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ANNUAL REPORT

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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 12,000 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 76.6 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 2016

MEUR 517,4

THE SHARE OF EXPORTS

76.6%

EMPLOYEES

1,453



01

PONSSE'S YEAR 2016

Ponsse's strong growth continued in 2016 with our net sales increasing by around 12 per cent. Our success is largely based on our clear focus on strong customer orientation and long-term development of the company.



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

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.

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.

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



Ponsse had a good year in 2016. Our business operations developed favourably in the first half, but the second half of the year was weaker than the excellent results we achieved in the second half of 2015. However, our strong growth continued in 2016, with our net sales increasing by around 12 per cent and exceeding EUR 0.5 billion for the first time. At the same time, we reasonably achieved our target levels for profitability and operating cash flow, which stood at 10.7 per cent and EUR 53.7 million, respectively.

Our success is largely based on our clear focus on forest machines using the cut-to-length method, strong customer orientation and long-term development of the company. Our international operations continued to grow strongly, with the share of exports increasing to 77 per cent of net sales.

The generally good state of the forest industry and extensive investments kept the forest machine market lively. Of our main market areas, Central Europe, the

United States and Russia were particularly strong in 2016. The economic situation in the United States continues to be good. Combined with the strong dollar, this had a positive effect on our sales. Machine sales remained at a good level in Russia throughout the year, and the Central European market developed very favourably. In Northern Europe, the Finnish market was again strong, and the positive development of our market share in Sweden was a long-awaited turn for the better.

We continued to invest in our Vieremä factory in Finland and in our maintenance service network. During 2016, we completed new customer service centres for our subsidiaries in the United States and Russia. We also invested in the extension of our logistics centre in Iisalmi. The Finland-based logistics centre serves our international maintenance service network. The development of the Vieremä factory focuses on the development of productivity, safety and the quality production ability throughout



“The generally good state of the forest industry and extensive investments kept the forest machine market lively. Of our main market areas, Central Europe, the United States and Russia were particularly strong in 2016.

the manufacturing network. Through the investments, we support our ability to manufacture PONSSE forest machines in Finland and to meet the needs of the market.

Since 2010, we have invested around EUR 67 million in product development and around EUR 115 million in fixed assets. Our investment intensity reflects our strong faith in the future and our firm development approach to leading our company forward.

The management of our company is strongly based on values, 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 employees will continue to enable our success.

*Juha Vidgrén
Chairman of the Board of Directors*

*Juho Nummela
President and CEO*

MARKET REVIEW



Demand for PONSSE forest machines remained high in 2016, and we delivered a record-high number of machines to our customers. The busy year saw positive developments on many fronts. The new model series gained an excellent foothold in the markets, and we were able to increase our market share in various market areas.

For several years, Russia has been one of our largest market areas, and also this year, sales continued to be strong. Currently, Russia is the world's third largest market for the cut-to-length method. The future is also looking good, as logging companies are acquiring more powerful harvesting equipment.

In Sweden, we improved our position by introducing a product range that is ideal for local harvesting needs. High demand for ergonomic and environmentally friendly products has especially sped up the sale of the PONSSE Scorpion harvester and the solid ActiveFrame forwarder. More than 100 PONSSE Scorpions have already been delivered in Sweden. In total, Sweden reclaimed its position as the world's largest cut-to-length market with 600 forest

machines sold, thanks, for example, to the good employment situation at sawmills.

The Finnish machine market also had a positive trend, with total sales being the highest since 2008. A total of 501 forest machines were sold in Finland, with Ponsse's market share being 45.7 per cent. These good results can be attributed not only to the new model series, but also to our excellent service network. The extensive network of 24 units covers the entire customer network, and our service businesses have received excellent feedback on their positive attitude.

With regard to our other markets, France and the USA showed the most positive development. In France, our machine sales set a new record. The new service centre

to be completed in Labouheyre in spring 2017 will offer excellent support to our customers in the south of France. In the rest of Central Europe, machine sales were at a good level.

In the USA, our machine sales were particularly supported by the country's good economic situation and the favourable exchange rate of the dollar. The service centre built in Oregon a little over a year ago also accelerated sales on the west coast, and we are continuously aiming to gain a foothold for our cut-to-length machines. The tree-length method is the prevailing harvesting method in the US, and the transition to the effective and environmentally friendly cut-to-length method is slow. The cut-to-length method only accounts for approximately 10 per cent of all harvesting in the US.

While the sales volume of new machines has increased, the sale of trade-in machines continues to be more important for our operations. We always aim to serve our trade-in machine customers in the same way as we serve buyers of new machines. As there are no intermediaries, trade-in machine customers have access to the same expertise and spare parts services of the service centre network as buyers of new machines. We have also developed different upgrade packages to improve the performance of trade-in machines. Second-hand machines allow many companies to start harvesting operations, and they offer valuable help during the busiest seasons.

Our investments in the service network and the Vieremä factory are proceeding nicely. Investments have been made in new service centres in France, Uruguay and the United States, and the expansion of the Iisalmi logistics centre has been completed. The expansion of the Vieremä factory is expected to be completed in late 2017. This factory expansion allows us to offer a broad product range to our customers and continuously develop the quality of our products.

This has also been a busy year for our customers. We firmly believe that the forest industry will continue to develop and grow. We believe it is important that we are able to keep our customers' machines up and running at their logging sites by continuously offering better products and services.

We warmly thank our customers and partners for their trust. We were able to do great things together, and we are in a good position to move forward.



*Jarmo Vidgrén
Sales and Marketing Director*

While the sales volume of new machines has increased, the sale of trade-in machines continues to be more important for our operations.



York Timbers, a forest company from South Africa, started to use cut-to-length machines in its planted forests in 2016. Their aim is to make harvesting more cost-effective and controllable. In addition to machine deliveries, the services offered to the company included a simulator, training services and maintenance agreements.



Forest machines work under the most demanding conditions. As the internationalisation rate of our operations increases, product testing is being performed more and more at the final operating sites in order to verify the performance and reliability of machines.

EVENTS DURING THE PAST YEAR

JANUARY



12 January

Javelin thrower Tero Pitkämäki, a long-term partner of Ponsse, was selected as Athlete of the Year at the Finnish Sports Gala.

FEBRUARY

17 February

Juho Nummela, President and CEO of Ponsse, was selected as Future CEO of Finnish Companies in the Future CEO 2016 survey.



MARCH

3 March

The 11,000th PONSSE forest machine was manufactured in Vieremä. The machine, a PONSSE Ergo 8w, was delivered to the Hungarian timber harvesting company Robusta Kft, which is based in Nyárlorinc.

18 March

Ponsse Uruguay won the Full Service Project of the Year award for its cooperation with UPM.

« A.L.P.A. Equipment Ltd was selected as the 2015 PONSSE dealer of the year. This family business with a 40-year history has served as Ponsse's dealer in eastern Canada since 2000.

» Hydromec Inc. in Quebec, Canada, was selected as the PONSSE service centre of the year. This family business was established in 1975.

« The award for best developer of local operations was given to FC Ventas y Servicios in Chile. The award is granted to the service centre that has improved its ESW audit result the most.

18 to 20 March

Hack the Harvester, a hackathon innovation event, was held at the Ponsse factory.

APRIL

8 April

Iisalmi was recognised as the PONSSE service centre of the year in Finland, and service mechanic Reima Haapala from Ilomantsi was selected as the customer service employee of the year. Ponsse has selected a best customer service employee of the year since 2004.



