In addition to, Ossi Saksman was member of the Board until the Annual General Meeting held on 9 April 2018.

The Board of Directors did not establish any committees or commissions from among its members.

The Board of Directors convened nine times during the period under review. The attendance rate was 90.7 percent.

During the period under review, auditing firm PricewaterhouseCoopers Oy acted as the company auditor with Juha Toppinen, Authorised Public Accountant, as the principal auditor.

### **MANAGEMENT**

The following persons were members of the Management Team: Juho Nummela, President and CEO, acting as the chairman; Petri Härkönen, CFO; Juha Inberg, Technology and R&D Director; Tapio Mertanen, Service Director; Paula Oksman, HR Director; Tommi Väänänen, Director of Delivery Chain Process and Jarmo Vidgrén, Deputy CEO, Sales and Marketing Director. The company management has regular management liability insurance.

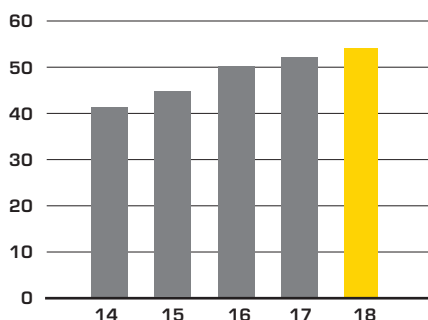
The area director organisation of sales is led by Jarmo Vidgrén, the Group's sales and marketing director, and Tapio Mertanen, service director. Area directors report to Marko Mattila, Ponsse retail network manager. Managing directors of subsidiaries and Marko Mattila report to Jarmo Vidgrén, Ponsse Plc's sales and marketing director.

The geographical distribution and the responsible persons are presented below:

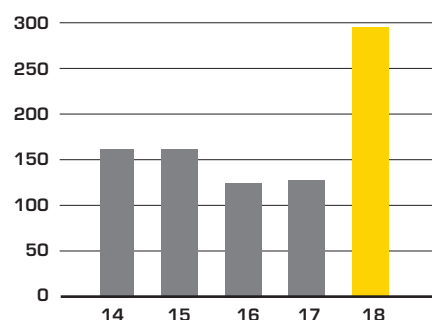
Northern Europe: Jani Liukkonen (Finland), Carl-Henrik Hammar (Sweden and Denmark), Jussi Hentunen (the Baltic countries) and Sigurd Skotte (Norway),

Central and Southern Europe: Tuomo Moilanen (Germany)

**EQUITY RATIO, %**



**ORDER BOOKS, MEUR**



and Austria), Clément Puybaret (France), Janne Tarvainen (Spain and Portugal), Dean Robson (the United Kingdom), Gary Glendinning (Ireland, Hungary, Romania, Slovenia, Croatia and Serbia) and Jussi Hentunen (Poland, Czech Republic and Slovakia).

Russia and Asia: Jaakko Laurila (Russia and Belarus), Janne Tarvainen (Australia and South Africa) and Risto Kääriäinen (China and Japan),

North and South America: Pekka Ruuskanen (the United States), Eero Lukkarinen (Canada), Fernando Campos (Brazil) starting from 1 August 2018 and Martin Toledo (Uruguay, Chile and Argentina).

**PERSONNEL**

The Group had an average staff of 1,635 (1,508) during the period and employed 1,692 (1,546) people at period-end.

**SHARE PERFORMANCE**

The company's registered share capital consists of 28,000,000 shares. The trading volume of Ponsse Plc shares for 1 January–31 December 2018 totalled 2,327,277, accounting for 8.3 per cent of the total number of shares. Share turnover amounted to EUR 67.0 million, with the period's lowest and highest share prices amounting to EUR 23.85 and EUR 32.35, respectively.

At the end of the period, shares closed at EUR 24.75, and market capitalisation totalled EUR 693.0 million.

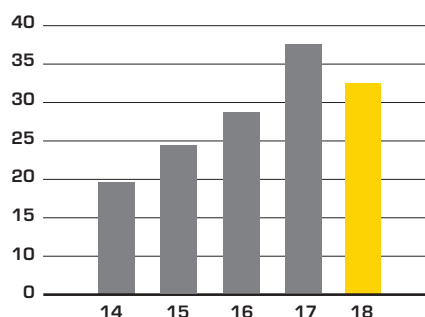
At the end of the period under review, the company held no treasury shares.

**QUALITY AND ENVIRONMENT**

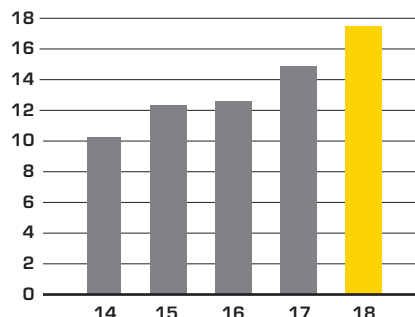
Ponsse is committed to observing the ISO 9001 quality standard, the ISO 14001 environmental system standard and the OHSAS 18001 occupational safety and health standard, the first two of which are certified. The aim of the management systems based on international standards is to standardise operations at the Group level and to ensure a continuous development. Lloyd's Register Quality Assurance conducted an audit of the ISO 9001:2015 quality system and the ISO 14001:2015 environmental system during the period under review.

Implementation of the principles of sustainable development and responsible leadership are guided by the management systems based on the company's quality, environmental and occupational safety and health standards. At Ponsse, sustainable development means taking the economic, social and ecological points of view and the principles related to them equally into account in the company's operations. According to the point of view of ecological sustainability we want to avoid and minimise the negative impacts of our products, services, operations and decisions on biodiversity, the ecosystem and sufficiency of natural resources. Our investments in minimising the fuel consumption and emissions of our products and surface damage of trees and in our maintenance services processes also influence the sustainability of the operations of our customers. According to the point of view of social sustainability we ensure occupational well-being and safety and equal treatment and support employment and the development of professional human resources. The point of view of economical sustainability is related to profitability,

**GROSS CAPITAL EXPENDITURE, MEUR**



**R&D EXPENDITURE, MEUR**



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

cash flow from business operations and growth and ensures the company's economic performance in the long term. This brings stability and continuity to the local community and the society in the whole of our global field of operations.

At Ponsse, operating methods and production processes are developed with both internal and external audits. The company's audit system has been a key tool in promoting the development during 2018. During the period under review, internal audits assessing the procedures and working environment of services were deepened in the company's service business network. The aim of the quality audits of services is to ensure efficient and safe procedures in the entire PONSSE service network. During the period under review, there has been invested in the management of the subsidiaries' strategy and leading principles, taking advantage of the earlier developed assessment model.

Production processes are continuously developed in accordance with the operating model of continuous improvement. The company's quality assurance system emphasises the importance of prevention. During the period under review, great focus was put on a procedure development model internal to the company, which is based on principles of Ponsse Production System.

### GOVERNANCE

In its decision-making and administration, the company observes the Finnish Limited Liability Companies Act, other regulations governing publicly listed companies and the company's Articles of Association. The company's Board of Directors has adopted the Code of Governance that complies with the Finnish Corporate Governance Code approved by the Board of the Securities Market Association in 2015. The purpose of the code is to ensure that the company is profession-

ally managed and that its business principles and practices are of a high ethical and professional standard.

The Code of Governance is available on Ponsse's website in the Investors section.

### RISK MANAGEMENT

Risk management is based on the company's values, as well as strategic and financial objectives. Risk management aims to support the achievement of the objectives specified in the company's strategy, as well as to ensure the financial development of the company and the continuity of its business.

Furthermore, risk management aims to identify, assess and monitor business-related risks which may influence the achievement of the company's strategic and financial goals or the continuity of its business. Decisions on the necessary measures to anticipate risks and react to observed risks are made on the basis of this information.

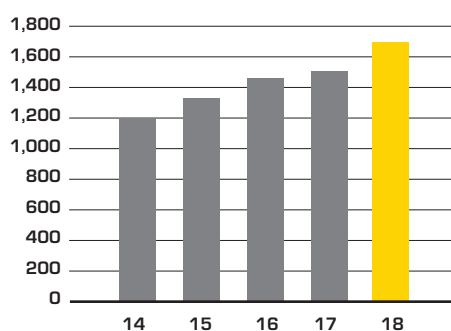
Risk management is a part of regular daily business, and it is also included in the management system. Risk management is controlled by the risk management policy approved by the Board.

A risk is any event that may prevent the company from reaching its objectives or that threatens the continuity of business. On the other hand, a risk may also be a positive event, in which case the risk is treated as an opportunity. Each risk is assessed on the basis of its impact and probability. Methods of risk management include avoiding, mitigating and transferring risks. Risks can also be managed by controlling and minimising their impact.

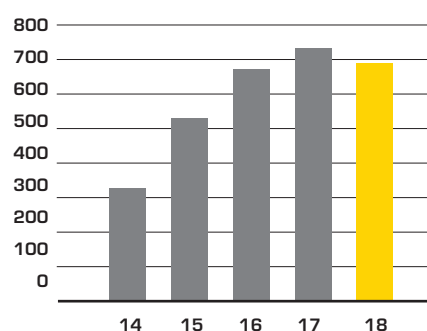
### SHORT-TERM RISKS AND THEIR MANAGEMENT

The insecurity in the world economy may result in a decline in the demand for forest machines. The uncertainty may be

AVERAGE NUMBER OF EMPLOYEES



MARKET CAPITALISATION, MEUR



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

increased by the volatility of developing countries' foreign exchange markets. The geopolitical situation, in particular, will increase the uncertainty through financial market operations and sanctions. Changes taking place in the fiscal and customs legislation in countries to which Ponsse exports may hamper the company's export trade or its profitability. The risks in the supplier network may cause problems in material availability.

The parent company monitors the changes in the Group's internal and external trade receivables and the associated risk of impairment.

The key objective of the company's financial risk management policy is to manage liquidity, interest and currency risks. The company ensures its liquidity through credit limit facilities agreed with a number of financial institutions. The effect of adverse changes in interest rates is minimised by utilising credit linked to different reference rates and by concluding interest rate swaps. The effects of currency rate fluctuations are mitigated through derivative contracts.

### EVENTS AFTER THE PERIOD

The company has no important events after the conclusion of the period under review.

### OUTLOOK FOR THE FUTURE

The Group's euro-denominated operating profit is expected to be slightly higher in 2019 than in 2018.

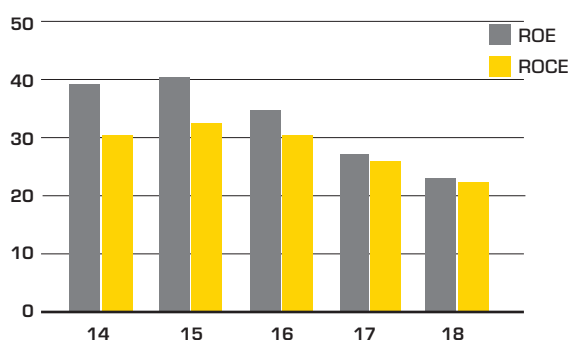
Ponsse's updated and competitive product range and service solutions have had a significant impact on the company's growth. The market situation has remained favourable. Availability of components will remain challenging during the first half of year 2019.

The trend of our investments will increasingly be in R&D and product technology and also developing the service network both in Finland and abroad. In Vieremä factory there will be focused in ramp-up of new products and increasing the capacity taking product quality and reliability into account.

### THE MOST IMPORTANT EXCHANGE RATES

	Closing exchange rate 31 Dec 2018	Average exchange rate 2018	Closing exchange rate 31 Dec 2017	Average exchange rate 2017
SEK	10.25480	10.25906	9.84380	9.63918
NOK	9.94830	9.64322	9.84030	9.34975
GBP	0.89453	0.88605	0.88723	0.87422
USD	1.14500	1.18085	1.19930	1.13065
BRL	4.44400	4.30128	3.97290	3.62706
RUB	79.71530	73.80350	69.39200	66.03495
CNY	7.87510	7.81476	7.80440	7.62986

### RETURN ON EQUITY, % (ROE) & RETURN ON CAPITAL EMPLOYED, % (ROCE)



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	Note <sup>1</sup>	2018	2017
<b>Net sales</b>	1	<b>612,435</b>	<b>576,553</b>
Other operating income	4	2,768	1,618
Change in inventories of finished goods and work in progress		-1,508	7,900
Raw materials and services		-395,660	-375,529
Expenditure on employment-related benefits	7, 31	-85,289	-80,263
Depreciation and amortisation	6	-15,836	-13,112
Other operating expenses	5	-55,193	-49,734
<b>Operating result</b>		<b>61,717</b>	<b>67,432</b>
Financial income	9	14,480	18,159
Financial expenses	10	-19,797	-27,819
Share of results of associated companies		-77	19
<b>Result before taxes</b>		<b>56,324</b>	<b>57,792</b>
Income taxes	11	-12,625	-13,021
<b>Net result for the period</b>		<b>43,699</b>	<b>44,771</b>
<b>Other items included in total comprehensive result:</b>			
Translation differences related to foreign units		-317	-941
<b>Total comprehensive income for the financial period</b>		<b>43,382</b>	<b>43,830</b>
Earnings per share calculated from the result belonging to parent company shareholders:			
undiluted earnings per share (EUR), result for the period	12	1,56	1,60
earnings per share (EUR) adjusted for dilution, result for the period	12	1,56	1,60

<sup>1</sup> The note refers to the Notes to the Accounts on pages 60–90



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(EUR 1,000)	Note <sup>1</sup>	2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Tangible assets	13	108,818	95,454
Goodwill	14	3,800	3,816
Intangible assets	14	26,298	22,975
Other financial assets	16, 29	103	103
Investments in associated companies	15	545	714
Receivables	17	2,447	916
Deferred tax assets	18	3,242	3,538
<b>Total non-current assets</b>		<b>145,252</b>	<b>127,516</b>
<b>Current assets</b>			
Inventories	19	126,628	122,302
Trade receivables and other receivables	20, 29	54,654	52,345
Income tax receivables		1,423	413
Cash and cash equivalents	21, 29	51,105	42,596
<b>Total current assets</b>		<b>233,811</b>	<b>217,656</b>
<b>TOTAL ASSETS</b>		<b>379,063</b>	<b>345,172</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Share capital		7,000	7,000
Treasury shares		0	-346
Translation differences		3,028	-183
Other reserves		3,462	2,452
Retained earnings		186,666	167,923
<b>Equity owned by parent company shareholders</b>		<b>200,155</b>	<b>176,846</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	18	1,295	823
Interest-bearing liabilities	26, 29	45,651	46,126
Other liabilities	29	43	57
<b>Total non-current liabilities</b>		<b>46,990</b>	<b>47,006</b>
<b>Current liabilities</b>			
Interest-bearing liabilities	26, 29	23,920	22,115
Trade creditors and other liabilities	27	101,773	92,698
Income tax liabilities		808	738
Provisions	25	5,418	5,769
<b>Total current liabilities</b>		<b>131,919</b>	<b>121,320</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>379,063</b>	<b>345,172</b>

<sup>1</sup> The note refers to the Notes to the Accounts on pages 60-90.