MAY

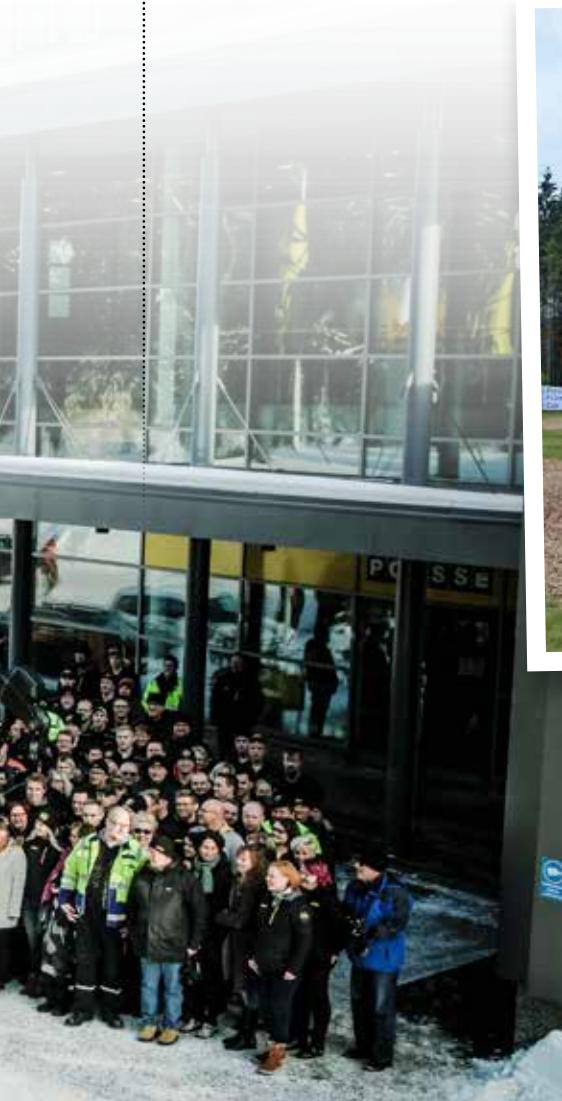


4 May

Austimber in Australia.

24 May

« Maintaining the life's work of Einari Vidgrén, the Einari Vidgrén Foundation granted a total of EUR 166,500 to 81 recipients. The winners of the most significant award, the Einari Award, were the long-standing harvesting company Lahtinen Forest Oy in Viitasaari and Väinö Kela from Metsäkone Kelat Oy, a company based in Ilomantsi, Finland.



JUNE

9 June

Andrey Izjurov from Lespromservis in Syktyvkar won the service mechanic contest of the Ponsse service network in Russia.

15 to 17 June

Forexpo Fair in France.



9 to 12 June

KWF-Expo 2016 in Germany.



EVENTS DURING THE PAST YEAR

JULY



AUGUST

31 August

The PONSSE Manager information system for the real-time management of forest machine companies' operations was introduced at the FinnMETKO trade fair, along with the PONSSE ActiveFrame suspension system for PONSSE Ergo harvesters.

SEPTEMBER

1 September

The implementation of the factory expansion investment began in Vieremä. The production facilities will be expanded by around 1.3 hectares, with the aim of further improving product quality and safety at work.

9 September

Ponsse finished second in the Responsible Summer Job 2016 competition. The company hired 46 summer workers in Finland.



13 September

The extension to the Ponsse logistics centre was inaugurated. The facilities were expanded by 2,500 m², with the total area increasing to 7,000 m².

15 to 17 September

APF in United Kingdom.

22 to 24 September

The PONSSE H8HD harvester head for harvesting and processing sturdy trunks was introduced at the Demo International 2016 trade fair on the western coast of Canada.



OCTOBER

26 October

Ponsse won the Finnish Growth Award. The award is granted annually to a company that has made bold decisions to promote exports, new jobs and innovation, and has made a significant contribution to the growth of the Finnish economy.



NOVEMBER

7 November

Juha Vidgrén, Chairman of the Ponsse Board of Directors, won the EY Entrepreneur of the Year award for 2016.



DECEMBER



20 December

Ponsse continued its long-term partnerships with its sponsored athletes. The team consists of javelin thrower Tero Pitkämäki, rally driver Esapekka Lappi, rower Robert Ven, snowboarder Rene Rinnekangas and skiers Kerttu Niskanen, Iivo Niskanen and Marjaana Pitkänen. Ponsse also sponsors the KalPa and Iisalmen Peli-Karhut ice hockey teams, as well as Team Finland in basketball.



PRODUCTS

Ergonomics, the environment and safety alongside efficiency



Ponsse's challenge is to develop and produce innovative and sustainable logging solutions for our customers. Our product development is based on customer feedback and the needs of their operating environment. In addition to efficiency, development revolves around ergonomics, environmental considerations and safety.

A BROAD RANGE COVERS A BROAD VARIETY OF NEEDS

Ponsse offers the broadest range of products used in environmentally friendly cut-to-length logging. Maintaining and continually developing the range is a large investment from the perspective of production, product development, training and services. A broad range is, nevertheless, an important part of our promise to manufacture productive forestry machines to serve our customers' needs in different market areas. The customer does not have to compromise and they can get exactly the machines they need.

Currently, PONSSE's forestry machines are used in roughly 40 countries, ranging from Inari in northern

Finland to Patagonia in Argentina. As conditions vary so widely due to the expansion of our markets and the changing climate conditions, logging solutions designed for various conditions are required. More often than before, logging has to be productive, environmentally friendly and take place on soft terrain or steep hills. Eight-wheeled and ten-wheeled forestry machines have been developed to meet these demands, and the use of a winch on the steepest hills ensures the operator's safety.

In addition to the conditions in the field, product development is guided by data involving the machine's actual use. Several markets lack a skilled workforce and usability supports the implementation of new technology.

New technical solutions also free up experienced operators who can then focus on other productive tasks. They also support managing logging companies with remote services and real-time monitoring.

A good example of our broad range are the four different models of Ponsse's eight-wheeled harvesters, which are used in many tasks from light thinning to heavy regeneration felling. Ponsse brought out the first eight-wheeled harvester models in 2009 and the portion of eight-wheeled machines is now over 90%. A special range of cranes supplements the harvester range. The range includes sliding boom cranes and parallel cranes from which the customer can select a crane of their liking suited to their needs.

ERGONOMICS AS A GUIDELINE FOR PRODUCT DEVELOPMENT

Until today, efficiency has been the main goal of product development. High productivity has been achieved and more recently interest in maximising efficiency has been directed toward ergonomics. The stability of the machine, minimising sideways movement and shaking, ergonomic controls and seats, improving visibility, more lights and accessibility for maintenance are only a part of the ergonomic features developed continually in the range. The PONSSE range uses 45 different patent families.

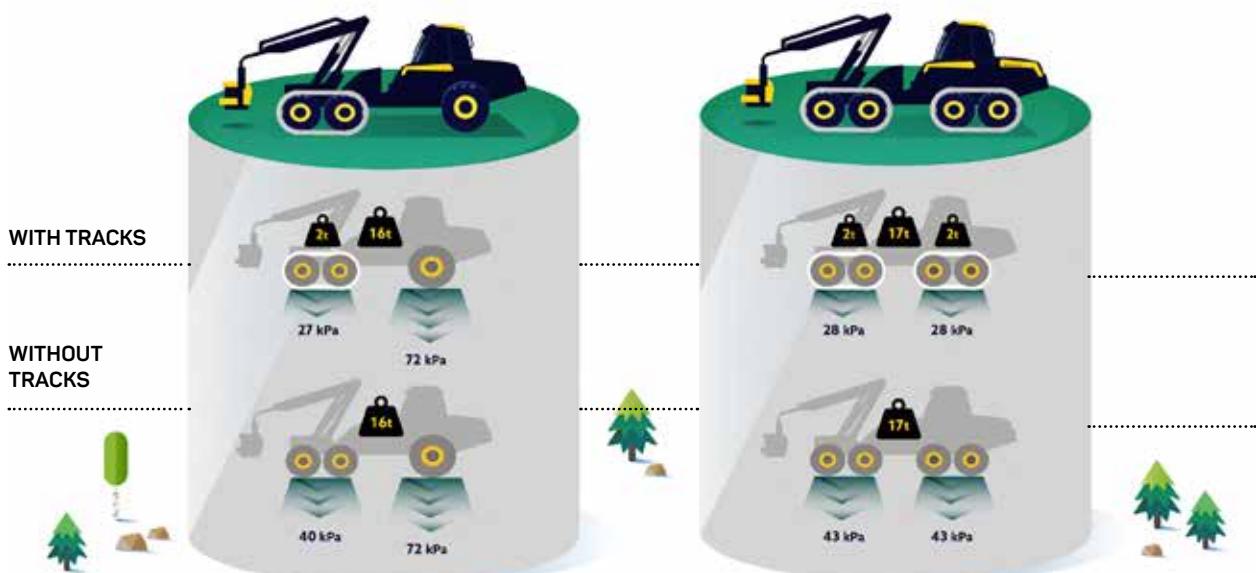
The operator's comfort is a central factor for productivity and quality. When operators do not tire from the movement of the machine, they remain more alert and can focus on work, even through a long shift. When work becomes easier, productivity and quality are improved.

Studies show that an ergonomic machine increases productivity, but ergonomics does not only mean an increase in production figures. An ergonomic work environment also influences the availability of skilled workers, the health of operators and the length of their working life. In addition, ergonomics improves the environmentally friendly use of the machines. If operators are alert during their shifts, the quality of their work increases. Ponsse's machines are equipped with sophisticated technology, but productivity and quality are always determined by the professional behind the controls: the operator.

THE LATEST IN PRODUCT DEVELOPMENT

Since 2010, Ponsse has invested 66.8 million euros in product development. The core of product development still takes place at Ponsse, because we want to be able to meet the demands of the market quickly and directly. In addition to new products, Ponsse's product development involves over a thousand annual alternations to its existing product range. Changes are, above all, responses

THE SURFACE PRESSURE ON SIX- AND EIGHT-WHEELED HARVESTERS



The surface pressure of an eight-wheeled PONSSE Ergo 8w harvester is 280 g/cm², 850 g/cm² for a six-wheeled Ergo and about 260 g/cm² for a human footprint.

PRODUCTS



The PONSSE range includes all sizes of forestry machines, which are used in various tasks from thinning and fuelwood harvesting to heavy regeneration felling over all kinds of terrain from soft ground to steep hills. Our product range includes harvesters, harvester heads and cranes, forwarders, loaders and logging information technology. All PONSSE forestry machines are produced in Vieremä at the same location where they were built when the company was founded in 1970. To ensure 100% quality, each machine is tested and test driven before it is delivered to the customer.

to customers' suggestions, but our service network and production give input as well. To maintain a leading edge, it is essential that our broad service network gathers feedback from the logging markets of over 40 different countries. As we have grown into an international business, product testing has gradually moved to the countries where the products will be used.

One example of an excellent use of cooperation, new technology and design is PONSSE's Scorpion harvester of which about 450 have been produced for the logging markets of 20 countries. The flagship of the PONSSE product range initiated a comprehensive renewal of the range where productivity, efficiency and usability were developed.

The most significant product development step in 2016 was the autumn introduction of PONSSE ActiveFrame cabin stabilisation system for the PONSSE Ergo harvester. The previous year saw the introduction of the ActiveFrame for forwarders. The ActiveFrame system stabilises the sideways movement of the cabin and it is a new and important step in the ergonomics of forestry machines. ActiveFrame suspends the movements caused

by the unstable terrain and maintains the cabin in a horizontal position. This makes working with the crane more effective and enables the use of higher driving speeds.

Various digital solutions play an increasingly important supporting role. The PONSSE Manager was designed to manage logging companies in real time and was released last year. The application provides extensive real-time data about the machine's performance and tasks, while keeping the business owner up to date about factors affecting profitability. The PONSSE EcoDrive application supports the operator's work by providing clear and useful information about the machine's use. It follows the economy and efficiency of the operator's performance and the machine's adjustments in real time via the control system. This enables the operator to continually develop their methods.

ENVIRONMENTALLY FRIENDLY AND EFFICIENT CUT-TO-LENGTH LOGGING

Ponsse specialises in harvesting solutions for cut-to-length logging (CTL). In environmentally friendly cut-to-length logging, the timber is felled, limbed and cut at the logging site. The best possible yield is obtained from the forest with the efficient method producing precision high-quality timber.

The method's rivals are whole tree logging and the tree-length method, where the tree is felled and transported to the processing site or timber terminal intact. Cutting for various uses takes place at a separate processing site or at the production facility. Half of all logging in the world is still done manually. Cut-to-length logging covers over 50% of industrial logging and its share is growing, due to the cost, ergonomic, environmental and efficiency demands of logging.

From an environmental perspective, the benefits of the rubber-tired machines used in cut-to-length logging are substantial. Eight-wheeled vehicles that are easy on the soil are especially suitable for soft terrain, steep hills or otherwise difficult sites. The undergrowth and ground suffer minimal damage, due to the machine's low surface pressure. When the weight of the machine is distributed over a larger number of wheels, the reduced surface pressure on the soil from eight-wheelers is superior to six-wheelers.

In cut-to-length logging, the timber is transported by forwarders that cause much less damage to the undergrowth than skidders that drag entire stems through the

logging site. At more delicate logging sites, a protective layer of branches can be spread out on the trail to protect the soil and to provide extra support for the harvester.

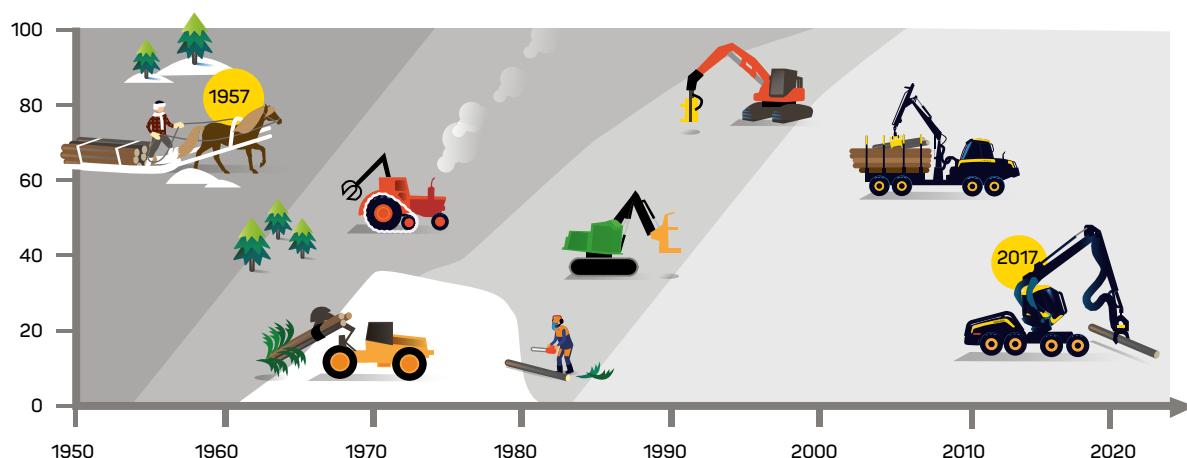
Another benefit of the method is a more balanced forest ecosystem. When the trees are limbed and cut in the forest, the nutrition-rich leaves, needles, branches and crowns are left at the site to feed the remaining trees and new seedlings.

OVERALL COSTS ARE KEY

The differences in the methods can also be seen in the overall costs. The cut-to-length machines include more sophisticated technology and, hence, they are often less affordable to acquire, but, in terms of overall costs, they are less expensive. With the competing methods, machinery, personnel, spare parts and fuel are needed more per harvested solid cubic metre.

The cut-to-length machines have been designed to be very adaptable and the same machines can be used for various tasks, from thinning to regeneration felling. The harvester crane's 10–11 metre range enables thinning without damaging the remaining trees. The technical specifications of the machines include ergonomics and stabilisation, which provide the operator with a pleasant and safe working environment. The cut-to-length features of the machine result in a quality end product. When the quality of the timber is not compromised during logging, it can be processed later into high-quality products.

THE DEVELOPMENT OF HARVESTING METHODS IN SCANDINAVIA



MORE PRODUCTIVE HOURS FROM FORESTRY MACHINES WITH THE RIGHT SERVICES

The share of services in Ponsse's business has increased in recent years as the machine stock and service catalogue have expanded. Designing services always begins with the needs of the customers. We aim to please our customers and to earn their trust.

Services that meet the customers' needs are one of the cornerstones for the business of all service providers and Ponsse. Customers need the right services delivered to them by trained professionals in their area to run their business efficiently. Ponsse believes in long and evolving partnerships with our customers and partners. Excellent services are a necessity in our business.

DEVELOPING A NETWORK PATIENTLY AND ACTIVELY

At the end of 2016, the PONSSE service network included 181 service centres, 39 of which were owned by Ponsse and 142 owned by contracted service providers or retailers. Our goal is that the services owned by contractors and retailers evolve alongside Ponsse's business. It is our responsibility to guarantee that the customer always receives a high-quality service whichever Ponsse service centre they choose to visit.

Last year, we actively developed our service network. Construction of new service centres started in Uruguay, France and the UK. These new facilities will be ready in 2017. Logistics were also enhanced with the expansion of the Iisalmi logistics centre. The surface area of the logistics centre was doubled and its storage capacity nearly tripled. The main storage facility can, at its best, deliver parts to the Nordic countries and Central Europe within two days, but we believe in maintaining extensive storages close to our customer at all market areas.