# CONSOLIDATED STATEMENT OF CASH FLOWS

(EUR 1,000)	Note <sup>1</sup>	2018	2017
<b>Cash flows from operating activities:</b>			
Net result for the period		43,699	44,771
Adjustments:			
Financial income and expenses	9, 10	5,317	9,660
Share of the result of associated companies		77	-19
Depreciation and amortisation	6	15,836	13,112
Income taxes		12,625	13,021
Other adjustments		-3,368	-1,202
Cash flow before changes in working capital		74,186	79,342
Change in working capital:			
Increase (-)/decrease (+) in trade receivables and other receivables		-111	-9,885
Increase (-)/decrease (+) in inventories		-4,326	-4,018
Increase (+)/decrease (-) in trade creditors and other liabilities		7,794	10,572
Change in provisions for liabilities and charges		-351	-201
Interest received		244	240
Interest paid		-770	-954
Other financial items		-2,458	-3,518
Income taxes paid		-12,866	-15,030
<b>Net cash flows from operating activities (A)</b>		<b>61,341</b>	<b>56,549</b>
<b>Cash flows used in investing activities:</b>			
Investments in tangible and intangible assets		-32,508	-37,836
Proceeds from sale of tangible and intangible assets		675	127
<b>Net cash flows used in investing activities (B)</b>		<b>-31,833</b>	<b>-37,709</b>
<b>Cash flows from financing activities:</b>			
Acquisition of treasury shares		-93	0
Withdrawal/repayment of current loans		1,851	7,944
Repayment of non-current loans		-450	-900
Withdrawal/repayment of finance lease liabilities		22	1,082
Increase (-)/decrease (+) in non-current receivables		970	520
Dividends paid	22	-20,975	-16,780
<b>Net cash flows from financing activities (C)</b>		<b>-18,675</b>	<b>-8,135</b>
<b>Change in cash and cash equivalents (A+B+C)</b>		<b>10,834</b>	<b>10,705</b>
Cash and cash equivalents 1 Jan		42,596	37,342
Impact of changes in exchange rates		-2,324	-5,451
Cash and cash equivalents 31 Dec	21	51,105	42,596

<sup>1</sup> The note refers to the Notes to the Accounts on pages 60–90.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Note	Equity owned by parent company shareholders					Shareholders' equity total
		Share capital	Share premium account and other reserves	Translation differences	Treasury shares	Retained earnings	
<b>Shareholders' equity, 1 Jan 2018</b>		<b>7,000</b>	<b>2,452</b>	<b>-183</b>	<b>-346</b>	<b>167,923</b>	<b>176,846</b>
Adjustment for previous periods *)		0	-29	3,528	0	-3,525	-26
<b>Shareholders' equity, 1 Jan 2018</b>		<b>7,000</b>	<b>2,423</b>	<b>3,345</b>	<b>-346</b>	<b>164,398</b>	<b>176,819</b>
Translation differences		0	0	-318	0	0	-318
Result for the period		0	0	0	0	43,699	43,699
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>0</b>	<b>-318</b>	<b>0</b>	<b>43,699</b>	<b>43,381</b>
Direct entries to retained earnings		0	0	0	0	-16	-16
Matching Share Plan		0	1,039	0	439	-439	1,039
Dividend distribution	22	0	0	0	0	-20,975	-20,975
Acquisition of treasury shares		0	0	0	-93	0	-93
<b>Shareholders' equity, 31 Dec 2018</b>		<b>7,000</b>	<b>3,462</b>	<b>3,027</b>	<b>0</b>	<b>186,667</b>	<b>200,155</b>
<b>Shareholders' equity, 1 Jan 2017</b>		<b>7,000</b>	<b>2,452</b>	<b>758</b>	<b>-346</b>	<b>139,932</b>	<b>149,796</b>
Translation differences		0	0	-941	0	0	-941
Result for the period		0	0	0	0	44,771	44,771
<b>Total comprehensive income for the period</b>		<b>0</b>	<b>0</b>	<b>-941</b>	<b>0</b>	<b>44,771</b>	<b>43,830</b>
Dividend distribution	22	0	0	0	0	-16,780	-16,780
<b>Shareholders' equity, 31 Dec 2017</b>		<b>7,000</b>	<b>2,452</b>	<b>-183</b>	<b>-346</b>	<b>167,923</b>	<b>176,846</b>

\*) As a result of the new consolidation system, the company is now able to present, from the beginning of the financial year 2018, all exchange rate differences on equity in the translation difference. Exchange differences for previously accrued retained earnings are presented within the profits. The change has no effect on previously reported key figures.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## BASIC INFORMATION ON THE GROUP

Ponsse Group is a sales, maintenance and technology company committed to creating success for its customers, and determined to secure its position as a global leader in the field of environmentally friendly cut-to-length forest machines. The Ponsse Group includes the parent company Ponsse Plc as well as the wholly-owned subsidiaries Ponsse AB in Sweden, Ponsse AS in Norway, Ponsse S.A.S. in France, Ponsse UK Ltd. in Great Britain, Ponsse Machines Ltd. in Ireland, Ponsse North America Inc. in the United States, Ponsse Latin America in Brazil, OOO Ponsse in Russia, Ponsse Asia-Pacific Ltd in Hong Kong, Ponsse China Ltd in China, Ponsse Uruguay S.A. in Uruguay and Epec Oy in Finland. As of the financial period 2014, the Group includes the property companies Ponsse Centre in Russia. Furthermore, the Group includes Sunit Oy in Kajaani, which is Ponsse Plc's associate with a holding of 34 per cent.

The Group's parent company is Ponsse Plc, a Finnish public limited company established in accordance with Finnish legislation. Ponsse Plc's shares are listed on the NASDAQ OMX Nordic List. The parent company is headquartered in Vieremä and its registered address is Ponssentie 22, 74200 Vieremä.

Copies of the consolidated financial statements are available on the Internet at [www.ponsse.com](http://www.ponsse.com) and can be requested from the Group's head office at Ponssentie 22, 74200 Vieremä.

Ponsse Plc's Board of Directors approved the disclosure of these financial statements at its meeting on 18 February 2019. According to the Finnish Companies Act, shareholders have the option to approve or reject the financial statements at a General Meeting of Shareholders to be held after the disclosure. The General Meeting of Shareholders may also amend the financial statements.

## ACCOUNTING POLICIES

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), observing the IAS and IFRS standards as well as SIC and IFRIC interpretations valid on 31 December 2018. In the Finnish Accounting Act and regulations enacted by virtue of the Act, International Financial Reporting Standards refer to the standards approved for use in the European Union in accordance with the procedure specified in the EU regulation (EC) No 1606/2002. The notes to the financial statements are also in compliance with Finnish

legislation concerning accounting and corporate law. This legislation complements the IFRS regulations.

The information in the consolidated financial statements is presented in thousands of euro and is based on original acquisition costs, with the exception of financial assets and liabilities as well as derivative contracts that are measured at fair value. The financial statements have been presented in accordance with the profit and loss account by type of expense.

The consolidated financial statements have been prepared in compliance with the same accounting principles as in 2017 apart from the following new standards, interpretations and amendments to existing standards valid as of 1 January 2018.

The Group has applied new IFRS 15 and IFRS 19 standard from January 1, 2018 onwards. Figures for 2016–2017 are not restated.

- IFRS 9 *Financial Instruments as amended* (applicable to financial periods beginning on or after 1 January 2018). IFRS 9 amended the classification and measurement of financial assets and includes a new 'expected loss' impairment model for financial assets. The classification and measurement of financial assets are largely similar to the requirements of the current IAS 39.

Accordingly to the Group point of view, the new guidance IFRS 9 *Financial Instruments* did not affect the measurement of these financial assets. The new model of the recognition of impairment provisions based on expected credit losses will be applied to impairment of financial instruments. The standard amendment has not assessed to have any significant impact on the consolidated financial statements.

- IFRS 15 *Revenue from contracts with customers*. Ponsse has applied the standard for a financial year commencing on 1 January 2018 prospective application with additional disclosures. The new standard includes five-step process for the recognition of revenue based on contracts with customer and replaced current IAS 18 and IAS 11 standards and comprise clarifications of the guidance. Revenue can be recognised over time or at a specific point in time, with the transfer of control being the key criterion. The standard also increased the number of notes to be disclosed.

Five-step guideline on recognised revenue:

- Contracts with customers are itemized.
- Separate contractual obligations are itemized.
- The contractual transaction price is defined.
- The transaction price is allocated to separate performance obligations.
- Revenue is recognised when each performance obligation has been met.

The Group has analysed the impact of the standard according to the above-mentioned five-step process. The number of performance obligations increased compared with the prior practice, for example, regarding the service-based component of warranties provided for new machines. A significant part of the Group's net sales comes from machine sales where revenue is recognised at a specific point in time when control transfers to the customer in accordance with agreement terms. With regard to maintenance services, control transfers over time. However, a significant part of the Group's maintenance services comprises short-term services. Revenue from long-term maintenance agreements is recognised over time so that the revenue corresponds with the maintenance services carried out by the Group. Agreements may include discounts and other than cash remuneration, i.e. trade-in machines. According to the current practice, discounts are allocated as items adjusting net sales to the period to which sales gains are allocated, and other than cash remuneration is recognised at a fair value, corresponding with the provisions of the new standard. Since the Group's revenue mainly consists of machine sales and since the determination and recognition of the transaction price already mainly corresponds with the new standard, the new standard had not any significant impact on accounting practices.

Furthermore, the new standard has not had any significant impact on the time when net sales are recognised or the amount of net sales recognised and, therefore, on the consolidated income statement or balance sheet. However, the new standard had a minor impact on the time when net sales are recognised and liabilities based on agreements. In addition, the new standard had an impact on financial statements as a result of new requirements regarding notes. A simplified transition method was applied in implementing the standard. The effects on the comparability of financial periods and the profit and loss account and balance sheet of the reporting period are minor.

Retained earnings in the beginning of the financial year has not been adjusted due to implementing of the new standard.

## **ACCOUNTING PRINCIPLES CONCERNING THE CONSOLIDATED FINANCIAL STATEMENTS**

### **Consolidation principles**

#### *Subsidiaries*

The consolidated financial statements include the parent company Ponsse Plc and all of its subsidiaries. Subsidiaries

are entities in which the Group exercises control. A position of control arises when the Group, by being an investor, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Intra-Group shareholdings have been eliminated using the acquisition method. The consideration paid and the identifiable assets and obtained liabilities of the acquiree are measured at fair value at the time of acquisition. Acquisition-related expenses, excluding expenses arising from the issuance of debt or equity securities, are recorded as an expense. The consideration paid does not include business operations processed separately from the acquisition. Their effect has been recognised in connection with the acquisition through profit or loss. Processing of the goodwill arising from subsidiary acquisitions is described in part "Goodwill".

Acquired subsidiaries are included in the consolidated financial statements as of the date the Group acquired a position of control, and divested subsidiaries are included until the date the Group's control is discontinued. All intra-Group business transactions, receivables, liabilities, unrealised gains and internal profit distributions are eliminated during the preparation of the consolidated financial statements. Unrealised losses are not eliminated if they are caused by impairment.

In connection with an acquisition that takes place in phases, the previous interest is measured at fair value and the arising profit or loss is recognised through profit or loss. When the Group loses control of a subsidiary, the remaining investment is measured at fair value on the date when control was lost, and the resulting difference is recognised through profit or loss.

#### *Associates*

Associates are entities in which the Group exercises significant power. Significant power mainly arises when the Group holds more than 20 per cent of the voting rights in an entity or the Group otherwise has significant power but no position of control.

Associates are consolidated using the equity method. If the Group's share of an associate's loss exceeds the book value of the investment, the investment is recognised in the balance sheet at zero value and loss exceeding the book value is not consolidated unless the Group is committed to the fulfilment of the associate's obligations. An investment in an associate includes the goodwill arising from its acquisition. A share of associate profits corresponding to the Group's share of holding is presented as a separate item after operating profit.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### **Segment reporting**

The operating segments are reported in a way, which is consistent with the internal management reporting used by the Group Management Team in operational decision-making.

### **Foreign currency translation**

The figures indicating the earnings and financial position of Group entities are measured in the currency of each unit's primary operating environment ("functional currency"). The consolidated financial statements are presented in euro, which is the operating and presentation currency of the Group's parent company.

### **Transactions denominated in a foreign currency**

Transactions denominated in a foreign currency have been converted into the functional currency at the exchange rate valid on the transaction date. In practice, the applicable exchange rate is often a near estimate of the rate valid on the transaction date. Monetary items in a foreign currency have been converted into the functional currency at the exchange rates valid on the closing date of the reporting period. Non-monetary items in a foreign currency are measured at the exchange rates valid on the transaction date. Gains and losses originating from business transactions in a foreign currency and the conversion of monetary items are recognised through profit or loss. Exchange rate gains and losses from operations, as well as exchange rate gains and losses on foreign currency loans, are included in financial income and expenses.

### **Conversion of the financial statements of foreign Group companies**

The income and expense items in the comprehensive profit and loss accounts of non-Finnish consolidated companies have been converted into euro at the average exchange rate of the accounting period, and their balance sheets have been converted at the exchange rate quoted on the closing date of the accounting period. The different exchange rates applicable to the conversion of profit on the profit and loss account and balance sheet result in a translation difference recognised in shareholders' equity. This change is recognised under other comprehensive profit/loss items. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries, as well as translation differences in equity items accumulated after the acquisition, are recognised under other comprehensive profit/loss items. When a subsidiary is divested in full or in part, accumulated translation differences are recognised through profit or loss as part of the sales gain or loss.

### **Tangible assets**

Tangible assets are recognised at acquisition cost less accumulated depreciation and impairment losses.

Expenses incurred from the direct acquisition of tangible assets are included in the acquisition. The acquisition cost of a self-manufactured asset item includes material expenses, direct expenses incurred for employee benefits and other direct expenses incurred for the completion of the tangible assets for the intended use.

If tangible assets consist of several parts whose estimated useful lives differ, each part is treated as a separate item. In such a case, all replacement costs are activated and any remaining book value in connection with replacement is derecognised. In any other cases, costs arising at a later date are included in the book value of tangible assets only if it is likely that the future economic benefits related to the item will benefit the Group and the item's acquisition cost can be reliably defined. Other repair and maintenance costs are recognised through profit or loss as they are realised.

Asset items are depreciated by the straight-line method over their estimated useful life. Depreciation is not booked on land areas. Estimated useful lives are the following:

Buildings	20 years
Machinery and equipment	5 to 10 years

The residual value, useful life and the depreciation method of asset items are reviewed at least upon each closing of the accounts and adjusted, if necessary, to reflect any changes in the expected economic benefit.

Depreciation and amortisation begins when the asset item is ready for use, i.e. when it is in such a location and condition that it can function in the manner intended by management. Depreciation on tangible assets will be discontinued when the item is classified as available for sale in accordance with standard IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Sales gains and losses arising from the decommissioning and transfer of tangible assets is recognised through profit or loss and presented under other operating income and expenses. The sales gain is defined as the difference between the selling price and residual acquisition cost.

### **Public subsidies**

Public subsidies, such as government grants associated with the acquisition of tangible assets, are recognised as deductions in the book values of tangible assets when it is reasonably certain that the subsidies will be received and the Group

fulfils the preconditions for receiving such subsidies. The subsidies will be recognised as income during the useful life of the asset items. Any subsidies covering already realised expenses are recognised through profit or loss for the accounting period during which the right to obtain the subsidy arises. Such subsidies are presented in other operating income.

### **Intangible assets**

#### *Goodwill*

Goodwill arising from business combinations is recognised at the amount by which the consideration paid, share of non-controlling interest holders of the acquiree and previous holding combined exceed the fair value of the acquired net assets.

No amortisation is booked on goodwill but it is tested annually for impairment. For this purpose, goodwill is allocated to cash-generating units. Goodwill is recognised at original cost deducted by impairment.

#### *R&D expenditure*

Research costs are recognised as expenses through profit or loss. Development costs arising from the design of new or more advanced products are capitalised as intangible assets in the balance sheet starting from the time the product is technically feasible, it can be utilised commercially, and future economic benefit is expected from the product. Capitalised development expenditure consists of the costs of materials, labour and testing arising directly from the preparation of an asset for its intended use. Development costs previously recognised as expenses will not be subsequently capitalised.

Amortisation is booked on an item starting from the time it is ready for use. An item that is not yet ready for use is tested annually for impairment. After initial recognition, capitalised development expenditure is measured at original cost less accumulated amortisation and impairment. The useful life of capitalised development expenditure is five years, during which the capitalised expenditure will be recognised as expenses by straight-line amortisation.

#### *Other intangible assets*

An intangible asset item is only recognised in the balance sheet at original cost if its acquisition cost can be reliably determined and it is probable that the expected economic benefit from the item will be to the Group's advantage.

Intangible assets with a limited useful life are recognised as expenses through profit or loss by straight-line amortisation over their known or estimated useful life. The Group does not have any intangible assets with an unlimited useful life.

The amortisation periods for intangible assets are the following:

Capitalised development expenditure	3 to 10 years
Patents	5 years
Computer software	5 years
Other intangible assets	5 to 10 years

The residual value, useful life and depreciation and amortisation method of asset items are reviewed at least upon each the closing of accounts and adjusted, if necessary, to reflect any changes in the expected economic benefit.

Depreciation and amortisation of intangible assets begins when the asset item is ready for use, i.e. when it is in such a location and condition that it can function in the manner intended by management.

The recording of depreciation and amortisation is discontinued when an intangible asset item is classified as held for sale (or included in a group of assignable items classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

### **Inventories**

Inventories are valued at acquisition cost or a lower net realisable value. The Average Cost method is used as a basis for calculating the value of materials and supplies in stock. The acquisition cost of finished and unfinished products comprises raw materials, direct expenses due to work performed, other direct expenses, and the appropriate proportion of the variable and fixed overheads of manufacturing at the normal utilised capacity. The inventory of second-hand machines is valued at acquisition cost or a lower probable net realisable value. Net realisable value refers to an estimated sales price available through normal business operations less the estimated costs of finishing the product and the costs of sale.

### **Lease contracts**

#### *Group as lessee*

Leases on tangible assets in which the Group has a significant part of the risks and benefits characteristic of ownership are categorised as finance lease contracts. Asset items acquired under finance lease contracts are recognised in the balance sheet at the fair value of the leased item at the start of the lease period or at a lower present value of minimum rents. Asset items acquired under finance lease contracts are depreciated over the useful life of the item or the lease period, whichever is shorter. Leasing rents payable are di-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

vided into financing cost and reduction of debt over the lease period so that the interest rate on the debt remaining in each financial period is equal. Lease obligations are included in financial liabilities.

Lease contracts in which the risks and benefits characteristic of ownership remain with the lessor are treated as other lease contracts. Leases payable on the basis of other lease contracts are recognised as expenses through profit or loss in equal instalments over the lease period.

When a lease contract includes sections concerning both land areas and buildings, the classification of each section as a finance lease contract or other lease contract is assessed separately.

### *Group as lessor*

Leases where the Group has not substantially transferred the risks and benefits of ownership of the asset to the lessee are included in tangible assets or inventories on the balance sheet. Lease income is recognised through profit or loss in equal instalments over the lease period.

### **Impairments to tangible and intangible assets**

On each closing date of a reporting period, the Group estimates whether there is evidence that the value of an asset may have been impaired. If there is such evidence, the amount recoverable from the asset will be estimated. Furthermore, the recoverable amount will be estimated annually for the following assets regardless of whether there is evidence of impairment: goodwill and unfinished intangible assets. The need for impairment is reviewed at the level of cash-generating units, which refers to the lowest level of unit that is mainly independent of other units and whose cash flows can be separated from other cash flows.

The recoverable amount equals the fair value of an asset deducted by costs arising from its sale, or value in use if this is higher. Value in use refers to estimated future net cash flows available from the asset or the cash-generating unit discounted to present value. The applicable discount rate is a rate determined before tax that reflects the market opinion on the time value of money and the specific risks associated with the asset.

An impairment loss is recognised when the book value of an asset exceeds its recoverable amount. Impairment losses are immediately recognised through profit or loss. If an impairment loss is attributable to a cash-generating unit, it is first allocated to reduce the goodwill attributable to the cash-generating unit and then to reduce other asset items within the unit on a pro rata basis. In connection with the recogni-

tion of an impairment loss, the useful life of the asset subject to depreciation or amortisation is reassessed. Impairment losses on assets other than goodwill will be reversed if there is a change in the estimates used for determining the recoverable amount from the asset. However, any impairment loss reversal may not exceed the amount that would be the book value of the asset item if the impairment loss were not recognised. Impairment losses recognised on goodwill are not to be reversed under any circumstances.

### **Employee benefits**

#### *Pension liabilities*

The Group's pension schemes are defined contribution plans. Under defined contribution plans, the Group makes fixed payments to a separate entity. Contributions paid to defined contribution pension plans are recognised through profit or loss during the financial period to which the charge applies.

Pension cover for the personnel of the Group's Finnish companies is arranged through statutory pension insurance policies with external pension insurance companies. Foreign Group companies have arranged pensions for their personnel in accordance with local legislation.

#### *Share based incentive plan*

During the financial period, ended the incentive scheme launched in 2015 for the Group's key employees.

During the financial period, the Group launched a new incentive scheme for the Group's key employees. The incentive scheme from the plan was paid partly in the company's shares and partly in cash. The rewards granted under the scheme are measured at fair value at the time of granting them and recognised as an expense on a pro rata basis during the restriction period by 12/12/2021. The effect of the scheme on profit is disclosed in expenditure on employment-related benefits and the effects of the share based incentive plan are explained in more detail in note 23.

### **Provisions**

A provision is recognised when the Group has a legal or factual obligation based on a previous event, the realisation of a payment obligation is probable and the amount of the obligation can be reliably estimated. The amount of the provisions is measured on each closing date and modified according to the best estimate at the time of assessment. Changes in provisions are recognised in the income statement at the same amount as the initial recognition of the provision.

A guarantee provision is recognised upon the sale of a



product subject to a guarantee condition. The amount of guarantee provision is based on empirical data on actual guarantee costs.

**Tax based on the taxable income for the period and deferred tax**

Tax expenses comprise tax based on the taxable income for the financial period and deferred tax. Taxes are recognised through profit and loss, except if they are directly related to items recognised in equity or comprehensive profit and loss account. In such a case, the tax is also recognised under these items. The tax based on the taxable income for the period is calculated on the basis of taxable income in accordance with the tax rate valid in each country.

Deferred taxes are calculated on temporary differences between book value and the tax base. However, no deferred tax will be recognised if the tax arises from the original recognition of an asset or liability in accounting, when it is not a question of a business combination and the recognition of such an asset or liability does not affect the profit in accounting or taxable income at the time the transaction is realised.

Deferred tax is recognised in the case of investments in subsidiaries or associated companies, except if the Group is able to determine the time the temporary difference was eliminated and the extent to which the difference will probably not be eliminated during the foreseeable future.

The most substantial temporary differences arise from the depreciation of tangible assets, as well as adjustments at fair value upon acquisitions.

Deferred tax is calculated at tax rates enacted by the closing date of the reporting period which have in practice been approved by the closing date of the reporting period.

Deferred tax receivables are recognised up to the probable amount of taxable income in the future against which the temporary difference can be utilised. The conditions for recognising a deferred tax liability are estimated in this respect on each closing date of a reporting period.

The Group deducts deferred tax receivables and liabilities from each other only in the case that the Group has a legally enforceable right to set off tax receivables and tax liabilities based on the taxable income for the period against each other and the deferred tax receivables and liabilities are related to income taxes levied by the same tax recipient, either from the same taxpayer or different taxpayers, who intend either to set off the tax receivables and liabilities based on the taxable income for the period against each other, or to realise the receivable and pay the liabilities simultaneously in each such

future period during which a significant amount of deferred tax liabilities are expected to be paid or a significant amount of deferred tax receivables are expected to be utilised.

**Revenue recognition**

The most significant part of the Group's net sales comes from machine sales where revenue is recognised at a specific point in time when control transfers to the customer in accordance with agreement terms. With regard to maintenance services, control transfers over time. However, a significant part of the Group's maintenance services comprises short-term services. Revenue from long-term maintenance agreements is recognised over time so that the revenue corresponds with the maintenance services carried out by the Group. Agreements may include discounts and other than cash remuneration, i.e. trade-in machines. Discounts are allocated as items adjusting net sales to the period to which sales gains are allocated, and other than cash remuneration is recognised at fair value.

**Rental income**

Rental income is recognised in equal instalments over the rental period.

**Dividends**

Dividend income is recognised once the dividend becomes vested.

**Financial assets and interest-bearing liabilities**

**Financial assets**

The Group's financial assets are classified as assets to be recognised at fair value through profit or loss or to be recognised as amortised cost. The classification is based on the purpose of acquiring financial assets and in connection with the original acquisition.

Financial asset items are classified as *Financial assets at fair value through profit or loss* if they are acquired for trading purposes or if they are categorised as assets to be recognised at fair value through profit or loss upon initial recognition. Ponsse Group has classified investments and derivatives to be recognised at fair value through profit or loss. The derivatives are included in current assets and liabilities.

Financial asset items are classified as assets to be recognised as amortised cost if both of the following conditions are met: a) financial asset items are held pursuant to a business model aimed at holding financial assets for the purpose of collecting cash flows based on an agreement and b) the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

terms of contract for an item belonging to financial assets stipulates for cash flows that will be implemented at specific points in time and that solely involve the payment of capital and the remaining interest on such capital. Ponsse Group has classified trade receivables, other receivables and cash as financial assets to be classified as assets to be recognised as amortised cost. In terms of their nature, the financial assets recognised as amortised cost are included in current or non-current assets in the balance sheet – to non-current assets if they are due to mature after more than 12 months.

### *Impairment of financial assets*

With regard to a decline in the value of financial assets, an expected credit loss model is applied.

### *Interest-bearing liabilities*

Financial liabilities are classified as assets to be recognised at fair value through profit or loss or to be recognised as amortised cost. Ponsse Group recognises derivative instruments at fair value through profit or loss. Loans from financial institutions, finance leasing liabilities, accounts payable and other liabilities are recognised as amortised cost. Financial liabilities are classified as short-term liabilities unless the Group has the unconditional right to postpone the payment of the liabilities by at least 12 months from the end of the reporting period.

The principles for determining the fair values of all financial assets and liabilities are presented in Note 29.

### ***Derivative contracts and hedge accounting***

Ponsse Group does not apply hedge accounting pursuant to the IAS 39 Standard. Derivatives are forward contracts and interest rate swaps that are recognised at fair value through profit or loss. The fair value of the derivatives is recognised in other current assets and liabilities.

### ***Shareholders' equity***

Share capital is presented as the nominal value of ordinary shares. Expenses associated with the issuance or purchase of equity instruments are presented as an equity reduction item.

The dividend distribution to shareholders proposed by the Board of Directors is recognised as a deduction of shareholders' equity in the period during which the general meeting of shareholders has approved the dividend.

### ***Operating profit***

The standard IAS 1 *Presentation of Financial Statements* does not define the concept of operating profit. The Group has defined it as follows: operating profit is the net amount created by adding other operating income to net sales, subtracting purchase costs adjusted by change in inventories of finished and unfinished products and costs of manufacture for own use, and subtracting costs of employee benefits, depreciation and amortisation, any impairment losses and other operating expenses. All profit and loss items other than the above are presented below operating profit. Exchange rate differences are recognised in financial items.

### ***ACCOUNTING POLICIES REQUIRING CONSIDERATION BY MANAGEMENT AND CRUCIAL FACTORS OF UNCERTAINTY ASSOCIATED WITH ESTIMATES***

Estimates and assumptions regarding the future have to be made during the preparation of the financial statements, and the outcome may differ from the estimates and assumptions. Furthermore, the application of accounting policies requires consideration.

### ***Management consideration connected with accounting policies and their adoption***

Group management utilises their best judgement when making decisions regarding accounting policies and their adoption. This refers to those cases in particular where the valid IFRS standards offer several alternative booking, recognition or presentation methods.

### ***Uncertainties connected with estimates***

Estimates made when compiling the financial statements are based on the management's best views on the closing date of the reporting period. The estimates are based on previous experience and assumptions about the future that are deemed the most likely on the balance sheet date. These are connected to, for example, the expected development of the Group's financial operating environment regarding the sales and the level of expenditure. The Group regularly monitors the realisation of estimates and assumptions, as well as changes in the underlying factors, together with the business unit by utilising several internal and external sources of information. Any changes in the estimates and assumptions are recognised in the financial period during which the estimates and assumptions are adjusted, and in all subsequent financial periods.

The essential assumptions concerning the future and crucial factors of uncertainty associated with the estimates on the closing date of the reporting period that will impose a significant risk of substantial changes in the book values of assets and liabilities during the next financial period are given below. Group management has deemed these the most important sectors in the financial statements because the compilation principles connected with these issues are the most complex from the Group's viewpoint, and their adoption requires using the most major estimates and assumptions when, for example, evaluating asset items. Furthermore, the potential impacts of the assumptions and estimates used in these sectors of the financial statements are deemed the greatest.

**Trade receivables**

On the date of the financial statements, the Group recognises a credit loss on receivables for which no payment will probably be received according to its best judgement. The estimates are based on systematic and continuous review of receivables as part of credit risk control. The assessment of credit risks is based on previously realised credit losses, amount and structure of the receivables and short-term financial events and conditions.

**Inventories**

On the date of the financial statements, the Group recognises impairment losses according to its best judgement, particularly with regard to trade-in machines. The assessment takes into account the age structure of the trade-in machine stock and the likely selling prices.

**Guarantee provision**

The guarantee provision is based on realised guarantee expenses. The guarantee period granted for the products is 12 months or 2,000 hours, and defects in the products observed during the guarantee period are repaired at the company's cost. The guarantee provision is based on failure history recorded in the previous years.

**Capitalisation of R&D expenditure**

On the date of the financial statements, the Group assesses whether the new product is technically feasible, whether it can be commercially utilised and whether future economic benefits will be received from the product, which makes it possible to capitalise development expenditure arising from

the design of new or advanced products on the balance sheet as intangible assets.

**Income taxes**

Preparing the consolidated financial statements requires the Group to estimate its income taxes separately for each subsidiary. The estimates take into account the tax position and the effect of temporary differences due to different tax and accounting practices, such as allocation of income and provisions for expenses. Deferred tax assets and liabilities are recognised as the result of the differences. The possibilities of utilising a deferred tax asset are estimated and adjusted to the extent that the possibility of utilisation is unlikely.

**Impairment testing**

The Group carries out annual impairment testing of goodwill and unfinished intangible assets, and evidence of impairment is evaluated as presented above in the accounting policies. Recoverable amounts from cash-generating units are determined as calculations based on value in use. The preparation of these calculations requires the use of estimates.

**APPLICATION OF NEW AND AMENDED IFRS STANDARDS**

IASB has published new or revised standards and interpretations, presented below, that the Group has not yet applied. The Group will adopt these standards and interpretations starting on the effective date of the standard or interpretation or, if the effective date is not the first day of a financial period, starting at the beginning of the next financial period. Group management is reviewing the effect of these revised standards on the consolidated financial statements:

- IFRS 16 *Leases* (applicable to financial periods beginning on or after 1 January 2019). IFRS 16 was published in January 2016. As a result of this, nearly all leases will be recognised on the balance sheet, since operational leases and financing leases are no longer separated. In accordance with the new standard, an asset item (the right to use a leased asset) and a financial liability regarding payment of leases is recognised. The only exceptions are short-term leases and leases regarding asset items of low value. There will not be any significant changes to the accounting methods applied by lessors. The Group has assessed the effects of the implementation of the standard. The standard mainly has effect on accounting methods of the Group's operational leases.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

According to the current estimate, the amount of liabilities to be recognised in the balance sheet with the adoption of the IFRS 16 Standard will be approximately EUR 3.5 million. Based on the current estimate, the IFRS 16 Standard will not have any material impact on the Group's operating profit. The Standard will be taken into use on its required deployment date 1 January 2019. The intention is to apply the new rules in the Group as of 1 January 2019 in such a way that asset items are recognised at fair value to reflect the lease liabilities at the time of adopting the standard.

- IFRIC 23 *Uncertainty over Income Tax Treatments* adds to the requirements in IAS 12 *Income Taxes* by specifying how to reflect the effects of uncertainty in accounting for income taxes when it is unclear how tax law applies to a particular transaction or circumstance, or it is unclear whether a taxation authority will accept an entity's tax treatment (applicable 1 January 2019). The amendment does not have any material impact on the consolidated financial statements. The amendment has not yet been approved for application in the EU.
- Amendment to IFRS 9 *Financial Instruments* (applicable to financial periods beginning on or after 1 January 2019). By applying *Prepayment Features with Negative Compensation* (amendment to IFRS 9), particular financial assets – with prepayment features that may result in reasonable negative compensation for the early termination of the contract – are eligible to be measured at amortised cost or at fair value through other comprehensive income,

instead of at fair value through profit or loss. The amendment does not have any material impact on the consolidated financial statements. The amendment has not yet been approved for application in the EU.

- *Annual improvements 2015–2017* contains amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* (applicable to financial periods beginning on or after 1 January 2019). The amendment does not have any material impact on the consolidated financial statements. The amendment has not yet been approved for application in the EU.
- *Definition of Materiality* – amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and the resulting amendments to other standards (to be applied as of 1 January 2020).
  - The consistent use of the definition of materiality throughout the Group in IFRS standards and in the financial reporting framework;
  - clarifies the explanation of the definition of materiality; and
  - includes some guidelines in IAS 1 concerning irrelevant information.

The amendment does not have any material impact on the consolidated financial statements. The amendment has not yet been approved for application in the EU.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. OPERATING SEGMENTS AND REVENUE FROM CONTRACTS WITH CUSTOMERS

The Group has four reporting segments based on a geographical division of regions. The operating segments are based on reporting used by the Group Management Team in operational decision-making.

The net sales of the reported operating segments are mainly generated by sales of forest machines and maintenance services.

The Group Management Team assesses the performance of the operating segments on the basis of operating result (EBIT).

Income from each segment is allocated in accordance with the location of the customer. The income items include items that can be allocated to the segment on reasonable grounds. Income items allocated to a segment are based on the normal production degree.

**The Group's reported segments are:**

- Northern Europe
- Central and Southern Europe
- Russia and Asia
- North and South America

Pricing between segments is based on fair market price.

#### OPERATING SEGMENTS 2018

	Northern Europe	Central and Southern Europe	Russia and Asia	North and South America	Total
Other financial assets					
Net sales of the segment	412,823	124,372	138,875	120,470	796,540
Revenues between segments	-182,726	-1,963	-1,207	-2,702	-188,598
Unallocated sales					4,493
<b>Net sales from external customers</b>	<b>230,097</b>	<b>122,409</b>	<b>137,668</b>	<b>117,768</b>	<b>612,435</b>
Operating result of the segment	10,068	18,054	25,454	12,276	65,851
Unallocated items					-4,134
<b>Operating result</b>	<b>10,068</b>	<b>18,054</b>	<b>25,454</b>	<b>12,276</b>	<b>61,717</b>
Depreciation and amortisation	13,440	560	472	1,365	15,836

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### OPERATING SEGMENTS 2017

(EUR 1,000)	Northern Europe	Central and Southern Europe	Russia and Asia	North and South America	Total
Net sales of the segment	403,366	108,926	117,014	135,111	764,417
Revenues between segments	-184,499	-1,961	-1,079	-3,302	-190,841
Unallocated sales					2,977
<b>Net sales from external customers</b>	<b>218,867</b>	<b>106,965</b>	<b>115,936</b>	<b>131,809</b>	<b>576,553</b>
Operating result of the segment	10,515	14,291	22,569	17,888	65,262
Unallocated items					2,170
<b>Operating result</b>	<b>10,515</b>	<b>14,291</b>	<b>22,569</b>	<b>17,888</b>	<b>67,432</b>
<b>Depreciation and amortisation</b>	<b>11,277</b>	<b>347</b>	<b>347</b>	<b>1,141</b>	<b>13,112</b>

### RECONCILIATIONS

(EUR 1,000)	2018	2017
<b>Net sales</b>		
Net sales of the reporting segments	796,540	764,417
Income from all other segments	4,493	2,977
Elimination of income between segments	-188,598	-190,841
<b>Group's net sales, total</b>	<b>612,435</b>	<b>576,553</b>
<b>Operating result</b>		
Result of the reporting segments	65,851	65,262
Result of all other segments	-4,301	2,004
Items not allocated to any segment	167	166
<b>Group's operating result, total</b>	<b>61,717</b>	<b>67,432</b>

### NET SALES BY INTERNATIONAL BUSINESS OPERATIONS

%	2018	2017
Export share of net sales	77.6	77.3

### NET SALES BY CONTRACT TYPE

(EUR 1,000)	2018	2017
Machine sales	493,992	471,190
Service	118,443	105,363
<b>Total</b>	<b>612,435</b>	<b>576,553</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2. LONG-TERM ASSETS HELD FOR SALE, AND DISCONTINUED OPERATIONS

The Group does not have any of these items.

### 3. ACQUIRED BUSINESS OPERATIONS

The Group has not acquired business operations during the financial period.