As the service network and its products have expanded, the training of service personnel has become more important. 550 people currently work in PONSSE's service network, offering maintenance and spare part services. We aim at training our employees regularly in order to help them maintain their skills. The development tool for PONSSE's service network is the ESW (Effective and Safe Workshop) auditing system. The tool was implemented in 2011 and it has solidified its position in the development and standardisation processes of the network's methods and services. The ESW has been used for over 200 audits.

SERVICES EVOLVE ACCORDING TO THE NEEDS OF THE CUSTOMERS

Good cooperation with the customers has led to the steady growth and development of Ponsse's long-term customer relations and service agreements (PONSSE Active Care and Active Care+). The customers tend to focus more on their core business and more often outsource their service needs to the PONSSE service network. Regular service by professionals creates more working hours for a forestry machine.

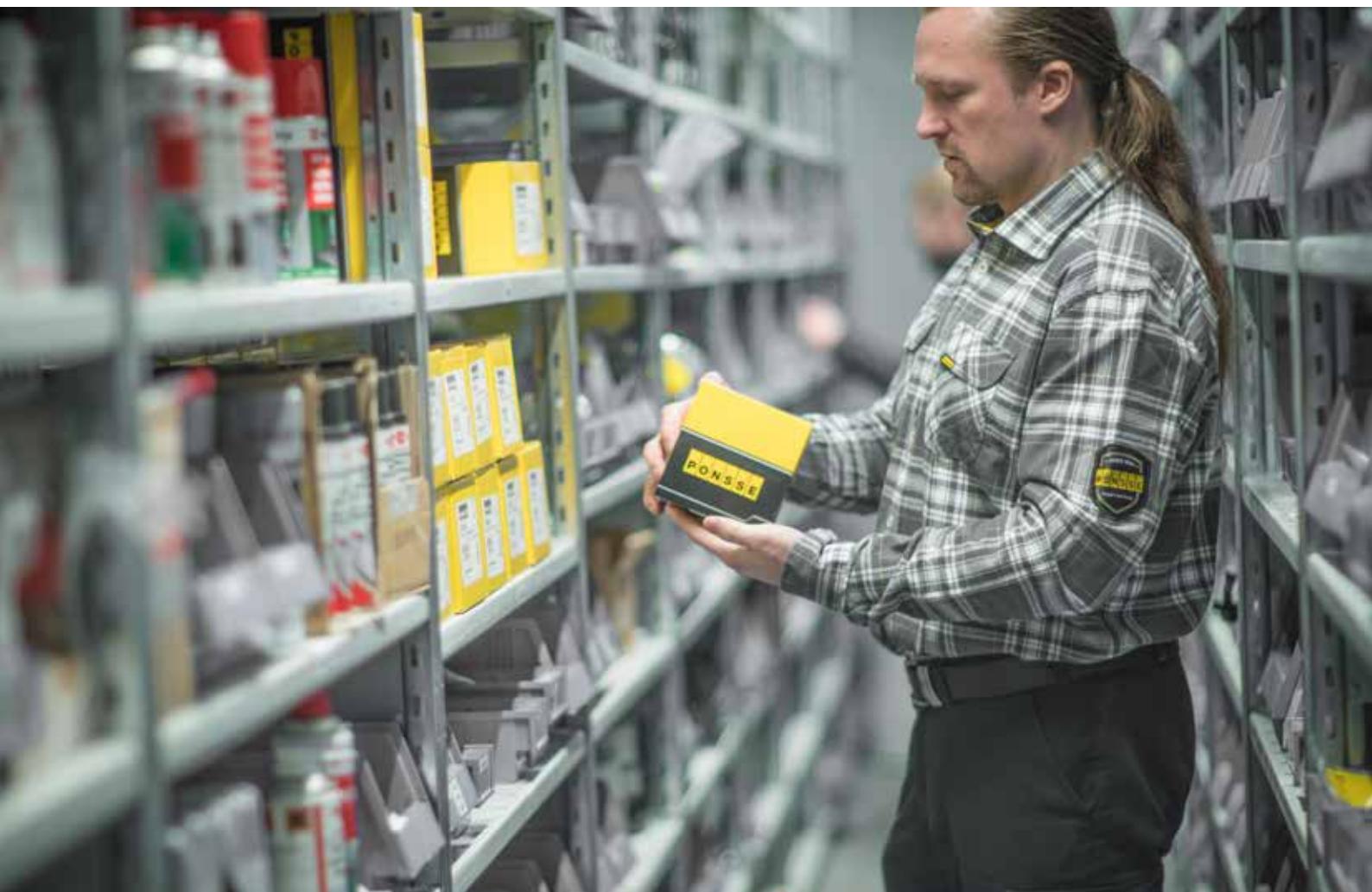
Our principle is to support the customer's business for the entire lifespan of their PONSSE machine and we develop our services continuously in order to meet this goal. One such service product is the PONSSE Performance Package, which improves the machine's performance and increases its lifespan. Even older machines benefit from the service and gain more efficient working hours. Customers may also count on our staff when they purchase a used machine.

In recent years, we have systematically expanded our range of PONSSE accessories and the range grew last year as well. In particular, the collection of accessories needed to maintain PONSSE forestry machines is comprised of carefully selected quality products that our customers use regularly.

TOWARD DIGITAL SERVICES

One major step in our service range in 2016 was the digitalisation of services. Digital services enable sharing machine-specific information from customers in real time throughout the entire service network. It is important for the customers and the service network that the digital services are not time or location bound.

The PONSSE Parts Online spare part order service was introduced last year. The real-time service currently works in Finland and it will be expanded to cover other market areas. PONSSE Parts Online enables the customer to order parts at any time from the nearest PONSSE service centre. A new Service Information System, which is used to search and share data with local services, was implemented to support the expanding service network.



BOARD OF DIRECTORS, 31 DECEMBER 2016



The Board was selected by the Annual General Meeting on 12 April 2016.

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 92,7%.

CHAIRMAN OF THE BOARD

Juha Vidgrèn, b. 1970

Master of Pedagogy

Ponsse Plc, Board Member since 2000

Shareholding in Ponsse Plc on 31 December 2016:
6,207,000 shares

Work experience

Epec Oy, Chairman of the Board

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

University of Oulu, Board Member

Einari Vidgrén Foundation, Chairman of the Board

Einari Vidgrén Oy, Board Member

Klaffi Tuotannot Oy, Board Member

Vieremän Kylänraitti Association, Chairman of the Board

Vieremän Oriyhdistys Association, Chairman of the Board

Suomen Filmiteollisuus SF Oy, Board Member

DEPUTY CHAIRMAN OF THE BOARD

Mammu Kaario, b. 1963

Partnera Oy, Managing Director

Master of Law, MBA

Ponsse Plc, Board Member since 2010

Shareholding in Ponsse Plc on 31 December 2016:
4,500 shares

Independent of the company and major shareholders

Work experience

Korona Invest Oy 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 Oyj, Board Member

Makai Holding Oy, Chairman of the Board

SstatZ Oy, Chairman of the Board

Suomen Hoivatilat Oy, Board Member

BOARD MEMBERS

Matti Kylävainio, b. 1974

Keitele Group, Director of sawmill operations

M.Sc. (Econ.)

Ponsse Plc, Board Member since 12 April 2016

Independent of the company and major shareholders

Work experience

Keitele Forest – Export Manager and Sales Director
1999–2014

Other key positions of trust

Keitele Group, Board Member

Ossi Saksman, b. 1951

Commercial Counsellor, Administrative Notary

Ponsse Plc, Board Member since 2009

Shareholding in Ponsse Plc on 31 December 2016:
5,000 shares

Independent of the company and major shareholders

Work experience

Carlson Oy, Managing Director 1990–2008,
Office Manager 1977–1983

Kuopion Osuuspankki, Bank Manager 1984–1989

Saastamoinen Yhtymä Oy, Accounting Manager
1975–1976, Finance Manager 1973–1974

Other key positions of trust

Sepa Oy, Chairman of the Board

Janne Vidgrèn, b. 1968

Ponsse Plc, Area Director

Commercial College Graduate

Ponsse Plc, Board Member since 2013

Shareholding in Ponsse Plc on 31 December 2016:
3,691,742 shares

Work experience

Ponsse Plc, Area Director since 2007

Area Export Manager, Ponsse Plc 2001–2007

Marketing Manager, Ponsse Plc 1994–2001

Other key positions of trust

Epec Oy, Board Member

Jukka Vidgrèn, 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 2016:
3,764,778 shares