### 4. OTHER OPERATING INCOME

(EUR 1,000)	2018	2017
Sales profits on tangible assets	675	127
Public subsidies	525	39
Other	1,568	1,452
<b>Total</b>	<b>2,768</b>	<b>1,618</b>

### 5. OTHER OPERATING EXPENSES

(EUR 1,000)	2018	2017
Voluntary employee expenses	4,459	3,872
Travel expenses	5,025	4,548
Operating and maintenance expenses	9,115	7,869
Shipping and handling expenses	8,470	8,834
Rent expenses	3,172	3,157
Marketing and representation expenses	8,158	6,931
Administrative expenses	9,298	7,965
R&D expenditure	2,535	1,663
Other expense items	4,961	4,896
<b>Total</b>	<b>55,193</b>	<b>49,734</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5.1. AUDITOR'S REMUNERATIONS		
(EUR 1,000)	2018	2017
PwC		
Auditor's remunerations	119	102
Certificates and statements	2	3
Tax advice	11	3
Other remunerations	90	67
	221	174

Above-mentioned other remunerations than auditor's remunerations paid to PricewaterhouseCoopers Oy amounted to EUR 87 thousand (EUR 52 thousand in 2017).

Other organisations		
Auditor's remunerations	35	30
Certificates and statements	4	0
Tax advice	13	11
Other remunerations	29	20
	81	61
<b>Total</b>	<b>302</b>	<b>235</b>

6. DEPRECIATION, AMORTISATION AND IMPAIRMENT		
(EUR 1,000)	2018	2017
<b>Intangible assets</b>		
Capitalised development expenditure	3,809	2,752
Patents	79	52
Intangible rights	281	246
Other intangible assets	642	555
<b>Total</b>	<b>4,811</b>	<b>3,605</b>
<b>Tangible assets</b>		
Buildings	3,507	3,020
Machinery and equipment	7,518	6,488
<b>Total</b>	<b>11,025</b>	<b>9,508</b>
<b>Total</b>	<b>15,836</b>	<b>13,112</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

7. EXPENDITURE ON EMPLOYMENT-RELATED BENEFITS		
(EUR 1,000)	2018	2017
Wages and salaries	69,021	64,068
Pension expenditure – defined contribution plans	9,517	8,637
Share plan	356	1,196
Other social security costs	6,395	6,362
<b>Total</b>	<b>85,289</b>	<b>80,263</b>
Average number of staff during the financial period	2018	2017
Employees	999	914
Clerical workers	636	594
<b>Total</b>	<b>1,635</b>	<b>1,508</b>

Information on management's employment-related benefits is presented in Note 31.

8. R&D EXPENDITURE		
(EUR 1,000)	2018	2017
R&D expenditure recorded as a cost item in the consolidated statement of comprehensive income	15,207	12,837

9. FINANCIAL INCOME		
(EUR 1,000)	2018	2017
Dividend income from financial assets available for sale	2	4
Interest income from loans and receivables	244	240
Exchange rate gains	10,349	11,507
Change in the fair value of derivative instruments	3,631	6,160
Other financial income	254	249
<b>Total</b>	<b>14,480</b>	<b>18,159</b>

10. FINANCIAL EXPENSES		
(EUR 1,000)	2018	2017
Interest expenses for financial loans	762	721
Exchange rate losses	12,548	21,572
Change in the fair value of derivative instruments	5,448	3,959
Other financial expenses	1,039	1,567
<b>Total</b>	<b>19,797</b>	<b>27,819</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11. INCOME TAXES

(EUR 1,000)	2018	2017
Tax based on the taxable income for the period	11,809	14,249
Taxes from previous financial periods	48	-79
Deferred taxes	768	-1,149
<b>Total</b>	<b>12,625</b>	<b>13,021</b>

Reconciliation of tax expenses in the consolidated statement of comprehensive income and taxes calculated at the Group's domestic tax rate (2018: 20.0%, 2017: 20.0%)

(EUR 1,000)	2018	2017
Result before taxes	56,324	57,792
Tax calculated using the domestic tax rate	11,265	11,558
Effect of the different tax rates used in foreign subsidiaries	322	272
Tax-exempt income	-53	-26
Non-deductible expenses	780	49
Tax reliefs and supports	-175	-183
Use of tax losses not recorded previously	0	-177
Unbooked deferred tax assets	770	2,566
Booked deferred tax assets/liabilities	-64	-1,104
Taxes for previous financial periods	48	145
Other items	-267	-79
<b>Taxes in the consolidated statement of comprehensive income</b>	<b>12,625</b>	<b>13,021</b>

### 12. EARNINGS PER SHARE

Undiluted earnings per share are calculated by dividing the result for the financial period belonging to the parent company's shareholders by the weighted average of shares outstanding during the financial period.

(EUR 1,000)	2018	2017
Result for the financial period belonging to parent company shareholders	43,699	44,771
Weighted average number of shares during the financial period (1,000 pcs)	27,970	27,967
Undiluted earnings per share (EUR/share)	1.56	1.60

In the calculation of earnings per share adjusted for dilution, the weighted average number of shares includes the diluting effect of the conversion of all potential ordinary shares. The Group's share-based incentive scheme Matching Share Plan 2018 did not produce a diluting effect, which means that the earnings per share adjusted for dilution equal the undiluted earnings per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 13. TANGIBLE ASSETS

(EUR 1,000)	Land and water	Buildings	Machinery and equipment	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2018	3,096	67,138	70,199	25,317	165,751
Increase	289	16,584	24,545	19,325	60,743
Decrease	-2	-36	-1,868	-35,667	-37,574
Transfers between items	18	107	157	-74	208
Exchange rate difference	11	-68	-309	-3	-368
Acquisition cost 31 Dec 2018	3,412	83,726	92,724	8,898	188,760
Accumulated depreciation and impairment 1 Jan 2018	0	-24,323	-45,974	0	-70,297
Depreciation and amortisation	0	-3,507	-7,518	0	-11,025
Accumulated depreciation on decrease and transfers	0	0	1,227	0	1,227
Exchange rate difference	0	13	140	0	153
Accumulated depreciation and impairment 31 Dec 2018	0	-27,817	-52,125	0	-79,942
Book value 1 Jan 2018	3,096	42,816	24,225	25,317	95,454
<b>Book value 31 Dec 2018</b>	<b>3,412</b>	<b>55,909</b>	<b>40,599</b>	<b>8,898</b>	<b>108,818</b>

(EUR 1,000)	Land and water	Buildings	Machinery and equipment	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2017	2,588	55,927	66,740	14,152	139,408
Increase	577	11,054	6,949	26,773	45,353
Decrease	0	-305	-558	-13,148	-14,012
Transfers between items	132	1,613	505	-2,251	0
Exchange rate difference	-201	-1,151	-3,437	-209	-4,998
Acquisition cost 31 Dec 2017	3,096	67,138	70,199	25,317	165,751
Accumulated depreciation and impairment 1 Jan 2017	0	-22,811	-42,832	0	-65,644
Depreciation and amortisation	0	-3,020	-6,488	0	-9,508
Accumulated depreciation on decrease and transfers	0	433	-667	0	-234
Exchange rate difference	0	1,075	4,013	0	5,088
Accumulated depreciation and impairment 31 Dec 2017	0	-24,323	-45,974	0	-70,297
Book value 1 Jan 2017	2,588	33,116	23,908	14,152	73,765
<b>Book value 31 Dec 2017</b>	<b>3,096</b>	<b>42,816</b>	<b>24,225</b>	<b>25,317</b>	<b>95,454</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Financial lease contracts

(EUR 1,000)

Tangible assets include the following items rented under a finance lease contract:

31 Dec 2018	Buildings	Machinery and equipment	Total
Acquisition cost	2,008	1,153	3,161
Accumulated depreciation	-757	-384	-1,140
Book value	1,251	769	2,020

31 Dec 2017	Buildings	Machinery and equipment	Total
Acquisition cost	2,044	971	3,016
Accumulated depreciation	-658	-334	-992
Book value	1,386	638	2,024

### 14. INTANGIBLE ASSETS

(EUR 1,000)

	Development expenditure	Patent costs	Intangible rights	Other intangible assets	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2018	26,001	910	2,700	7,011	7,955	44,577
Increase	3,177	862	280	1,872	8,531	14,722
Transfers between items	48	0	13	12	-56	18
Decrease	0	0	-6	0	-6,586	-6,591
Acquisition cost 31 Dec 2018	29,226	1,772	2,989	8,895	9,844	52,726
Accumulated depreciation and impairment 1 Jan 2018	-13,611	-759	-1,983	-5,248	0	-21,601
Depreciation and amortisation	-3,809	-79	-281	-642	0	-4,811
Accumulated depreciation on decrease and transfers	0	0	0	-3	0	-3
Exchange rate difference	0	0	-14	0	0	-14
Accumulated depreciation and impairment 31 Dec 2018	-17,420	-838	-2,278	-5,893	0	-26,429
Book value 1 Jan 2018	12,390	151	717	1,763	7,955	22,976
<b>Book value 31 Dec 2018</b>	<b>11,807</b>	<b>934</b>	<b>710</b>	<b>3,002</b>	<b>9,844</b>	<b>26,297</b>

	Development expenditure	Patent costs	Intangible rights	Other intangible assets	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2017	17,179	851	2,333	6,121	11,440	37,925
Increase	8,061	58	368	890	6,110	15,486
Transfers between items	767	0	0	0	-767	0
Decrease	-6	0	0	0	-8,828	-8,834
Acquisition cost 31 Dec 2017	26,001	910	2,700	7,011	7,955	44,577
Accumulated depreciation and impairment 1 Jan 2017	-10,859	-707	-1,742	-4,689	0	-17,997
Depreciation and amortisation	-2,752	-52	-246	-555	0	-3,605
Accumulated depreciation on decrease and transfers	0	0	4	-4	0	0
Accumulated depreciation and impairment 31 Dec 2017	-13,611	-759	-1,983	-5,248	0	-21,601
Book value 1 Jan 2017	6,320	145	591	1,432	11,440	19,928
<b>Book value 31 Dec 2017</b>	<b>12,390</b>	<b>151</b>	<b>717</b>	<b>1,763</b>	<b>7,955</b>	<b>22,976</b>

Intangible rights include computer software licence fees, among others. Other intangible assets include fees for computer software tailored for the Group, among others. Prepayments and unfinished acquisitions include R&D expenditure, patent application expenses and computer software acquisition costs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<b>Allocation of goodwill</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Goodwill is allocated to the following cash-generating units:		
Northern Europe segment: Epec Oy	3,440	3,440
Northern Europe segment: Business in Norrbotten region, Sweden	361	376
<b>Total</b>	<b>3,800</b>	<b>3,816</b>

### **Impairment testing**

For impairment testing, the recoverable amounts have been determined on the basis of value in use. The cash flow forecast is based on three-year forecasts approved by management. The applicable discount rate before tax is 12,5%. The discount rate before tax is determined on the basis of weighted average cost of capital (WACC). Cash flows following the forecast period approved by management have been estimated by extrapolating with a steady growth factor of 1% in the units. The growth factor applied does not exceed long-term realised growth of the sectors in question.

The essential variables used for the calculation of value in use are the following:

1. Budgeted EBITDA – Determined on the basis of forecast EBITDA for the next three years. The value of the variable is based on realised development.
2. Forecast residual value – Determined on the basis of the last budgeted year 2021 and a steady growth factor of 1%. The residual value is not expected to change essentially as continuous product development and anticipated intensification of competition are considered.
3. Discount rate – Determined on the basis of the weighted average cost of capital (WACC) method representing the total cost of equity and liabilities taking into account any specific risks associated with the assets and the sector of business.

### **Sensitivity analysis for impairment testing**

It is the management's opinion that no reasonably estimated change in any essential variable would result in the recoverable amounts falling below their book value.

No impairment would occur even if the EBITDA of the cash generating units for all the years to come were almost half lower than the budgeted EBITDA and none of the planned increases in the EBITDA were experienced.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15. INVESTMENTS IN ASSOCIATED COMPANIES

(EUR 1,000)	2018	2017
At beginning of financial period	714	781
Adjustment for previous periods	-33	-27
Dividends received	-60	-60
Share of the result of the financial period	-77	19
<b>At end of financial period</b>	<b>545</b>	<b>714</b>
Information concerning the Group's associated company, its assets, liabilities, net sales and result:		
(EUR 1,000)	2018	2017
Associated company		
Sunit Oy, Kajaani, Finland		
Assets	2,125	2,617
Liabilities	435	544
Net sales	3,285	3,687
Result	-226	57
Share of ownership	34%	34%

Sunit Oy specialises in telematics and manufactures vehicle computers.

### 16. OTHER FINANCIAL ASSETS

(EUR 1,000)	Other shares and holdings
Acquisition cost 1 Jan 2018	103
Increase	0
Decrease	0
Acquisition cost 31 Dec 2018	103
Acquisition cost 1 Jan 2017	103
Increase	0
Decrease	0
Acquisition cost 31 Dec 2017	103

Other financial assets mainly contain unquoted shares in enterprises serving the company's operations. They are measured at acquisition cost because their fair values are not reliably available.

### 17. RECEIVABLES (NON-CURRENT)

(EUR 1,000)	2018	2017
Trade receivables	7	0
Loan receivables	103	162
Other receivables	2,172	560
Accrued income	165	194
<b>Total</b>	<b>2,447</b>	<b>916</b>

Receivables do not have any significant credit risk concentrations.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18. DEFERRED TAX RECEIVABLES AND LIABILITIES

(EUR 1,000)

Changes in deferred taxes during 2018:

<b>Deferred tax assets:</b>	<b>31 Dec 2017</b>	<b>Recognised through profit or loss</b>	<b>31 Dec 2018</b>
Inventories	2,161	-113	2,049
Fixed assets	0	0	0
Confirmed losses in taxation	1,240	-237	1,003
Other items	136	54	190
<b>Total</b>	<b>3,538</b>	<b>-296</b>	<b>3,242</b>

<b>Deferred tax liabilities:</b>	<b>31 Dec 2017</b>	<b>Recognised through profit or loss</b>	<b>31 Dec 2018</b>
Inventories	0	0	0
Fixed assets	823	472	1,295
Other items	0	0	0
<b>Total</b>	<b>823</b>	<b>472</b>	<b>1 295</b>

Changes in deferred taxes during 2017:

<b>Deferred tax assets:</b>	<b>31 Dec 2016</b>	<b>Recognised through profit or loss</b>	<b>31 Dec 2017</b>
Inventories	1,913	248	2,161
Fixed assets	0	0	0
Confirmed losses in taxation	549	692	1,240
Other items	63	73	136
<b>Total</b>	<b>2,525</b>	<b>1,013</b>	<b>3,538</b>

<b>Deferred tax liabilities:</b>	<b>31 Dec 2016</b>	<b>Recognised through profit or loss</b>	<b>31 Dec 2017</b>
Inventories	0	0	0
Fixed assets	799	25	823
Other items	0	0	0
<b>Total</b>	<b>799</b>	<b>25</b>	<b>823</b>

No deferred tax has been recognised through shareholders' equity.

A deferred tax asset of EUR 1.0 million has been recognised for confirmed losses EUR 27.6 million (29.9 in 2017) associated with the Group's foreign subsidiaries. The confirmed losses mentioned have no maturity time.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19. INVENTORIES

(EUR 1,000)	2018	2017
Raw materials and consumables	78,481	65,381
Work in progress	10,042	8,981
Finished products/goods	16,725	19,895
Other inventories	21,380	28,044
<b>Total</b>	<b>126,628</b>	<b>122,302</b>

EUR 2.4 million was recognised as an expense item, which was used to reduce the book value of inventories to correspond to the net realisable value (EUR 4.1 million in 2017).

### 20. TRADE RECEIVABLES AND OTHER RECEIVABLES (CURRENT)

(EUR 1,000)	2018	2017
Trade receivables	43,379	41,481
Accrued income	2,955	1,666
Other receivables	8,123	8,756
	54,457	51,903
Derivative contracts held for trading	197	442
<b>Total</b>	<b>54,654</b>	<b>52,345</b>

The Group's credit losses for trade receivables amounted to EUR 407 thousand (EUR 483 thousand in 2017) during the financial period and cancellation of credit losses to EUR 173 thousand (EUR 125 thousand in 2017). Balance sheet values best describe the amount of money that is the maximum amount of the credit risk, not taking into account the fair value of the guarantee in the case that the other contracting parties are unable to fulfil their obligations associated with financial instruments. As a rule, the sold machine is guarantee for trade receivables until the purchase price has been paid.

The currency distribution for receivables is presented in Note 29.

Trade receivables by age and items recognised as credit losses		
(EUR,1,000)	2018	2017
Non-matured	28,348	26,163
Matured		
Less than 30 days	10,892 <sup>1</sup>	11,430 <sup>1</sup>
30-90 days	2,034 <sup>2</sup>	1,963 <sup>2</sup>
91-180 days	1,023 <sup>2</sup>	747 <sup>2</sup>
181-360 days	337 <sup>2</sup>	704 <sup>2</sup>
More than 360 days	1,429 <sup>2</sup>	926 <sup>2</sup>
Provision for bad debts	-684	-451
<b>Total</b>	<b>43,379<sup>3</sup></b>	<b>41,481<sup>3</sup></b>

<sup>1</sup> Trade receivables that have matured but whose value has not impaired at the end of the financial period.

<sup>2</sup> Trade receivables that have matured and whose value has impaired at the end of the financial period. The amount of impairment is presented in Provision for bad debts.

<sup>3</sup> Non-current and current trade receivables.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 21. CASH AND CASH EQUIVALENTS

(EUR 1,000)	2018	2017
Cash in hand and at banks	51,105	42,596
<b>Total</b>	<b>51,105</b>	<b>42,596</b>

### 22. NOTES ON SHAREHOLDERS' EQUITY

The following table is a presentation of the effects of changes in the numbers of shares and equity.

	Number of shares (1,000 pcs )	Share capital (EUR 1,000)	Other reserves (EUR 1,000)	Treasury shares (EUR 1,000)
31 Dec 2017	27,967	7,000	2,452	-346
Matching share plan	33		1,040	346
Other adjustments	0		-30	0
31 Dec 2018	28,000	7,000	3,462	0

The maximum number of shares is 48 million (48 million in 2017). The nominal value of each share is EUR 0.25, and the Group's maximum share capital is EUR 12 million (EUR 12 million in 2017). The number of shares outstanding is 28 million (28 million in 2017). All issued shares have been paid in full.

All shares are of the same series and each share entitles its holder to one vote at shareholders' meetings and gives an equal right to dividends.

Ponsse Plc has no outstanding convertible notes or bonds with warrants. The company has a share based incentive plan for the key employees. The Ponsse Plc Board of Directors is not currently authorised to increase the share capital or issue convertible notes or bonds with warrants.

The Ponsse Plc Board of Directors is authorised by AGM to decide upon the acquisition of the treasury shares using the company's unrestricted shareholders' equity and to decide on the assignment of treasury shares.

Below are descriptions of the equity reserves:

#### **Treasury shares**

The parent company holds no treasury shares.

#### **Translation differences**

The translation differences reserve comprises translation differences arising from the translation of financial statements of foreign units.

#### **Other reserves**

Other reserves has increased for the issue of the treasury shares related to the share based incentive plan.

#### **Dividends**

In 2018, a dividend of EUR 0.75 was paid per share, for a total of EUR 21.0 million (in 2017, EUR 0.60 per share, for a total of EUR 16.8 million). The Board of Directors has proposed after the closing date of the reporting period that a dividend of EUR 0.80 per share shall be paid, i.e. a total of EUR 22.4 million.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 23. SHARE-BASED PAYMENT PLANS

During the financial period, ended the incentive scheme launched in 2015 for the Group's key employees.

The prerequisite for participating in the plan was that a key employee owned the Company's shares up to the number determined by the Board of Directors, or acquired them from the market or in the Company's directed share issue. Furthermore, receipt of reward was tied to the validity of the key employee's employment or service upon reward payment.

The reward from the plan was paid partly in the company's shares and partly in cash in spring 2015. The cash proportion covered taxes and tax-related costs arising from the reward to the key employee. Shares given as reward were not allowed to be transferred during the restriction period ending on 31 March 2018.

The incentive scheme launched in 2015 was recognised EUR 277 thousand (in 2017, EUR 1,196 thousand) as an expense for the financial period on an accrual basis.

During the financial period, the Group launched a new incentive scheme for the Group's key employees.

The prerequisite for participating in the plan is that a key employee acquire the Company's shares up to the number determined by the Board of Directors. Furthermore, receipt of reward is tied to the validity of the key employee's employment or service upon reward payment.

The reward from the plan was paid partly in the company's shares and partly in cash in December 2018. The cash proportion will cover taxes and tax-related costs arising from the reward to the key employee. Shares given as reward may not be transferred during the restriction period ending on 12 December 2021. If a key employee's employment or service ends during the restriction period, the key employee will be obliged to return the shares given as reward, fully or partly, to the company, without compensation.

Through the free rights issue 13 December 2018 to the Group's key employees who have acquired shares was transferred as a bonus 36,349 treasury shares acquired by the company. The fair value of share based incentives has been EUR 1,040 thousand at grant date. The expenses of the share-based bonus scheme during the restriction period from 13 December 2018 to 12 December 2021 were totalled EUR 2,999 thousand, which is recognised as other receivables in balance sheet and as an expense for the restriction period on an accrual basis. During the financial period EUR 79 thousand was recognised as an expense of the share-based bonus scheme.

### 24. PENSION LIABILITIES

The Group did not have any pension obligations.

### 25. PROVISIONS

(EUR 1,000)	Guarantee provision
31 Dec 2017	5,769
Change in provisions	-351
<b>31 Dec 2018</b>	<b>5,418</b>

#### *Guarantee provision*

Products are given a 12 month/2,000 hour guarantee. Any faults or errors found in machines during the guarantee period will be repaired at the company's own expense according to the conditions of guarantee. Guarantee provisions at the end of 2018 amounted to EUR 5,418 thousand (EUR 5,769 thousand in 2017). The guarantee provision is based on failure history recorded in the previous years. The guarantee provisions are expected to be used during the next year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<b>26. INTEREST-BEARING LIABILITIES</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
<b>Non-current interest-bearing liabilities</b>		
Loans from financial institutions	39,748	39,226
Pension loans	0	0
Other liabilities	4,545	5,503
Finance lease liabilities	1,358	1,397
<b>Total</b>	<b>45,651</b>	<b>46,126</b>
<b>Current interest-bearing liabilities</b>		
Loans from financial institutions	2,470	277
Pension loans	0	450
Other liabilities	20,958	20,958
Finance lease liabilities	492	430
<b>Total</b>	<b>23,920</b>	<b>22,115</b>

The fair values for liabilities is presented in Note 29.

The Group has both floating rate and fixed rate non-collaretal bank loans.

EUR 28,239 thousand of all liabilities have a fixed interest rate (EUR 28,739 thousand in 2017). Other loans are bound to Euribor EUR 41,333 thousand (EUR 39,502 thousand in 2017).

The Group's floating rate liabilities and their contractual repricing periods are:		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Within less than twelve months	41,333	39,502
Within one to five years	0	0
<b>Total</b>	<b>41,333</b>	<b>39,502</b>

<b>Due dates and reconciliation of finance lease liabilities</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
<b>Finance lease liabilities – total amount of minimum rents</b>		
Within less than twelve months	513	457
Within one to five years	989	907
After more than five years	510	666
<b>Total</b>	<b>2,012</b>	<b>2,030</b>
<b>Finance lease liabilities – present value of minimum rents</b>		
Within less than twelve months	492	430
Within one to five years	896	805
After more than five years	462	591
<b>Total</b>	<b>1,850</b>	<b>1,827</b>
Financial expenses to be accrued in the future	163	204
<b>Total finance lease liabilities</b>	<b>2,012</b>	<b>2,030</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27. TRADE CREDITORS AND OTHER LIABILITIES

(EUR 1,000)	2018	2017
Trade creditors (other financial liabilities)	64,120	65,304
Advances received	8,643	4,442
Advance invoicing	821	1,085
Other liabilities	5,164	2,783
Accruals and deferred income		
Accrued staff expenses	17,042	15,370
Interest accruals	40	32
Liabilities based on sales contracts	3,207	1,464
Other accruals and deferred income	2,117	1,440
Derivative contracts held for trading	619	778
<b>Total</b>	<b>101,773</b>	<b>92,698</b>

### 28. MANAGEMENT OF FINANCING RISKS

The Group is exposed to several financing risks in its normal course of business. The objective of the Group's risk management is to minimise the adverse effects of changes in the financial markets on the Group's earnings. The primary types of financing risks are foreign exchange risk and interest rate risk. The Group uses forward exchange agreements, foreign currency loans and interest rate swaps for risk management. The general principles of the Group's risk management are approved by the Board of Directors of the parent company, and Group management together with the management of subsidiaries is responsible for their practical implementation. Group management will identify and assess the risks and acquire the instruments required for hedging against risks in close cooperation with operating units.

#### *Foreign exchange risk*

The Group operates internationally and is therefore exposed to transaction risks arising from different foreign exchange positions, as well as risks arising from the conversion of investments in different currencies to the parent company's operating currency. The most important currencies for the Group are the United States dollar (USD), the Swedish krona (SEK), the pound sterling (GBP), the Brazilian real (BRL) and Russian rouble (RUB).

Foreign exchange risks arise from commercial transactions, monetary balance sheet items and net investments in foreign subsidiaries. The equity of the Group subsidiaries is EUR 37.3 million (EUR 34.0 million in 2017), including a dividend of EUR 1.8 million (EUR 2.0 million in 2017) paid to the parent company.

The Group processes foreign currency denominated receivables and liabilities at net amounts for hedging purposes, and hedges them with forward exchange agreements. Hedging transactions are carried out in accordance with written risk management principles approved by Group management. Hedge accounting in accordance with IAS 39 is not applied to these items (Notes 9 and 10).

The following table is a presentation of the strengthening or weakening of the euro against the United States dollar, the Swedish krona, the pound sterling, Brazilian real and Russian rouble, with all other factors remaining unchanged. The total net position of the aforementioned currencies is -23.2 million euros (-16.9 million euros in 2017). The change percentages reflect average volatility during the previous 12 months. The sensitivity analysis is based on foreign currency assets and liabilities on the balance sheet date. The sensitivity analysis also takes into consideration the effects of currency derivatives, which off-set the effects of exchange rate changes.

The changes would mainly have been caused by exchange rate changes in foreign currency trade receivables and liabilities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(EUR 1,000)	2018				2017			
	Strengthening		Weakening		Strengthening		Weakening	
Change in EUR exchange rate								
Effect on result after taxes								
USD	4%	-121	5%	160	6%	-71	6%	69
SEK	2%	34	4%	-75	2%	-17	3%	25
GBP	1%	5	1%	-5	3%	-31	5%	47
REAL	9%	1,473	13%	-2,202	10%	1,539	10%	-1,538
RUB	7%	137	8%	-160	9%	23	7%	-17

### Interest rate risk

The Group's short-term money market investments expose its cash flow to interest rate risk but the overall effect is not significant. The Group's income and operational cash flows are mainly independent of market interest rate fluctuations. The Group is mainly exposed to interest rate risk associated with the non-current loan portfolio. The Group hedges the interest rate risk associated with future cash flows by interest rate swaps. The degree of hedging is about 75 per cent of all floating rate loans.

(EUR 1,000)	2018		2017	
Sensitivity analysis for floating interest loans:				
Change percentage	+1%	-1%	+1%	-1%
Effect on result after taxes	-331	331	-316	316

### Credit risk

The Group's policy defines creditworthiness requirements for customers, investment transactions and counterparties to derivatives, as well as investment principles. The Group does not have any significant concentrations of credit risk on receivables because its customer base is wide and geographically diversified. The Group aims at cautious and secured credit granting. As a rule, the sold machine is guarantee for trade receivables until the purchase price has been paid. The Group's maximum credit risk corresponds to the book value of financial assets at period-end. Trade receivables are presented by age in Note 20.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses, according to probable credit losses are recognised from trade receivables over 30 days overdue and over EUR 10 thousand. To determine the credit loss, the overdue trade receivables are grouped based on payment delay, probability of payment default and secure of the trade receivable.

### Liquidity risk

The Group aims to continuously estimate and monitor the amount of financing required for business operations in order to maintain sufficient liquid assets for financing the operations and repaying any loans falling due. Group management has not identified significant liquidity risk concentrations in financial assets or sources of financing.

The availability and flexibility of financing is ensured through credit facilities and other financial instruments, as well as through co-operation with several banks. The amount of unused credit facilities on 31 December 2018 was EUR 38.0 million, which equals 95 per cent of the total credit facilities (2017, EUR 40.0 million, 100 per cent). The credit limit facilities mainly mature for renewal every three years. In addition, the group has in use bank account limits worth 3 million euros during the financial period.

The average maturity of the bank loans was 3.6 years (2017, 2.6 years) on 31 December 2018.

The following is a presentation of a contractual maturity analysis regarding financial liabilities. The figures are non-discounted and include both interest payments and repayment of capital.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 Dec 2018 (EUR 1,000)	Balance sheet value	Cash flow*	Within less than one year	Within one to five years	After more than five years
Bank loans	42,218	43,709	2,937	40,772	0
Pension loans	0	0	0	0	0
Other liabilities	25,503	24,721	21,090	3,631	0
Finance lease liabilities	1,850	2,012	513	989	510
Trade creditors and other liabilities	101,154	101,154	101,154		
Derivative contract liabilities	619	619	619		
Guarantee agreements **	0	9,937	9,937		
<b>31 Dec 2017 (EUR 1,000)</b>					
	<b>Balance sheet value</b>	<b>Cash flow*</b>	<b>Within less than one year</b>	<b>Within one to five years</b>	<b>After more than five years</b>
Bank loans	39,502	40,649	652	39,997	0
Pension loans	450	454	454	0	0
Other liabilities	26,461	26,689	21,090	4,864	735
Finance lease liabilities	1,827	2,030	457	907	666
Trade creditors and other liabilities	91,920	91,920	91,920		
Derivative contract liabilities	778	778	778		
Guarantee agreements **	0	13,815	13,815		

\* contractual cash flow from contracts cleared in gross values

\*\* maximum cash flow based on off-balance sheet agreements, not taking into account the probability of the payment being realised.

### Capital management

The purpose of the Group's capital management is to support business through an optimum capital structure by ensuring normal operating conditions and to increase shareholder value with the aim of providing the best possible return. An optimum capital structure also ensures smaller capital costs.

The capital structure can be affected through e.g. dividend distribution. The Group can change and adjust the dividends paid to shareholders or the amount of capital returned to them or the number of new issued shares or decide on selling assets held for sale in order to reduce liabilities.

The Group's interest-bearing net liabilities at the end of 2018 were EUR 18.4 million (31 Dec 2017: EUR 25.5 million) and net gearing was 9.2 per cent (31 Dec 2017: 14.4 per cent). For calculating net gearing, interest-bearing net financial liabilities were divided by the amount of equity. Net liabilities include interest-bearing liabilities deducted by interest-bearing receivables and liquid assets.

(EUR 1,000)	2018	2017
Interest-bearing liabilities	69,571	68,241
Interest-bearing receivables	-103	-162
Cash and cash equivalents	-51,105	-42,596
Net liabilities	18,363	25,483
Total shareholders' equity	200,155	176,846
Net gearing	9.2%	14.4%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29. FINANCIAL INSTRUMENTS BY GROUPS AND FAIR VALUES

(EUR 1,000)

**31 Dec 2018**

<b>Balance sheet assets</b>	<b>Assets at fair value through profit or loss</b>	<b>Assets at original amortised cost</b>	<b>Total</b>
Available-for-sale financial assets	103	0	103
Derivative instruments	197	0	197
Trade receivables and other receivables (excluding prepayments)	0	43,387	43,387
Cash and cash equivalents	0	51,105	51,105
<b>Total</b>	<b>300</b>	<b>94,492</b>	<b>94,792</b>

<b>Balance sheet liabilities</b>	<b>Liabilities at fair value through profit or loss</b>	<b>Liabilities at original amortised cost</b>	<b>Total</b>
Loans (excluding finance lease liabilities)	0	42,218	42,218
Finance lease liabilities	0	1,850	1,850
Derivative instruments	619	0	619
Trade creditors and other liabilities (excluding statutory obligations)	0	64,120	64,120
<b>Total</b>	<b>619</b>	<b>108,188</b>	<b>108,808</b>

The Group's items measured at fair value includes available-for-sale financial assets and derivative instruments. The available-for-sale financial assets belong to level 3 and derivative instruments belong to level 2 in the fair value hierarchy.

**31 Dec 2017**

<b>Balance sheet assets</b>	<b>Loans and other receivables</b>	<b>Assets at fair value through profit or loss</b>	<b>Available-for-sale</b>	<b>Total</b>
Available-for-sale financial assets	0	0	103	103
Derivative instruments	0	442	0	442
Trade receivables and other receivables (excluding prepayments)	41,481	0	0	41,481
Cash and cash equivalents	42,596	0	0	42,596
<b>Total</b>	<b>84,077</b>	<b>442</b>	<b>103</b>	<b>84,622</b>

<b>Balance sheet liabilities</b>	<b>Liabilities at fair value through profit or loss</b>	<b>Liabilities at original amortised cost</b>	<b>Total</b>
Loans (excluding finance lease liabilities)	0	39,952	39,952
Finance lease liabilities	0	1,827	1,827
Derivative instruments	778	0	778
Trade creditors and other liabilities (excluding statutory obligations)	0	65,304	65,304
<b>Total</b>	<b>778</b>	<b>107,083</b>	<b>107,861</b>

The Group's items measured at fair value only include derivative instruments. These instruments belong to level 2 in the fair value hierarchy.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The following is a presentation of the fair value determination principles used by the Group for all financial instruments. Furthermore, the table includes a detailed presentation of the fair values and book values of each item that correspond to the values in the consolidated balance sheet.

(EUR 1,000)	Note	Book value 2018	Fair value 2018	Book value 2017	Fair value 2017
<b>Financial assets</b>					
Other financial assets	16	103	103	103	103
Trade receivables and other receivables (non-current)	17	2,447	2,447	916	916
Trade receivables and other receivables (current)	20	54,457	54,457	51,903	51,903
Cash and cash equivalents	21	51,105	51,105	42,596	42,596
Forward exchange agreements	20	197	197	442	442
Interest rate swaps	20	0	0	0	0
<b>Total</b>		<b>108,309</b>	<b>108,309</b>	<b>95,961</b>	<b>95,961</b>
<b>Financial liabilities</b>					
Loans from financial institutions	26	42,218	40,558	39,502	37,576
Pension loans	26	0	0	450	443
Other liabilities	26	25,503	25,325	26,461	26,259
Finance lease liabilities	26	1,850	1,750	1,827	1,732
Trade creditors and other liabilities	27	101,154	101,154	91,920	91,920
Forward exchange agreements	27	56	56	68	68
Interest rate swaps	27	564	564	710	710
<b>Total</b>		<b>171,345</b>	<b>169,407</b>	<b>160,939</b>	<b>158,707</b>

The nominal values of forward agreements were EUR 31.8 million in 2018 and EUR 33.4 million in 2017.