Work experience

Mutant Koala Pictures, Entrepreneur since 2004

Other key positions of trust

Einari Vidgrén Foundation, Board Member

PAVA ry, Chairman of the Board

Suomen Filmiteollisuus SF Oy, Chairman of the Board

MANAGEMENT TEAM

31 DECEMBER 2016



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 2016: 33,259 shares

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 2016: 9,540 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 2016: 1,200 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 2016: 3,684,263 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 2016: 3,960 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 2016: 5,980 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 2016: 4,340 shares

Juha Inberg, b. 1973

Dr. Tech.
Director, Technology and R&D
Member of the Management Team since 1 January 2009

AREA DIRECTORS AND SUBSIDIARY MANAGING DIRECTORS 31 DECEMBER 2016

Jarmo Vidgrén, b. 1975

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

Gary Glendinning, b. 1970

Managing Director, Ponsse UK Ltd.
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, Chile), Product Manager,
used machines
Joined Ponsse in 2006

Risto Kääriäinen, b. 1971

Managing Director, Ponsse China (Beihai Ponsse
Trading Co. Ltd)
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

Jouni Matikainen, b. 1967

Joined Epec in 2005

Marko Mattila, b. 1973

Managing Director, Ponsse Latin America Ltd.
since 1 August 2016
Joined Ponsse in 2007

Clément Puybaret, b. 1980

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

Teemu Raitis, b. 1977

Managing Director, Epec Oy since 22 August 2016
Joined Ponsse in 2012

Pekka Ruuskanen, b. 1968

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

Norbert Schalkx, b. 1969

Area Director, Asia Pacific, Africa, Spain and Portugal
Joined Ponsse in 2008

Sigurd Skotte, b. 1962

Managing Director, Ponsse AS
Joined Ponsse in 2011

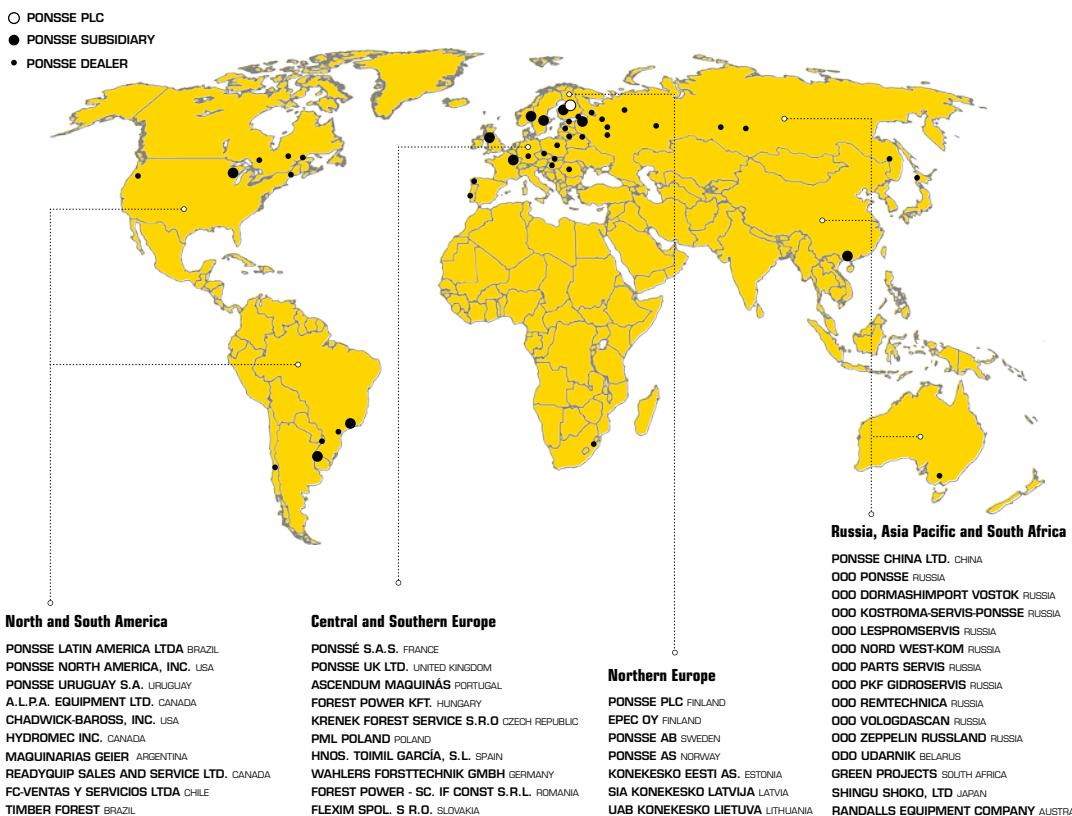
Martin Toledo, b. 1971

Managing Director, Ponsse Uruguay Ltd.
Joined Ponsse in 2005

Janne Vidgrén, b. 1968

Area Director, Austria, Croatia, Germany, Hungary,
Poland, Romania, Slovakia, Slovenia and the
Czech Republic
Joined Ponsse in 1994

SERVICE NETWORK







02

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

PRODUCT AND SERVICE	PERSONNEL	OPERATION AND COLLABORATION
R&D EXPENSES MEUR 12	Average number of employees in the Group: 1,435 of whom 62% in Finland and 38% in other countries. Average EMPLOYMENT DURATION 7,5 yrs VOLUNTARY TURNOVER 4,5% INCENTIVE PROGRAMME coverage 100%	Active operation in 40 countries Number of service offices 181 80% of suppliers are Finnish 80% of turnover generated outside Finland
GROSS INVESTMENTS IN FIXED ASSETS MEUR 28		

SUSTAINABLE FORESTRY	LIFE CYCLE MANAGEMENT	NATURAL RESOURCES
CUT-TO-LENGTH METHOD (CTL) products help ensure 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 We keep developing our working methods to further reduce consumption of fossil fuels.	CAREFUL MANAGEMENT OF AFTER-SALES SERVICE CONTRACTS <ul style="list-style-type: none"> Longer maintenance cycles Fewer maintenance products Less waste from maintenance Waste management and recycling at Ponsse ENVIRONMENTALLY FRIENDLY SERVICE PRODUCTS AND SPARE PARTS <ul style="list-style-type: none"> Recycling – Budget Parts Refurbishing – Reman Parts Older models – Classic Parts Biodegradable oils Digital services 24/7 	We pay special attention to the ENERGY efficiency of our premises and we prefer green electricity. Production WATER is circulated in a closed system and 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.

FINANCIAL DATA	STAKEHOLDERS
NET SALES MEUR 517 CASH FLOW FROM BUSINESS OPERATIONS MEUR 54	PROFITABILITY Operating result MEUR 55 equalling 11% of net sales SOLVENCY Equity ratio 50% gearing ratio 15%

FOUNDATION BUILT ON VALUES

Ponsse sees corporate social responsibility as a continuum, underlying its value-based operations in which sustainable development plays an important role. Throughout Ponsse's history, its strong values have steered its employees towards honest work, respect for other people and collaboration, and the aspiration to improve the company's operations and the surrounding community. The strong focus on sustainable development has contributed to the emergence of innovative product, service and operational solutions that help protect the environment and save natural resources. Furthermore, in keeping with its operating principles, Ponsse has always supported the vitality of local communities by conducting persistent financial management, investing in operations and facilities, and offering jobs and co-operation opportunities. Based on these values, Ponsse's CSR efforts and goals focus on the following:

- Fair and ethical practices
- Supporting well-being and life-long learning
- Sustainable, innovative, natural resource-saving operations and R&D activities
- Sustainable business and finances management, supporting stakeholder continuity

Our CSR work is conducted within the framework of national and international legislation, employer obligations and commitments. We report on CSR matters according to the EU Directive on the disclosure of non-fi-

nancial information. We keep an active track of changes in requirements in our operating regions and participate in development work. We see change as an opportunity and part of continuous development. The aim of CSR reporting is to improve the transparency of our operations and goals.

At the Group level, the guideline for our CSR efforts is our Code of Conduct approved by the Company Board at the end of 2016. The Code of Conduct addresses the following topics: compliance with laws and regulations, human and employee rights, equality and non-discrimination, health and safety, the environment, integrity, money laundering, fair competition, company assets, and feedback. The purpose of the Code of Conduct is to foster increasingly uniform principles and practices throughout the Group and to improve operations. One of our primary CSR development efforts will be the arrangement of training on ethical principles. A Group-wide feedback channel and process also form an important part of this work. Our managers and supervisors play a key role in ensuring a uniform company culture and they are responsible for making sure that every Ponsse employee knows his/her responsibility and complies with the company's guidelines. Responsibility is an obligation for every Ponsse employee.