The following price quotations, assumptions and valuation models have been used for the determination of fair values for financial assets and liabilities presented in the table:

- The book values of current financial assets and liabilities can be considered to correspond to their fair values.
- Unquoted equity investments are measured at acquisition cost as they cannot be measured at fair value using the valuation methods. If there are indications, that the fair value of the investments is significantly less than the acquisition cost, the impairment loss of available-for-sale shares is recognised through profit and loss. The original book value of receivables corresponds to their fair value.
- The fair values of forward exchange agreements are determined using the market prices for agreements of similar duration on the balance sheet date. The fair values of interest rate swaps have been determined using the method of present value of future cash flows, supported by market interest rates and other market information on the balance sheet date.
- The fair values of interest-bearing liabilities have been calculated by discounting the cash flows associated with each liability at the market interest rate on the balance sheet date.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<b>30. COMMITMENTS</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
<b>Contingent liabilities</b>		
Guarantees given on behalf of others	1,459	1,541
Repurchase commitments	552	3,464
Responsibility of checking the VAT deductions made on real property investments	7,839	8,752
Other commitments	87	58
<b>Total</b>	<b>9,937</b>	<b>13,815</b>
<b>Other lease contracts</b>	<b>3,554</b>	<b>2,700</b>
<b>Total</b>	<b>13,491</b>	<b>16,514</b>
<b>Minimum rents due based on other non-cancellable leases:</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Within one year	1,737	1,305
Within one to five years	1,817	1,364
After more than five years	0	31
<b>Total</b>	<b>3,554</b>	<b>2,700</b>

The Group has leased some of the service facilities and the machinery and equipment it has in use. The average contract length is five years, usually with an option to continue the contract after its original expiration date.

The consolidated statement of comprehensive income for 2018 includes EUR 0.8 million of rent expenses paid on the basis of other lease contracts (2017, EUR 0.8 million).

## 31. RELATED PARTY TRANSACTIONS

The Group's related parties include the parent company, subsidiaries and associates. Related parties also include the members of the Board of Directors and members of the management team, including the President and CEO.

The Group's parent and subsidiary relationships are the following:

Name and domicile	Group and parent company share of shares and votes, %
Parent company Ponsse Plc, Vieremä, Finland	
Ponsse AB, Västerås, Sweden	100.00
Ponsse AS, Kongsvinger, Norway	100.00
Ponssé S.A.S., Gondreville, France	100.00
Ponsse UK Ltd., Annan, United Kingdom	100.00
Ponsse Machines Ireland Ltd., Ireland	100.00
Ponsse North America, Inc., Rhinelander, United States	100.00
Ponsse Latin America Indústria de Máquinas Florestais Ltda, Mogi das Cruzes, Brazil	100.00
OOO Ponsse, St. Petersburg, Russia	100.00
Ponsse Centre, St. Petersburg, Russia (owned by OOO Ponsse)	100.00
Epec Oy, Seinäjoki, Finland	100.00
Ponsse Asia-Pacific Ltd., Hong Kong	100.00
Ponsse China Ltd., Beihai, China (owned by Ponsse Asia-Pacific Ltd.)	100.00
Ponsse Uruguay S.A., Paysandú, Uruguay	100.00

A list of associated companies is presented in Note 17. The Group has no joint ventures.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

<b>Management's employment-related benefits</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Salaries and other short-term employment-related benefits	3,811	3,485
Benefits paid upon termination of employment	0	0
Pension liabilities, statutory pension security	566	524
<b>Total</b>	<b>4,376</b>	<b>4,009</b>
<b>Salaries and bonuses</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
<b>President and CEO</b>		
Salaries and other short-term employment-related benefits	620	513
Pension liabilities, statutory pension security	222	162
<b>Total</b>	<b>842</b>	<b>674</b>
<b>Compensation of the members of the Board of Directors</b>		
Kaario Mammu	44	41
Kylävainio Matti	37	35
Saksman Ossi	9	35
Vanhainen Juha	29	0
Vidgrén Janne	37	35
Vidgrén Juha	48	46
Vidgrén Jukka	37	35
<b>Total</b>	<b>241</b>	<b>227</b>

The President and CEO is included in the performance-based bonus scheme. The bonus is based on a performance target approved by the Board of Directors. The President and CEO's period of notice is six months if service is terminated by the company, or six months if service is terminated by the President and CEO. The terms and conditions of the President and CEO's employment are defined in writing in a service contract approved by the Board of Directors. No loans have been granted to management.

### 32. EVENTS AFTER THE CLOSING DATE OF THE REPORTING PERIOD

The company has no important events after the conclusion of the period under review.

## FINANCIAL INDICATORS

	IFRS 2018	IFRS 2017	IFRS 2016
<b>Extent of operations</b>			
Net sales (EUR 1.000)	612,435	576,553	517,400
Change. %	6.2	11.4	12.0
R&D expenditure. total (EUR 1.000)	17,472	14,784	12,382
of which capitalised (EUR 1.000)	6,074	4,699	4,025
as % of net sales	2.9	2.6	2.4
Gross capital expenditure (EUR 1.000)	32,508	37,836	28,280
as % of net sales	5.3	6.6	5.5
Average number of employees	1,635	1,508	1,435
Net sales/employee (EUR 1.000)	375	382	361
Order stock. EUR million	294.9	124.6	123.9
<b>Profitability</b>			
Operating result (EUR 1.000)	61,717	67,432	55,158
as % of net sales	10.1	11.7	10.7
Result before taxes (EUR 1.000)	56,324	57,792	58,255
as % of net sales	9.2	10.0	11.3
Result for the period (EUR 1.000)	43,699	44,771	45,712
as % of net sales	7.1	7.8	8.8
Return on equity. % (ROE)	23.2	27.4	34.2
Return on capital employed. % (ROCE)	22.6	26.4	30.7
<b>Financing and financial position</b>			
Current ratio	1.8	1.8	1.9
Equity ratio. %	54.0	51.9	50.3
Net gearing. %	9.2	14.4	15.1
Interest-bearing liabilities (EUR 1.000)	69,571	68,241	60,116
Non-interest-bearing liabilities (EUR 1.000)	109,337	100,085	91,689

## PER-SHARE DATA <sup>1</sup>

	IFRS 2018	IFRS 2017	IFRS 2016
Earnings per share (EPS), EUR	1.56	1.60	1.63
Equity per share, EUR	7.15	6.32	5.35
Nominal dividend per share, EUR	0.80 <sup>1</sup>	0.75	0.60
Dividend per share adjusted for share issues, EUR	0.80 <sup>1</sup>	0.75	0.60
Dividend per earnings, %	51.3 <sup>1</sup>	46.8	36.7
Effective dividend yield, %	3.2 <sup>1</sup>	2.8	2.5
Price/earnings ratio (P/E)	15.9	16.5	14.7
Share performance			
Lowest trading price	23.85	20.85	15.57
Highest trading price	32.35	27.80	28.40
Closing price	24.75	26.38	23.98
Average price	28.79	24.20	22.25
Market capitalisation, EUR million	693.0	738.6	671.4
Dividends paid, EUR million	22.4 <sup>1</sup>	21.0	16.8
Shares traded	2,327,277	2,513,292	2,764,765
Shares traded, %	8.3	9.0	9.9
Weighted average number of shares during the period, adjusted for share issues	28,000,000	28,000,000	28,000,000
Number of shares on the closing date, adjusted for share issues	28,000,000	28,000,000	28,000,000

<sup>1</sup> The company's Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.80 per share shall be paid for the year 2018.

# FORMULAE FOR FINANCIAL INDICATORS

RETURN ON EQUITY, % (ROE)	=	$\frac{\text{Net result for the period}}{\text{Shareholders' equity + minority interest (average during the year)}} \times 100$
RETURN ON CAPITAL EMPLOYED, % (ROCE)	=	$\frac{\text{Result before taxes + financial expenses}}{\text{Shareholders' equity + interest-bearing financial liabilities (average during the year)}} \times 100$
EQUITY RATIO, %	=	$\frac{\text{Shareholders' equity + minority interest}}{\text{Balance sheet total - advance payments received}} \times 100$
NET GEARING, %	=	$\frac{\text{Interest-bearing financial liabilities - cash and cash equivalents}}{\text{Shareholders' equity}} \times 100$
AVERAGE NUMBER OF PERSONNEL DURING THE FINANCIAL YEAR	=	Average of the number of personnel at the end of each month. The calculation has been adjusted for part-time employees.
EARNINGS PER SHARE (EPS)	=	$\frac{\text{Net result for the period - minority interest}}{\text{Average number of shares during the accounting period, adjusted for share issues}}$
EQUITY PER SHARE	=	$\frac{\text{Shareholders' equity}}{\text{Number of shares at closing of the accounts, adjusted for share issues}}$
DIVIDEND PER SHARE, ADJUSTED FOR SHARE ISSUES	=	$\frac{\text{Dividend per share}}{\text{Adjustment factors for share issues after the financial period}}$
DIVIDEND PER EARNINGS, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$
EFFECTIVE DIVIDEND YIELD, %	=	$\frac{\text{Dividend per share, adjusted for share issues}}{\text{Last trading price for the period, adjusted for share}} \times 100$
PRICE/EARNINGS RATIO (P/E)	=	$\frac{\text{Last trading price for the period, adjusted for share issues}}{\text{Earnings per share}}$
MARKET CAPITALISATION	=	Number of shares at end of the financial year multiplied by the closing price on the last trading day of the financial year adjusted for share issues.
SHARES TRADED, %	=	$\frac{\text{Shares traded during the financial period}}{\text{Average number of shares during the period}} \times 100$

## PARENT COMPANY'S PROFIT AND LOSS ACCOUNT

(EUR 1,000)	Note <sup>1</sup>	2018	2017
<b>Net sales</b>	2	<b>466,585</b>	<b>450,395</b>
Increase (+)/decrease (-) in inventories of finished goods and work in progress		417	-870
Other operating income	3	2,228	2,387
Raw materials and services	4	-321,076	-312,012
Staff costs	5, 6, 7	-53,939	-50,488
Depreciation, amortisation and impairment	8	-12,329	-10,200
Other operating expenses		-33,773	-28,065
<b>Operating result</b>		<b>48,113</b>	<b>51,146</b>
Financial income and expenses	10	911	-555
<b>Result before extraordinary items</b>		<b>49,024</b>	<b>50,592</b>
Extraordinary items		0	0
<b>Result after extraordinary items</b>		<b>49,024</b>	<b>50,592</b>
Appropriations	11	-2,729	796
Direct taxes	12	-9,150	-10,099
<b>Net result for the period</b>		<b>37,145</b>	<b>41,289</b>

<sup>1</sup> The note refers to the Notes to the Accounts on pages 97-107.

# PARENT COMPANY'S BALANCE SHEET

(EUR 1,000)	Note <sup>1</sup>	2018	2017
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible assets	13	25,025	21,491
Tangible assets	13	85,295	74,774
Financial assets	14	11,516	11,516
<b>Total non-current assets</b>		<b>121,837</b>	<b>107,781</b>
<b>Current assets</b>			
Inventories	15	68,334	57,702
Non-current receivables	16	11,704	11,482
Current receivables	16	91,787	99,038
Cash in hand and at banks		41,979	35,665
<b>Total current assets</b>		<b>213,804</b>	<b>203,886</b>
<b>TOTAL ASSETS</b>		<b>335,640</b>	<b>311,668</b>
<b>LIABILITIES</b>			
<b>Shareholders' equity</b> 17, 18			
Share capital		7,000	7,000
Revaluation reserve		841	841
Other reserves		3,462	2,423
Retained earnings		131,614	111,392
Net result for the period		37,145	41,289
<b>Total shareholders' equity</b>		<b>180,062</b>	<b>162,945</b>
<b>Appropriations</b>	19	<b>3,787</b>	<b>1,058</b>
<b>Provisions for liabilities and charges</b>	20	<b>5,529</b>	<b>5,769</b>
<b>Creditors</b>			
Non-current creditors	21	43,545	44,503
Current creditors	22	102,717	97,392
<b>Total creditors</b>		<b>146,262</b>	<b>141,895</b>
<b>TOTAL LIABILITIES</b>		<b>335,640</b>	<b>311,668</b>

<sup>1</sup> The note refers to the Notes to the Accounts on pages 97–107.

## PARENT COMPANY'S CASH FLOW STATEMENT

(EUR 1,000)	2018	2017
<b>Cash flows from operating activities:</b>		
Operating result	48,113	51,146
Depreciation, amortisation and impairment	12,329	10,200
Change in provisions	-530	-1,567
Other adjustments	-130	788
Cash flow before changes in working capital	59,782	60,567
<b>Change in working capital:</b>		
Increase (-)/decrease (+) in current non-interest-bearing receivables	10,848	-18,749
Increase (-)/decrease (+) in inventories	-10,633	1,095
Increase (+)/decrease (-) in current non-interest-bearing liabilities	1,662	11,647
Cash flow from operations before financial items and income taxes	61,660	54,561
Interest received	1,279	1,566
Interest paid	-630	-780
Dividends received	1,810	2,060
Other financial items	-2,263	-1,972
Income taxes paid	-10,446	-11,178
<b>Net cash flows from operating activities (A)</b>	<b>51,410</b>	<b>44,256</b>
<b>Cash flows used in investing activities:</b>		
Investments in tangible and intangible assets	-26,385	-31,134
Proceeds from sale of tangible and intangible assets	417	87
<b>Net cash flows used in investing activities (B)</b>	<b>-25,967</b>	<b>-31,048</b>
<b>Cash flows from financing activities:</b>		
Acquisition of treasury shares	-92	0
Sales of treasury shares	0	0
Increase (+)/decrease (-) in current loans	1,550	10,550
Increase (+)/decrease (-) in non-current loans	-958	-1,408
Increase (-)/decrease (+) in non-current receivables	1,346	1,801
Dividends paid and other distribution of profit	-20,976	-16,780
<b>Net cash flows from financing activities (C)</b>	<b>-19,130</b>	<b>-5,837</b>
<b>Increase (+)/decrease (-) in liquid assets (A+B+C)</b>	<b>6,313</b>	<b>7,371</b>
Cash and cash equivalents on 1 Jan	35,665	28,294
Cash and cash equivalents on 31 Dec	41,979	35,665



# NOTES TO THE PARENT COMPANY'S ACCOUNTS

## 1. ACCOUNTING POLICIES

Ponsse Plc's financial statements have been prepared in accordance with the Finnish Accounting Standards (FAS). The information in the financial statements is given in thousands of euro and is based on original acquisition costs unless otherwise stated in the accounting policies. The financial statements have been presented in accordance with the profit and loss account by type of expense.

### NON-CURRENT ASSETS

Non-current assets are recognised in the balance sheet at immediate cost less planned depreciation and amortisation. Planned depreciation and amortisation has been calculated on a straight-line basis over the useful life of the assets. Depreciation and amortisation has been calculated starting from the month during which the asset was taken into use.

The depreciation and amortisation periods are:

R&D expenses	3 to 10 years
Intangible rights	5 years
Other intangible assets	5 years
Buildings and structures	20 years
Machinery and equipment	5 to 10 years

### INVENTORIES

Inventories are valued at acquisition cost or a lower probable net realisable value. The Weighted Average Cost method is used as a basis for calculating the value of materials and supplies in stock. The acquisition cost of finished and unfinished products comprises raw materials, direct expenses due to work performed, other direct expenses, and the appropriate proportion of the variable and fixed overheads of manufacturing at the normal utilised capacity. The inventory of second-hand machines is valued at acquisition cost or a lower probable net realisable value. Net realisable value refers to an estimated sales price available through normal business operations less the estimated costs of finishing the product and the costs of sale.

### GUARANTEE PROVISION

Probable guarantee expenses in respect of products delivered are booked under provisions for liabilities and charges.

### RECOGNITION OF SALES

Sales are recognised upon the delivery of performance. Items such as indirect taxes and discounts granted have been deducted from the sales revenue before calculating net sales. Exchange rate differences in sales are recognised in financial items.

### LEASING EXPENSES

Leasing payments have been recognised as expenses.

### R&D EXPENDITURE

Development costs that fulfil the capitalisation requirements of Chapter 5, Section 8 of the Accounting Act have been booked under intangible assets in the balance sheet and are subject to amortisation. Research costs are recognised directly as annual expenses.

### PENSIONS

Statutory pension cover for Group employees has been arranged through pension insurance companies and there are no outstanding pension liabilities. Pension insurance contributions have been allocated to match the wages and salaries booked on an accrual basis in the annual accounts.

### DERIVATIVES

Derivatives of the parent company include currency derivatives and interest rate swaps. The fair values of the currency derivatives are capitalised and the change of fair values is recognised through profit or loss for the financial period. The fair values of interest rate swaps are presented in notes to the off-balance sheet.

### INCOME TAXES

Income taxes have been recognised according to Finnish tax legislation.

### FOREIGN CURRENCY ITEMS

Business transactions in a foreign currency are recognised at the exchange rate on the transaction date, while receivables and liabilities in the balance sheet are converted at the exchange rate on the balance sheet date. Exchange rate differences arising from the measurement of balance sheet items are booked under financial items in the profit and loss account.

### COMPARABILITY WITH THE PREVIOUS YEAR

The data for the financial year 1 January to 31 December 2018 is comparable with the previous year.