The Ponsse CSR model describes the priorities and related goals and components of the social, environmental and economical responsibility areas. Ponsse's management is committed to developing and managing

PONSSE'S ROLE AS A CONTRIBUTOR TO SUSTAINABLE FORESTRY



CORPORATE SOCIAL RESPONSIBILITY (CSR) AT PONSSE

responsibility, together with the company's employees and partners. Ponsse has always operated responsibly. The formal, goal-oriented CSR efforts and CSR reporting development by the company management and employee representatives started in 2016. The foundation set for this work comprises Ponsse's values, Code of Conduct, and the goal to support sustainable development and comply with the EU's directives on the disclosure of non-financial information.

Ponsse's functions identified CSR-related goals, stakeholders, strengths and challenges, as well as key trends in the operating environment. Based on the results the CSR stakeholders and connection to strategic management were defined. Additionally the CSR model and action plan were created to support unified understanding and practices.

STAKEHOLDERS' EXPECTATIONS GUIDE THE RESPONSIBILITY WORK

Ponsse maintains strong, long-term relationships with its customers and co-operation partners. We work with our stakeholders in an active, open interaction, based on honesty and the continuous will to improve our products, services, and operations. We want to know our customers personally, in order to steer our operations in the right direction. We also strive to take our customers' families and stakeholders into account.

Ponsse is a visible participant in the communities in which it is present, and we strive to prefer local partners. We contribute to local well-being by being a responsible employer and conducting persistent, profitable, environmentally sustainable business. We respect local cultures and uphold our company values, also from the local community's perspective.

In terms of social responsibility, our stakeholders are customers, employees, partners, owners, public authorities, financial institutions, local communities, society, and the media. The expectations of these stakeholders have influenced the definition of our CSR focus areas, development targets, communication solutions. We work with our stakeholders to achieve a better understanding of their expectations and opinions on the responsibility of Ponsse's products, services and operations. Apart from responding to our stakeholders' expectations, further focus areas in CSR include responsibility based on compliance with laws and norms, as well as ethical and moral responsibility. We strive to improve our CSR performance by paying equal attention to all of these three levels.

RESPONSIBILITY AS PART OF THE STRATEGIC MANAGEMENT

At Ponsse, responsibility and sustainable development are closely linked to strategic management. Ponsse's CSR efforts are guided by its corporate governance systems

RESPONDING TO STAKEHOLDER EXPECTATIONS

	CUSTOMERS	PERSONNEL	PARTNERS	OWNERS	SOCIETY AUTHORITIES	COMMUNITY	MEDIA
ETHICAL AND MORAL RESPONSIBILITY	Contributing to customer's success	Investing in competencies, health and safety, and atmosphere	Developing partnerships and co-operation	Value-based, responsible business	Corporate social responsibility	Contributing to the development of surrounding communities	Active, open communications
RESPONSIBILITY TOWARDS STAKEHOLDERS	Activities based on customer needs	Reliable, fair employer	Long-term co-operation relationship	Sustainable growth and value development	Transparency and persistent activities	Contributing to well-being in surrounding communities	Equal, up-to-date communications
RESPONSIBILITY CONCERNING LAWS AND NORMS	Fulfilling agreements and obligations regarding products and services	Fulfilling employer obligations	Fulfilling contracts and obligations	Profitable operation	Compliance with laws and regulations	Compliance with local laws and regulations	Compliance with stock market communication rules

* Partners refer to: suppliers, R&D subcontractors, educational institutions, retailers and contractual service providers, as well as financial institutions

and practices. In the future, CSR goals and development needs will be reviewed annually as part of the company's strategy process. The definition of Ponsse's CSR model has provided new viewpoints for the existing management practices, and updates will be implemented, as required.

TRENDS, RISKS AND OPPORTUNITIES

In conjunction with the CSR definition process, we identified trends prevailing in our operating environment, as well as risks and opportunities related to these trends. We found that the most significant trends influencing CSR management were the operating environment's susceptibility to change, digitalisation, and the increasing importance of social responsibility and sustainable development.

The accelerating pace of changes in the operating environment will further emphasise the importance of knowing our global customer network and the corporate cultures within it, listening to customers' needs and maintaining good customer relations. Furthermore, staying up-to-date with all applicable regional and national laws and regulations in the global operating environment is a major challenge for all companies. These factors generate pressure in terms of having sufficient resources and expertise, and sharing knowledge throughout the organisation. There is a risk that we might not recognise stakeholder expectations or changes in the operating environment in time. Our strength lies in our significant investments in the sales and service network, closeness to the customer and recognising customer needs in different market regions. We have allocated responsibility for monitoring laws and regulations across various functions in our organisation, and external experts are used, when required.

Digitalisation means that an increasing proportion of information and service is provided in electronic format. In the field of forest machinery, digitalisation is manifested in the form of automated functions supporting the machine operator, as well as increasing efficiency in the operation of harvesting companies. Forest machines can transmit information on defects or service needs across the world. However, people and regions are very different, and in some market regions, the abilities and possibilities of utilising digital services are still relatively poor. Digitalisation also involves increasing data security risks, and this must be taken into account when processing business, customer and personal information in electronic services.

Risks related to digitalisation have been identified, and they are managed from the perspectives of data, operations, products and services.

Corporate social responsibility and sustainable development have become increasingly important, and the awareness and expectations of our customers and stakeholders in this respect have also increased. PONSSE forest machines have always been developed with environmental values in mind. The biggest risk in this area of operation is related to ensuring coherent responsibility practices in the global workplace and cooperation. In order to minimise these risks, we deploy Group-, function- and location-specific guidelines and auditing tools. As part of our CSR efforts, we will particularly focus on achieving a Group-wide culture and reaching our common goals. Despite the new challenges, increasing the transparency and goal orientation in our CSR activities presents a great opportunity for us, as we can proceed towards these goals together with our entire supplier and customer network.

MANAGEMENT SYSTEMS

The purpose of management systems is to standardise activities throughout the Group and to ensure continuous development. Our internal audits are based on international standards for quality management (ISO 9001), environmental management (ISO 14000), health and safety management (OHSAS 18001/ISO 45001), as well as accounting. Ponsse Plc is ISO 9001-, ISO 14000- and OHSAS 18001. Ponsse has not implemented the CSR management standard, but, instead, it operates according to its values, sustainable development perspectives, and the EU's CSR reporting requirements. Every subsidiary is responsible for implementing and observing the applicable local standards with the support of the Group's quality department. As part of our development efforts, we want to make sure that our CSR management targets are included in the existing auditing systems and practices.

PONSSE'S RESPONSIBILITY MODEL

According to Ponsse's definition, responsibility means the responsibility of the company and each individual for the social, environmental and financial consequences of activities, communications and decisions affecting stakeholders, society, nature, and the company's success. Responsibility refers to goal-oriented activities and it is embedded in our everyday work, decision-making and management. It extends beyond organisational borders and also covers

CORPORATE SOCIAL RESPONSIBILITY (CSR) AT PONSSE

our key partners and stakeholders that participate in the production of our products and services and their delivery to our customers.

SOCIAL RESPONSIBILITY

For Ponsse, social responsibility means responsibility for the company's products and services, employees, as well as honest and ethically sound business practices and communications. Ponsse's values, Code of Conduct and other internal guidelines define the company's commitment to

complying with laws and regulations, respecting human and employee rights, and conducting honest business and competition. These principles of social responsibility must be upheld by every Ponsse employee in his/her work. They also apply to our partners involved in the production of our products and services. The biggest risk identified with regard to social responsibility is failure in the implementation of the responsibility model, i.e. not achieving the targeted uniform company culture and practices throughout the Group and cooperation network.

PONSSE RESPONSIBILITY MODEL

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

RESPONSIBLE PRODUCTS AND SERVICES

The quality of our products and services and customer satisfaction are key factors steering our operations. We want to make the world's greatest forest machines that promote the profitable business of our customers, as well as the health and safety of employees. Safety and proper working methods are also taken into account in our marketing, training and customer service. We choose durable materials for our products and strive to find innovative, responsible solutions. In our service provision, particular attention is paid to the safety of service processes, the competence of our employees, and proper tools. We assume responsibility for the machine service situation and the tools required in it on behalf of our customer. We actively monitor changes in requirements and promptly respond to product development needs, while always keeping our customers' needs in mind. One element in

our development work is the better identifying of our customers' expectations concerning the responsibility of our products and services, and we seek new, innovative solutions to support our responsibility goals.

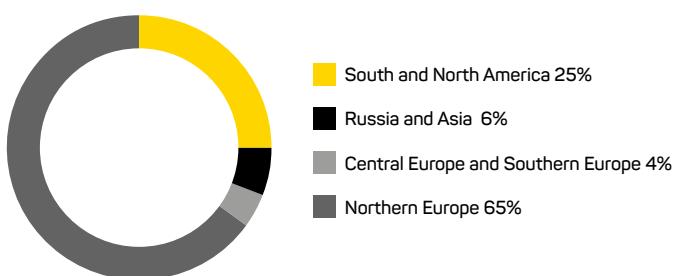
HEALTHY, EQUAL AND SKILLED PERSONNEL

Ponsse has always valued its employees and emphasised their importance. We want our employees to be safe and healthy and feel that they have a meaningful job in which they want to continuously improve their performance. As an employer, Ponsse wants to respect the international human and employee rights and offer every employee equal opportunities with regard to applying for vacant positions, enhancing their competencies, belonging to trade unions and becoming members of administrative bodies. It is our principle that the best, most suitable candidate is always selected for each position. Ponsse also values equality in

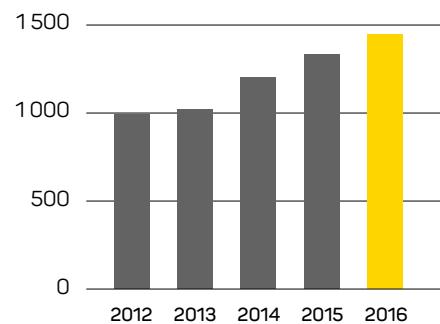
KEY FIGURES AND RATIOS

The CSR indicators describe Ponsse's development and position from the personnel perspective.

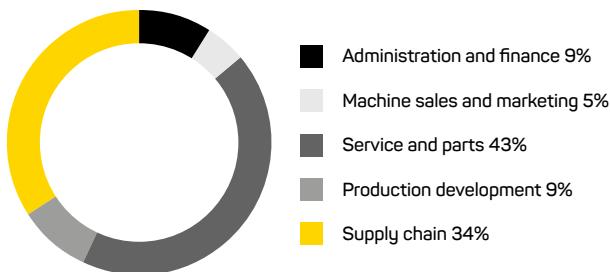
EMPLOYEES BY REGION 2016



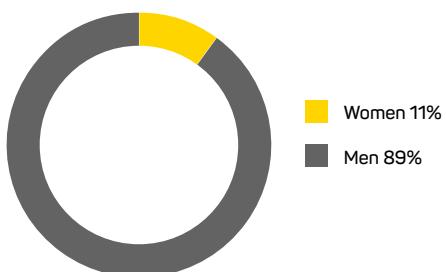
NUMBER OF PERSONNEL



EMPLOYEES PER FUNCTION 2016



GENDER DISTRIBUTION 2016



CORPORATE SOCIAL RESPONSIBILITY (CSR) AT PONSSE

communications. These principles apply to everyone within Ponsse – this is the only way to create an atmosphere based on positive, constructive collaboration.

Our HR management relies on active collaboration and interaction, compliance with the company values in all management and decision-making, ensuring occupational health and safety, consistent salary and remuneration systems, as well as continuous competence development. We set activity- and development-related goals at all levels: for the company, its various functions, as well as personally for every employee. The achievement of these goals is monitored and supported in different ways, such as development discussions. We deploy various competence development methods, based on each task's requirements and also on personal wishes. We systematically develop ways to enhance occupational well-being and competencies at the Group level, and we also monitor these activities and ensure their transparency. Employee satisfaction surveys are conducted throughout the Group on a regular basis.

Occupational safety is essential for every Ponsse employee. Ponsse has been monitoring and enhancing occupational safety, both at the Group level and at the level of various functions, based on local requirements. Ponsse employees are encouraged to assume an active role in enhancing safety and take responsibility for observing the commonly applicable practices. One goal of responsibility-related efforts is to create a common safety programme, based on best practices, in order to improve and unify our safety activities and enhance transparency throughout the Group. With regard to occupational safety, the goal is to steadily reduce the number of accidents and achieve a zero accident level throughout the Ponsse Group.

Apart from our own employees, our co-operation partners are also required to uphold human and employee rights. Moreover, we want all of our key product- and service-related partners to commit themselves to shared goals regarding ethical business, transparency and continuous development. We monitor the achievement of these goals by means of close co-operation, supplier and partner audits, as well as internal audits. The audit procedures will be updated to also cover the Group's CSR targets and criteria.

HONEST OPERATION AND AND COLLABORATION

Honest, ethical and collaborative activities and communications are important, value-based principles and goals

for Ponsse. Our Code of Conduct outlines the guidelines and goals for honest business, trade and co-operation with our stakeholders, and for the fair treatment of people in general. As the company has grown and expanded to the international scale, new challenges related to cultural differences, geographical distances and different operating environments have emerged. Through CSR work, we aim to further solidify a common foundation, find new ways to work and communicate, and ensure that every employee feels part of the same company and shares the same principles and goals. This can be achieved by implementing uniform, ethical practices and investing in competencies, communications and collaboration.

ENVIRONMENTAL RESPONSIBILITY

Ponsse's environmental responsibility management is based on the goals outlined in the Code of Conduct, according to which we are committed to complying with environmental laws and practices aimed at protecting and sustaining the environment. We also comply with the ISO 14001 environmental system. In addition, our environmental responsibility relies on our sustainable development targets related to saving natural resources. We pay particular attention to these factors in our product development, services and production. The common environmental targets also influence our investments: whenever possible, we prefer ecologically sustainable products and services. The greatest risks with regard to environmental responsibility are cases of unexpected environmental damage related to our products or service business. We conduct continuous research and development aimed at preventing environmental damage caused by our products, and active feedback from customers and observing our operating environment play a key role in this work. Supporting sustainable forestry, product life-cycle management and sustainable use of natural resources are key focus areas in our environmental responsibility efforts. Environmental management is embedded in the strategy process, in which we have defined our environmental requirements and targets.

ENVIRONMENTAL IMPACTS OF OUR PRODUCTS

The environmental impacts of our products are mainly related to the products' emissions during use, as well as the consumption of fluids and parts. The long service life and high recyclability of our products support our sustainable development goals. Thanks to technical advances, we have

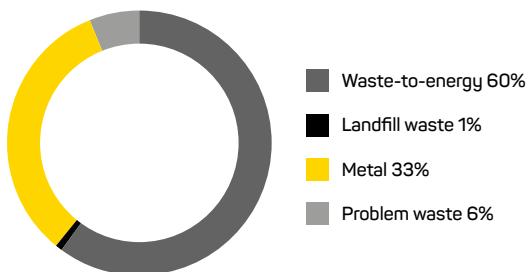
KEY FIGURES AND RATIOS

Key environmental responsibility figures are figures and ratios describing the environmental aspects in Ponsse's production at the Vieremä factory in 2014–2016.

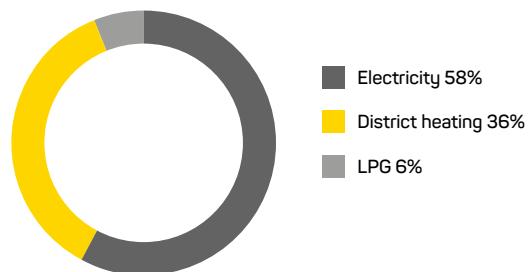
NATURAL RESOURCE USE AND WASTE

Site (Production, Vieremä Finland)	2014	2015	2016
Energy consumption (MWh)	9,999	10,785	11,091
Electricity (MWh)	6,358	6,439	6,414
District heating (MWh)	2,951	3,561	3,960
LPG (MWh)	690	785	717
Total water consumption (m ³)	7,017	8,915	11,252
Emissions, VOC (kg)	1,0121	11,456	14,439
Total amount of waste (thousand tonnes)	965	1,467	1,251
Number of employees (Production, Vieremä)	668	723	774