## NOTES TO THE PARENT COMPANY'S ACCOUNTS

2. NET SALES BY MARKET AREA		
(EUR 1,000)	2018	2017
Northern Europe	190,588	182,318
Southern and Central Europe	87,881	83,827
Russia and Asia	106,630	94,864
North and South America	77,113	86,628
Other countries	4,372	2,757
<b>Total</b>	<b>466,585</b>	<b>450,395</b>
3. OTHER OPERATING INCOME		
(EUR 1,000)	2018	2017
Sales profits on tangible assets	417	87
Public subsidies	452	37
Other	1,358	2,263
<b>Total</b>	<b>2,228</b>	<b>2,387</b>
4. RAW MATERIALS AND SERVICES		
(EUR 1,000)	2018	2017
Raw materials and consumables		
Purchases during the financial period	301,353	302,146
Increase (-)/decrease (+) in inventories	10,215	-225
External services	9,508	10,091
<b>Total</b>	<b>321,076</b>	<b>312,012</b>
5. AVERAGE NUMBER OF STAFF		
persons	2018	2017
Employees	487	465
Clerical workers	377	341
<b>Total</b>	<b>864</b>	<b>806</b>

## NOTES TO THE PARENT COMPANY'S ACCOUNTS

<b>6. STAFF COSTS</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Salaries and bonuses	44,568	41,602
Pension costs	7,699	7,004
Other social security costs	1,672	1,882
<b>Total</b>	<b>53,939</b>	<b>50,488</b>
<b>7. MANAGEMENT SALARIES AND REMUNERATIONS</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
President and CEO	620	513
Members of the Board of Directors	324	396
<b>Total</b>	<b>943</b>	<b>908</b>
<b>8. DEPRECIATION AND VALUE ADJUSTMENTS</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Depreciation according to plan	12,329	10,200
<b>Total</b>	<b>12,329</b>	<b>10,200</b>
<b>9. AUDITOR'S REMUNERATIONS</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Authorised Public Accountants PricewaterhouseCoopers Oy		
Auditor's remunerations	45	45
Certificates and statements	2	3
Tax advice	5	1
Other remunerations	79	48
<b>Total</b>	<b>130</b>	<b>97</b>

## NOTES TO THE PARENT COMPANY'S ACCOUNTS

10. FINANCIAL INCOME AND EXPENSES		
(EUR 1,000)	2018	2017
Income from investments in non-current assets		
From Group companies	1,750	2,000
From associated companies	60	60
From others	0	1
Income from investments in non-current assets total	1,810	2,060
Interest income and other financial income		
From Group companies	1,246	1,536
Change in the fair value of derivative instruments	3,631	6,160
From others	8,396	7,627
Interest income and other financial income, total	13,272	15,323
<b>Financial income, total</b>	<b>15,081</b>	<b>17,383</b>
Value adjustments of financial securities	0	0
Interest expenses and other financial expenses		
To Group companies	0	0
Change in the fair value of derivative instruments	5,448	3,959
To others	8,722	13,979
Interest expenses and other financial expenses, total	14,170	17,937
<b>Financial expenses, total</b>	<b>14,170</b>	<b>17,937</b>
<b>Financial income and expenses, total</b>	<b>911</b>	<b>-555</b>
The item "Financial income and expenses" includes exchange rate profit/loss (net)	-714	-1,464
11. APPROPRIATIONS		
(EUR 1,000)	2018	2017
Difference between depreciations according to plan and depreciations in taxation	-2,729	796
12. INCOME TAX		
(EUR 1,000)	2018	2017
Income tax on extraordinary items	0	0
Income taxes from actual operation	9,150	10,099
Change in deferred tax asset	0	0
<b>Total</b>	<b>9,150</b>	<b>10,099</b>

## 13. INTANGIBLE AND TANGIBLE ASSETS

(EUR 1,000)	Development costs	Patent costs	Intangible rights	Other intangible assets	Prepayments and unfinished acquisitions	Total
<b>Intangible assets 2018</b>						
Acquisition cost 1 Jan 2018	22,123	876	1,810	8,338	7,720	40,868
Increase	3,176	861	235	1,843	8,271	14,386
Decrease	0	0	-6	0	-6,580	-6,585
Transfers between items	0	0	0	0	0	0
Acquisition cost 31 Dec 2018	25,300	1,738	2,039	10,180	9,412	48,669
Accumulated depreciation on 1 Jan 2018	-11,268	-743	-1,340	-6,026	0	-19,378
Accumulated depreciation on decrease and transfers	0	0	0	0	0	0
Depreciation for the accounting period	-3,320	-76	-192	-679	0	-4,267
Accumulated depreciation on 31 Dec 2018	-14,588	-819	-1,532	-6,705	0	-23,644
<b>Book value 31 Dec 2018</b>	<b>10,712</b>	<b>919</b>	<b>507</b>	<b>3,476</b>	<b>9,412</b>	<b>25,025</b>
Book value 31 Dec 2017	10,855	134	469	2,312	7,720	21,491

(EUR 1,000)	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Prepayments and unfinished acquisitions	Total
<b>Tangible assets 2018</b>						
Acquisition cost 1 Jan 2018	1,335	52,410	52,546	70	25,117	131,478
Increase	145	15,984	19,982	41	17,958	54,109
Decrease	0	0	-49	0	-35,476	-35,526
Transfers between items	0	0	0	0	0	0
Acquisition cost 31 Dec 2018	1,479	68,394	72,479	110	7,599	150,061
Accumulated depreciation on 1 Jan 2018	0	-21,864	-35,680	0	0	-57,544
Accumulated depreciation on decrease and transfers	0	0	0	0	0	0
Depreciation for the accounting period	0	-2,883	-5,180	0	0	-8,063
Accumulated depreciation on 31 Dec 2018	0	-24,747	-40,860	0	0	-65,607
Revaluations	0	841	0	0	0	841
<b>Book value 31 Dec 2018</b>	<b>1,479</b>	<b>44,488</b>	<b>31,619</b>	<b>110</b>	<b>7,599</b>	<b>85,295</b>
Book value 31 Dec 2017	1,335	31,387	16,867	70	25,117	74,774
Book value of operating machinery and equipment						
31 Dec 2018			28,402			
31 Dec 2017			13,986			

A revaluation of EUR 841 thousand was made on 31 August 1994 of the parent company's business premises at Vieremä. Depreciation has not been applied to the revaluation. The revaluation was made on the basis of legislation then in effect because the likely sales price of the premises is permanently and substantially higher than the acquisition cost.

## NOTES TO THE PARENT COMPANY'S ACCOUNTS

### 14. FINANCIAL ASSETS

(EUR 1,000) Financial assets 2018	Shares in Group companies	Shares in associated companies	Shares, other	Receivables from Group companies	Receivables, other	Total
Acquisition cost 1 Jan 2018	17,302	335	90	0	0	17,726
Increase	0	0	0	0	0	0
Decrease	0	0	0	0	0	0
Acquisition cost 31 Dec 2018	17,302	335	90	0	0	17,726
Accumulated write-downs 1 Jan 2018	-6,210	0	0	0	0	-6,210
Decrease	0	0	0	0	0	0
Write-downs	0	0	0	0	0	0
Revaluations	0	0	0	0	0	0
<b>Book value 31 Dec 2018</b>	<b>11,092</b>	<b>335</b>	<b>90</b>	<b>0</b>	<b>0</b>	<b>11,516</b>
Book value 31 Dec 2017	11,092	335	90	0	0	11,516

#### Group companies

Name and domicile	Company's share of ownership %
Ponsse AB, Västerås, Sweden	100.00
Ponsse AS, Kongsvinger, Norway	100.00
Ponssé S.A.S., Gondreville, France	100.00
Ponsse UK Ltd., Annan, United Kingdom	100.00
Ponsse Machines Ireland Ltd., Ireland	100.00
Ponsse North America, Inc., Rhinelander, United States	100.00
Ponsse Latin America Indústria de Máquinas Florestais Ltda, Mogi das Cruzes, Brazil	100.00
OOO Ponsse, St. Petersburg, Russia	100.00
Ponsse Centre, St. Petersburg, Russia (owned by OOO Ponsse)	100.00
Epec Oy, Seinäjoki, Finland	100.00
Ponsse Asia-Pacific Ltd., Hong Kong	100.00
Ponsse China Ltd., Beihai, China (owned by Ponsse Asia-Pacific Ltd.)	100.00
Ponsse Uruguay S.A., Paysandú, Uruguay	100.00

All Group companies were consolidated in the parent company's financial statements.

#### Associates

Name and domicile	Company's share of ownership %
Sunit Oy, Kajaani, Finland	34.00

The associate was consolidated in the parent company's financial statements.

## NOTES TO THE PARENT COMPANY'S ACCOUNTS

<b>15. INVENTORIES</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Raw materials and consumables	51,936	40,815
Work in progress	9,155	8,211
Finished products/goods	1,741	2,426
Other inventories	5,502	6,250
Prepayments	0	0
<b>Total</b>	<b>68,334</b>	<b>57,702</b>
<b>16. RECEIVABLES</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
<b>Non-current receivables</b>		
Receivables from Group companies		
Loan receivables	10,135	11,482
Loan receivables	0	0
Other receivables	1,569	0
<b>Non-current receivables, total</b>	<b>11,704</b>	<b>11,482</b>
<b>Current receivables</b>		
Trade receivables	15,218	15,216
Receivables from Group companies		
Trade receivables	70,902	76,206
Other receivables	3,468	6,711
Accrued income		
Grants receivable	221	38
Income tax receivables	953	0
Derivative contracts	197	442
Other accrued income	828	424
Other accrued income, total	2,199	904
<b>Current receivables, total</b>	<b>91,787</b>	<b>99,038</b>
<b>Receivables, total</b>	<b>103,491</b>	<b>110,519</b>

## NOTES TO THE PARENT COMPANY'S ACCOUNTS

17. SHAREHOLDERS' EQUITY		
(EUR 1,000)	2018	2017
<b>Equity employed</b>		
Share capital on 1 Jan	7,000	7,000
Scrip issue	0	0
Share capital on 31 Dec	7,000	7,000
Share premium account on 1 Jan	0	0
Scrip issue	0	0
Share premium account on 31 Dec	0	0
Revaluation reserve 1 Jan	841	841
Revaluation of non-current assets, change	0	0
Revaluation reserve 31 Dec	841	841
<b>Equity employed, total</b>	<b>7,841</b>	<b>7,841</b>
<b>Shareholders' surplus</b>		
Other reserves 1 Jan	3,462	2,423
Matching Share Plan, change	0	0
Other reserves 31 Dec	3,462	2,423
Retained earnings on 1 Jan	152,681	128,172
Purchase of treasury shares	-91	0
Dividend distribution	-20,976	-16,780
Retained earnings on 31 Dec	131,614	111,392
Result for the period	37,145	41,289
<b>Shareholders' surplus, total</b>	<b>172,221</b>	<b>155,104</b>
<b>Total shareholders' equity</b>	<b>180,062</b>	<b>162,945</b>



## NOTES TO THE PARENT COMPANY'S ACCOUNTS

<b>18. DISTRIBUTABLE FUNDS</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Retained earnings	131,614	111,392
Result for the period	37,145	41,289
Capitalised R&D expenses	-18,886	-16,368
<b>Total</b>	<b>149,873</b>	<b>136,313</b>

Capitalised R&D expenses are deducted from the distributable funds as of 1 January 2016.

A revaluation of EUR 841 thousand made on 31 August 1994 of the parent company's business premises at Vieremä has been retrospectively transferred from retained earnings to the revaluation reserve.

Ponsse Plc's registered share capital on 31 December 2018 was EUR 7,000,000 divided into 28,000,000 shares each having a nominal value of EUR 0.25. All shares are of the same series and each share entitles its holder to one vote at shareholder meetings and gives an equal right to a dividend.

Ponsse Plc's Board of Directors decided 11 June 2018 to establish a new long-term incentive scheme for the Group's key employees. In December 2018, bonuses from the scheme were paid partly in the form of company's shares and partly in cash. The monetary component covers taxes and tax-like fees arising from the bonuses to key employees. Shares given as a bonuses may not be transferred during the restriction period ending on 12 December 2021.

The prerequisite for participating in the scheme was that a key employee acquires the company's shares up to the number decided on by the Board of Directors.

Ponsse Plc has no outstanding convertible notes or bonds with warrants. The parent company holds no treasury shares. The Ponsse Plc Board of Directors is not currently authorised to increase the company's share capital, or issue convertible notes or bonds with warrants.

<b>19. ACCUMULATED APPROPRIATIONS</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Depreciation difference	3,787	1,058

<b>20. PROVISIONS FOR LIABILITIES AND CHARGES</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Guarantee provision	5,529	5,769
Other compulsory provisions	0	0
<b>Total</b>	<b>5,529</b>	<b>5,769</b>

## NOTES TO THE PARENT COMPANY'S ACCOUNTS

<b>21. NON-CURRENT CREDITORS</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Loans from financial institutions	39,000	39,000
Pension loans	0	0
Other loans	4,545	5,503
<b>Non-current creditors, total</b>	<b>43,545</b>	<b>44,503</b>
<b>Debts falling due in more than five years</b>		
Loans from financial institutions	0	0
Pension loans	0	0
Other loans	0	0
<b>Total</b>	<b>0</b>	<b>0</b>
<b>22. CURRENT CREDITORS</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
Loans from financial institutions	2,000	0
Pension loans	0	450
Other loans	20,958	20,958
Advances received	60	540
Trade creditors	58,763	59,710
Liabilities to Group companies		
Advances received	0	0
Intra-Group trade creditors	3,112	2,385
Other intra-Group liabilities	0	0
Accruals and deferred income	0	0
Liabilities to Group companies, total	3,112	2,385
Advance invoicing	391	0
Advance invoicing to Group companies	1,236	0
Other liabilities	2,369	1,302
Accruals and deferred income		
Accrued staff expenses	9,861	9,466
Interest accruals	40	32
Income tax liability	0	343
Accruals and deferred income in respect of inventories	0	0
Other accruals and deferred income	3,927	2,207
Accruals and deferred income, total	13,828	12,047
<b>Current creditors, total</b>	<b>102,717</b>	<b>97,392</b>

## NOTES TO THE PARENT COMPANY'S ACCOUNTS

<b>23. PLEDGES GIVEN, CONTINGENT AND OTHER LIABILITIES</b>		
(EUR 1,000)	<b>2018</b>	<b>2017</b>
<b>23.1 Pledges given for own debt</b>		
Company has not issued any written security for the external liabilities.		
<b>23.2 Leasing commitments</b>		
<b>Leasing payments payable under leasing agreements</b>		
Leasing payments payable during the next financial period	464	430
Leasing payments payable thereafter	411	414
<b>Leasing payments payable under leasing agreements, total</b>	<b>875</b>	<b>844</b>
<b>23.3 Contingent liabilities on behalf of Group companies</b>		
Guarantees given on behalf of companies within the Group	274	277

The parent company has issued a written security for the external liabilities of its six subsidiaries.

<b>23.4 Pension liabilities</b>	<b>2018</b>	<b>2017</b>
Pension cover for the personnel of the company is arranged with external pension insurance company.		
<b>23.5 Other contingent liabilities</b>		
Guarantees given on behalf of others	1,168	693
Repurchase commitments	552	391
Other commitments	7,926	8,810
<b>Other contingent liabilities, total</b>	<b>9,646</b>	<b>9,894</b>

The company is responsible for checking the VAT deductions made on real property investments if the taxable usage of the real property is diminished during the auditing period. The maximum amount of the liability is EUR 7,839,375 (EUR 8,751,739) and the last auditing year is 2028 (2027), and this is included in above-mentioned Other commitments -section.

<b>23.6 Derivative liabilities</b>	<b>2018</b>	<b>2017</b>
<b>Forward exchange agreements</b>		
Fair value	142	373
Value of underlying asset	31,775	33,401
<b>Interest rate derivatives</b>		
Fair value	-564	-710
Value of underlying asset	31,000	31,000

Derivative contracts are used solely to hedge against foreign exchange and interest rate risks.

## SHARE CAPITAL AND SHARES

Ponsse Plc's share capital is EUR 7,000,000 divided into 28,000,000 shares. The nominal value of each share is EUR 0.25. All shares are of the same series and each share entitles its holder to one vote at shareholders' meetings and gives an equal right to dividends.

Ponsse Plc has no outstanding convertible notes or bonds with warrants.

### TREASURY SHARES

The parent company holds no treasury shares.

The Annual General Meeting authorised the Board of Directors to decide on the acquisition of treasury shares so that shares can be acquired in one or several instalments to a maximum of 250,000 shares. The maximum amount corresponds to approximately 0.89 per cent of the company's total shares and votes. The shares will be acquired in public trading organised by NASDAQ OMX Helsinki Ltd ("the Stock Exchange"). Furthermore, they will be acquired and paid according to the rules of the Stock Exchange and Euroclear Finland Ltd. The Board may, pursuant to the authorisation, only decide upon the acquisition of the treasury shares using the company's unrestricted shareholders' equity. The authorisation is proposed for use in supporting the Company's growth strategy in the Company's potential corporate acquisitions or other arrangements. In addition, the shares

can be issued to the Company's current shareholders, used for increasing shareholders' ownership value by invalidating shares after their acquisition or used in personnel incentive systems. The authorisation includes the right of the Board to decide upon all other terms and conditions of the share issue. The authorisation is proposed to be valid until the next Annual General Meeting; however, no later than 30 June 2019.

The Annual General Meeting authorised the Board of Directors to decide on the issue of new shares and the assignment of treasury shares held by the company for payment or free of charge so that a maximum of 250,000 shares will be issued on the basis of the authorisation. The maximum amount corresponds to approximately 0.89 per cent of the company's total shares and votes. The authorisation includes the right of the Board to decide upon all other terms and conditions of the share issue. Thus, the authorisation includes a right to organise a directed issue in deviation of the shareholders' subscription rights under the provisions prescribed by law. The authorisation is proposed for use in supporting the company's growth strategy in the company's potential corporate acquisitions or other arrangements. In addition, the shares can be issued to the company's current shareholders, sold through public trading or used in personnel incentive systems. The authorisation is valid until the next AGM; however, no later than 30 June 2019.

### INCREASES IN SHARE CAPITAL 1994-2018

Subscription period	Method of increase	Nominal value EUR	Number of new shares	Increase in share capital EUR	New share capital EUR
31 August 1994	Scrip issue	0.84	1,300,000	1,093,221.52	2,489,181.31
9-22 March 1995	Scrip issue	0.84	148,000	124,459.07	2,613,640.38
9-22 March 1995	Rights issue targeted at the general public	0.84	392,000	329,648.34	2,943,288.71
16 March 2000	Split 1:2	0.42	-	0.00	2,943,288.71
16 March 2000	Scrip issue	0.50	-	556,711.29	3,500,000.00
29 November 2004	Scrip issue	0.50	7,000,000	3,500,000.00	7,000,000.00
29 March 2006	Split 1:2	0.25	-	0.00	7,000,000.00

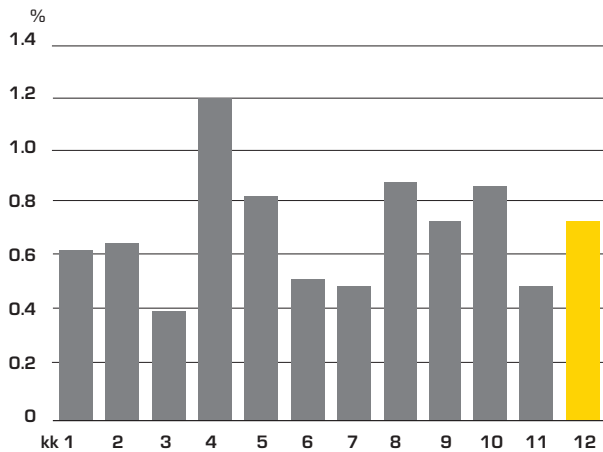
### Authorisation to increase share capital

At the end of the financial year, the company's Board of Directors did not have any valid authorisation to increase the share capital or to issue convertible bonds or bonds with warrants.

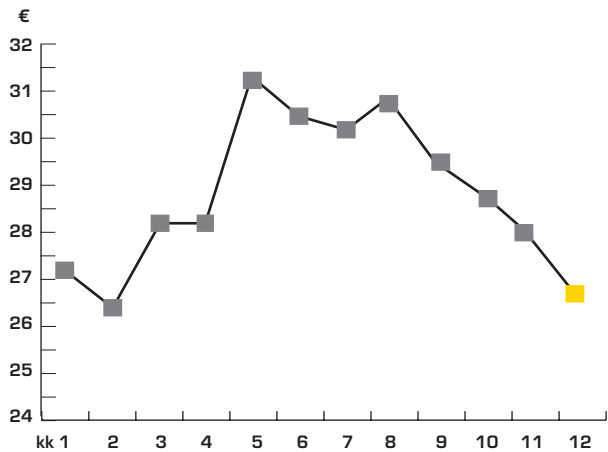
**SHARE TURNOVER 1 JANUARY – 31 DECEMBER 2018**

Month	Turnover value, EUR	Turnover, number of shares	Lowest, EUR	Highest, EUR	Weighted average share price, EUR	Closing price, EUR	Market capitalisation, EUR	Number of shares	Relative turnover, %
1	4,783,412	176,349	25.90	28.85	27.12	26.00	728,000,000	28,000,000	0.63
2	4,872,220	184,738	24.15	28.50	26.38	27.55	771,400,000	28,000,000	0.66
3	3,020,793	107,270	26.65	28.80	28.16	28.65	802,200,000	28,000,000	0.38
4	9,376,004	334,714	25.55	31.25	28.07	31.20	873,600,000	28,000,000	1.20
5	7,154,410	228,769	29.90	32.35	31.27	30.20	845,600,000	28,000,000	0.82
6	4,234,935	139,357	28.50	31.90	30.39	30.05	841,400,000	28,000,000	0.50
7	4,103,489	136,077	29.00	31.70	30.16	30.95	866,600,000	28,000,000	0.49
8	7,664,206	249,048	28.65	32.35	30.77	31.20	873,600,000	28,000,000	0.89
9	5,730,804	194,648	28.35	31.75	29.44	29.85	835,800,000	28,000,000	0.70
10	6,989,090	243,385	26.70	30.30	28.71	27.20	761,600,000	28,000,000	0.87
11	3,792,598	135,951	27.00	28.90	27.90	28.85	807,800,000	28,000,000	0.49
12	5,248,030	196,971	23.85	28.90	26.64	24.75	693,000,000	28,000,000	0.70
<b>2018</b>	<b>66,969,990</b>	<b>2,327,277</b>	<b>23.85</b>	<b>32.35</b>	<b>28.79</b>	<b>24.75</b>	<b>693,000,000</b>	<b>28,000,000</b>	<b>8.31</b>

**RELATIVE SHARE TURNOVER BY MONTH IN 2018**



**WEIGHTED AVERAGE SHARE PRICE BY MONTH IN 2018**



## SHARE CAPITAL AND SHARES

### SHAREHOLDER PROFILE ON 31 DECEMBER 2018

	Shares, pcs	Percentage of shares and votes, %	Shares of nominee- registered, pcs	Shares of nominee- registered, %	Votes, pcs	Percentage of votes, %
Enterprises	654,320	2.337	0	0	654,320	2.337
Financial institutions and insurance companies	1,793,435	6.405	1,356,719	4.845	3,150,154	11.251
Public sector entities	789,531	2.820	0	0	789,531	2.820
Households	22,541,390	80.505	0	0	22,541,390	80.505
Non-profit organisations	564,573	2.016	0	0	564,573	2.016
Foreign holding	238,955	0.853	61,077	0.218	300,032	1.072
<b>Total</b>	<b>26,582,204</b>	<b>94.936</b>	<b>1,417,796</b>	<b>5.064</b>	<b>28,000,000</b>	<b>100.000</b>

### ANALYSIS OF SHAREHOLDERS ON 31 DECEMBER 2018

Shares per shareholder	Number of shareholders	Percentage of shareholders, %	Shares, total, pcs	Percentage of shares and votes, %
1-100	6,738	52.802	296,512	1.059
101-500	4,010	31.424	1,053,220	3.762
501-1,000	985	7.719	776,960	2.775
1,001-5,000	842	6.598	1,822,147	6.508
5,001-10,000	90	0.705	668,069	2.386
10,001-50,000	77	0.603	1,554,486	5.552
50,001-100,000	6	0.047	375,485	1.341
100,001-500,000	7	0.055	2,333,523	8.334
over 500,000	6	0.047	19,119,598	68.284
<b>Total</b>	<b>12,761</b>	<b>100.000</b>	<b>28,000,000</b>	<b>100.000</b>

SHAREHOLDERS ON 31 DEC 2018				
No.	Name	Number of shares	Percentage of shares	Percentage of votes
1	Vidgrén Juha Einari	6,207,000	22.17	22.17
2	Vidgrén Jukka Tuomas	3,764,778	13.45	13.45
3	Vidgrén Janne	3,691,742	13.18	13.18
4	Vidgrén Jarmo	3,684,263	13.16	13.16
5	Nordea Nordic Small Cap mutual fund	933,324	3.33	3.33
6	Nordea Bank AB (publ)	838,491	2.99	2.99
7	Skandinaviska Enskilda Banken Ab (nom. reg.), Helsinki	497,139	1.78	1.78
8	Ilmarinen Mutual Pension Insurance Company	392,666	1.40	1.40
9	Varma Mutual Pension Insurance Company	389,000	1.39	1.39
10	Einari Vidgrén Foundation	388,000	1.39	1.39
11	Evli Suomi Pienyhtiöt mutual fund	260,000	0.93	0.93
12	Aktia Capital mutual fund	218,000	0.78	0.78
13	Odin Finland	188,718	0.67	0.67
14	SEB Finland Small Cap	80,000	0.29	0.29
15	Säästöpankki Kotimaa mutual fund	79,392	0.28	0.28
16	Nummela Juho Aleksii	58,995	0.21	0.21
17	Danske Invest Suomen Pienyhtiöt mutual fund	55,000	0.20	0.20
18	Randelin Mari	51,141	0.18	0.18
19	Nordea Pro Suomi mutual fund	50,957	0.18	0.18
20	Rinta-Jouppi Jarmo Aulis	50,000	0.18	0.18
21	Relander Pär-Gustaf	48,000	0.17	0.17
22	Tiitinen Arto	45,000	0.16	0.16
23	KPY Sijoitus Oy	41,727	0.15	0.15
24	Vidgrén Kalle Samuel	40,800	0.15	0.15
25	Vidgrén Henri Eemil	38,084	0.14	0.14
26	Apotrade Consulting Oy	35,000	0.13	0.13
27	Outokummun Metalli Oy	33,183	0.12	0.12
28	Kirkon Eläkerahasto	33,000	0.12	0.12
29	Relander Annette Louise	32,000	0.11	0.11
30	Pietarinen Oiva Untamo	31,432	0.11	0.11
	Other shareholders	5,743,168	20.51	20.51
	<b>Total</b>	<b>28,000,000</b>	<b>100.00</b>	<b>100.00</b>

At year-end 2018, Ponsse Plc had 12,761 shareholders (on 31 December 2017: 12,601).

#### **Management holdings**

Members of the Board of Directors, President and CEO, companies under their control and their underage children held a total of 13,727,290 Ponsse Plc shares on 31 December 2018, corresponding to 49.0 per cent of shares and votes in the company.

## **BOARD OF DIRECTORS' PROPOSAL FOR THE DISPOSAL OF PROFIT**

No material changes have taken place in the company's financial standing after the end of the financial year. When making its proposal regarding dividends, the Board of Directors has taken into account the impact of distribution of dividends on the Group's solvency as prescribed in Chapter 13, section 2 of the Companies Act.

The parent company's distributable funds total EUR 149,873,188.81, of which the net result for the period amounted to EUR 37,145,048.20.

The company's Board of Directors proposes that the Annual General Meeting authorise a dividend of EUR 0.80 per share for 2018 totalling to EUR 22,400,000.00.

EUR 127,473,188.81 shall be retained in the parent company's non-restricted equity.

Vieremä, 18 February 2019

JUHA VIDGRÉN

MAMMU KAARIO

MATTI KYLÄVAINIO

JUHA VANHAINEN

JANNE VIDGRÉN

JUKKA VIDGRÉN

JUHO NUMMELA  
President and CEO



# **AUDITOR'S REPORT** *(Translation of the Finnish Original)*

*To the Annual General Meeting of Ponsse Oyj*

## **REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS**

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### **OPINION**

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Board of Directors.

### *What we have audited*

We have audited the financial statements of Ponsse Oyj (business identity code 0934209-0) for the year ended 31 December 2018. The financial statements comprise:

- the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements, including a summary of significant accounting policies
- the parent company's balance sheet, parent company's profit and loss account, parent company's cash flow statement and notes to the parent company's accounts.

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### **BASIS FOR OPINION**

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

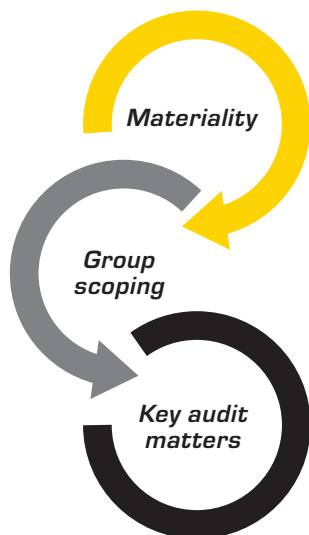
We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 5.1. to the Financial Statements.

## AUDITOR'S REPORT

### OUR AUDIT APPROACH

#### Overview



- Overall group materiality: € 2.8 million, which represents 5% of profit before tax

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- Audit scope: The scope of the audit in subsidiaries was determined based on the significance of the subsidiaries and risks, in order to obtain reasonable assurance on whether the consolidated financial statements as a whole are free from material misstatement arising from fraud or error. The scope of the audit in the subsidiaries varied, depending on the size of the subsidiary and risk assessment relating to it, from specified audit procedures to analytical procedures performed at group level.

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- Recognition of revenue from machine sales
- Valuation of inventories – trade-in machines and inventory of materials and supplies
- Parent company's net investment in subsidiaries

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

#### Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole

Overall group materiality	€ 2.8 million (previous year € 2.9 million)
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose result before taxes as the benchmark for determining materiality, as we understand that it is the measure most commonly used by readers of the financial statements when assessing the performance of the group. Furthermore, result before taxes is a generally accepted benchmark. We chose 5%, which is within the range of acceptable quantitative materiality thresholds in auditing standards.

#### *How we tailored our group audit scope*

We tailored the scope of our audit, taking into account the structure of the group, the accounting processes and controls, and the industry in which the group operates.

We determined the type of work that needed to be performed at group companies by either the group engagement team, or local PwC network firms operating under our instruction. An audit of component financial information or specified audit procedures was performed in those group companies that we regarded as significant because of their economic significance or special nature. These audits covered most of the group's net sales, assets and liabilities. For other group companies, certain specified procedures or analytical procedures were performed.

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#### **KEY AUDIT MATTERS**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

## AUDITOR'S REPORT

### KEY AUDIT MATTER IN THE AUDIT OF THE GROUP

#### **Recognition of revenue from machine sales**

*See Accounting principles concerning the consolidated financial statements – “Revenue recognition”, note 1 “Operating segments and revenue from contracts with customers” and Accounting policies, IFRS 15 Revenue from contracts with customers.*

The Group's net sales consist of machine sales and sales of maintenance services. Due to differences in the nature of the revenue streams, we assessed the related risks to be at different levels. Based on our judgment, our audit focused on revenue recognition from machine sales, while the risk of incorrect recognition of revenue from sales of maintenance services is lower.

Revenue from machine sales is recognized at a specific point in time when control transfers to the customer in accordance with agreement terms.

Our audit was focused around the recognition of revenue in the correct financial year, in order to cover the risk of recognizing the revenue either too early or too late.

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#### **Valuation of inventories – trade-in machines and inventory of materials and supplies**

*See Accounting principles concerning the consolidated financial statements – Inventories, the note on management judgments relating to inventories, and note 19 on inventories.*

Of the total balance of inventories (ca. € 127 million), approximately € 100 million consist of materials and supplies as well as other inventories. Our audit was focused around the risk that the inventories of trade-in machines and materials and supplies would not be measured at the lower of cost or net realizable value. The valuation of trade-in machines, in particular, is subject to management's estimates regarding net realizable value, as described in the notes on management judgment. Due to the significance of the inventories of trade-in machines and materials and supplies as individual balance sheet items, as well as management judgment involved in the measurement of those items, the valuation of these balance sheet items is regarded as a key audit matter.

### HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

As part of our audit procedures, we updated our understanding of the processes and controls related to the appropriate timing of revenue recognition, tested selected system controls relating to revenue recognition, analyzed the application and outcome of new IFRS 15 -standard and performed substantive audit procedures on net sales.

Our substantive procedures included:

- testing of sales transactions recognized within proximity of the year-end
- testing the sales transactions recognized during the year
- testing of agreements in connection with testing the application of IFRS 15 -standard
- testing of credit notes issued during the period and after the period end
- testing balance sheet items related to net sales
- testing of manual journal entries related to net sales

Our audit procedures relating to the inventories of trade-in machines and materials and supplies consisted primarily of the following:

We updated our understanding over the policies and procedures relating to the obsolescence model applied by the company. We compared the values of trade-in machines sold to the realized resale prices, to assess the accuracy and reasonableness of the remeasurement process used by management. We also analyzed the reasonableness of the measurement and the development of the value of the inventory of trade-in machines as a whole at the level of the group, as well as at the level of subsidiaries. We reviewed the turnover of the trade-in machines inventory by machine to evaluate whether a slow turnover is an indication of a potential need to recognize an additional allowance for obsolete inventory.

For the inventory of materials and supplies, we selected a sample of inventory items and traced their inventory value to purchase invoices. We analyzed the reasonableness of obsolescence write-downs recognized in the financial year. We also analyzed the turnover of the inventory of materials and supplies.

**KEY AUDIT MATTER IN THE AUDIT OF THE PARENT COMPANY*****The parent company's net investment in subsidiaries***

*See parent company notes 14 ("Financial assets"), 16 ("Receivables"), and 22 ("Current creditors")*

The parent company's equity investments in subsidiaries amount to ca. € 11 million, it has current and non-current receivables from subsidiaries amounting to ca. € 81 million, and its current liabilities owed to subsidiaries are ca. € 4 million. Accordingly, the amount of net investment is approximately € 88 million.

Our audit of the net investment was focused around the risk that the value of the equity investments would be permanently reduced, or that the current and non-current receivables would be impaired. If the investments or receivables were impaired, such impairment should be recognized as an expense in the parent company's financial statements, and the expense would have a direct effect on distributable funds. As a result of the above, the parent company's net investment in subsidiaries is a key audit matter.

**HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER**

To evaluate the measurement of the net investment, we assessed the budgets made by the company's management for the subsidiaries, as well as the future prospects and the estimated development of performance over a longer term. We also evaluated the ability of the subsidiaries to continue as a going concern, to determine whether there is doubt on any individual subsidiary's ability to continue as a going concern, to the extent that receivables from that subsidiary should be regarded as having no value at the balance sheet date.

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There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

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## AUDITOR'S REPORT

### *RESPONSIBILITIES OF THE BOARD OF DIRECTORS AND THE MANAGING DIRECTOR FOR THE FINANCIAL STATEMENT*

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

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### *AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error; as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## ***OTHER REPORTING REQUIREMENTS***

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### ***APPOINTMENT***

We were first appointed as auditors by the annual general meeting on 31 March 2010. Our appointment represents a total period of uninterrupted engagement of 9 years.

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### ***OTHER INFORMATION***

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion

- the information in the report of the Board of Directors is consistent with the information in the financial statements
- the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Vieremä 12 March 2019

**PricewaterhouseCoopers Oy**  
Authorised Public Accountants

Juha Toppinen  
Authorised Public Accountant (KHT)

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