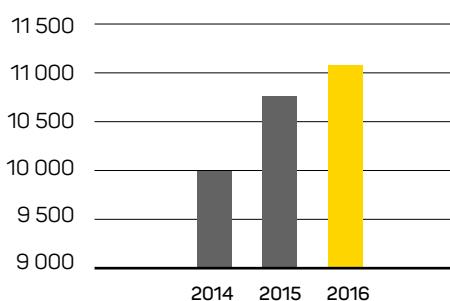
WASTE RECYCLING, VIEREMÄ 2016



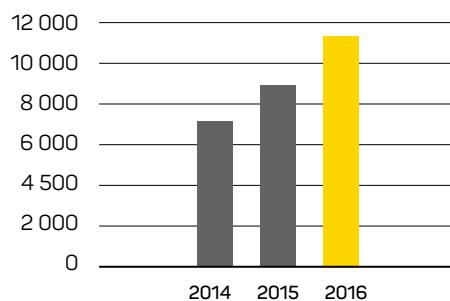
ENERGY CONSUMPTION 2016 (MWh)



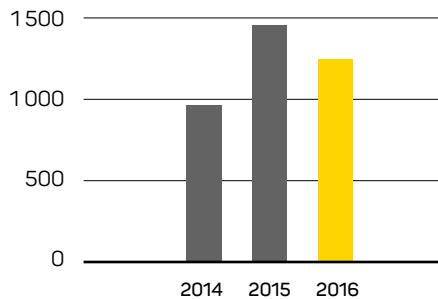
TOTAL ENERGY CONSUMPTION (MWh)



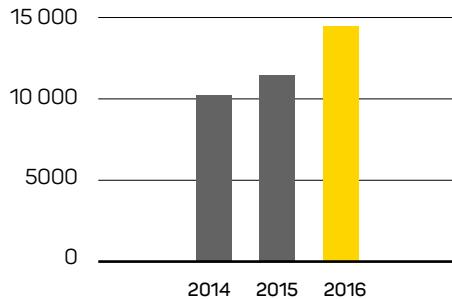
TOTAL WATER CONSUMPTION (m³)



TOTAL AMOUNT OF WASTE (T)



EMISSIONS VOC (KG)



CORPORATE SOCIAL RESPONSIBILITY (CSR) AT PONSSE

been able to extend the service interval of our forest machines, reduce oil consumption and the emission of oils into nature, and enable the use of biodegradable hydraulic oils in our products. Our product range includes 8-wheel harvesters and 10-wheel forwarders with low surface pressure, which is gentler on the terrain. Refurbished machines and parts are further manifestations of achieving our sustainable development goals. At the moment, we have placed a particular focus on reducing fuel consumption, minimising harvesting damage and extending the service life of our products and parts.

ENVIRONMENTAL IMPACTS OF THE SUPPLY CHAIN

Production is the main source of environmental impacts in the supply chain. The environmental impacts of production come from the consumption of energy and raw materials, VOC emissions generated in surface processing, handling and storage of chemicals, and emissions generated during product testing. Due to our production methods, water consumption is not a significant environmental factor. We use water to wash machines during product testing and to wash items in surface processing. In surface processing, washing water is reused several times to minimise water consumption. From our follow-up figures, we identified the factors that influence electricity consumption: production volumes, operating hours of production machinery, and number of personnel.

The greatest environmental impacts of procurement and logistics come from transport emissions. We are tackling these impacts by minimising transport distances, optimising delivery schedules and developing better packaging solutions. The primary goal of logistics is the efficient use and circulation of stock, which can also influence energy consumption and other such factors through the use of space. Another goal is to minimise packaging waste, recycle and reuse it as efficiently as possible.

In facility management, environmental values are taken into account when planning investments. We invest in optimal building system control, energy-efficient and water-saving solutions and preventive maintenance of our machinery. In addition, we prefer renewable energy, whenever possible. In late 2016, we decided to only purchase electricity based on renewable energy generation for our production plant. All of Ponsse's sites in Finland use electricity generated by using renewable sources. All in all, we strive to develop and choose solutions that im-

prove our energy efficiency and reduce natural resource consumption.

ENVIRONMENTAL IMPACTS OF SERVICES

Ponsse's service business aims at providing the customer with a well-functioning, productive machine that has a long service life so that the customer can focus on its own core business. From the environmental perspective, the goal is to minimise the environmental impacts related to the use and servicing of the machine and maximise its service life. The choice of parts and servicing products can also influence the environmental impacts generated during the life-cycle of the product. Offering factory-reconditioned parts and products (Reman Parts), second-hand parts (Budget Parts) and classic parts of machines that are no longer in production (Classic Parts) also promotes a long service life and material efficiency.

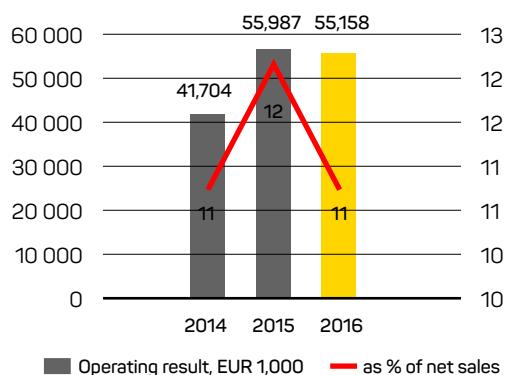
The greatest environmental impacts of our service business are related to the machine servicing measures and products, processing of waste, trips made by servicing personnel and customers, and the transport of machines. In the actual servicing situation, the most substantial environmental factors are the water used for washing and problem waste generated during servicing. Ponsse's service network deploys a common waste processing procedure and uniform requirements for servicing premises. This also concerns our retail and contractual servicing partners.

Our service contracts provide customers with improved reliability, predictable maintenance and good value retention for the machine. As the result of our R&D efforts, we have been able to extend our machines' service intervals, which has led to a reduction in the use of oil and fluids, as well as reduced fuel consumption in transport. When Ponsse assumes responsibility for the servicing of a machine, it also assumes responsibility for the appropriate processing of the related waste. The service contracts, as well as our 24/7 digital services and customer support, have helped us reduce unnecessary logistics. We monitor the service level of all members of our service business network through service audits, in order to ensure continuous, consistent development. In order to improve the responsibility of our services and activities, we aim to update the service audits so that they also include our set environmental targets.

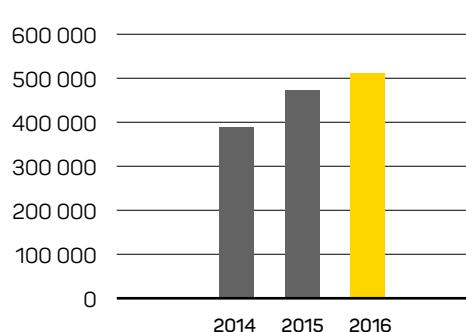
KEY FIGURES AND RATIOS

The key figures and ratios are based on the above-mentioned indicators describing responsible and balanced financial development.

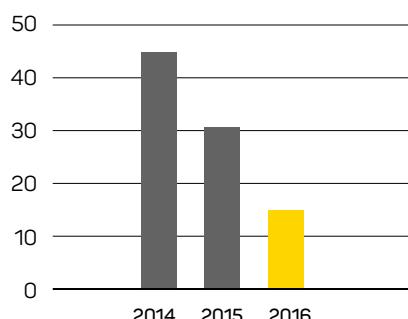
PROFITABILITY



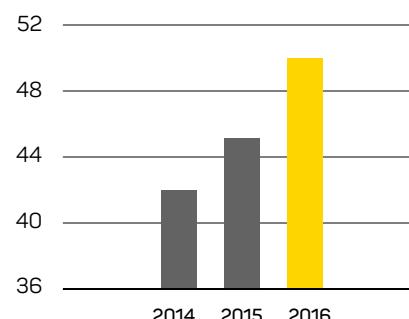
NET SALES, MEUR



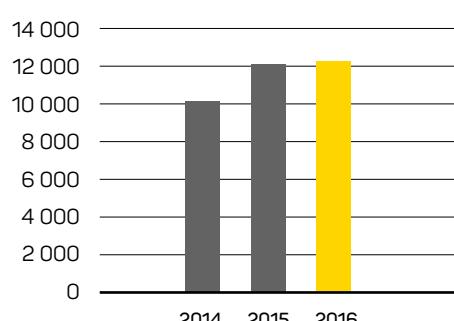
GEARING RATIO, %



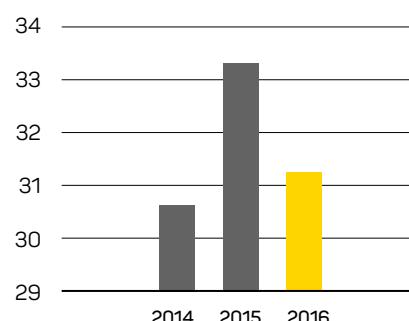
EQUITY RATIO, %



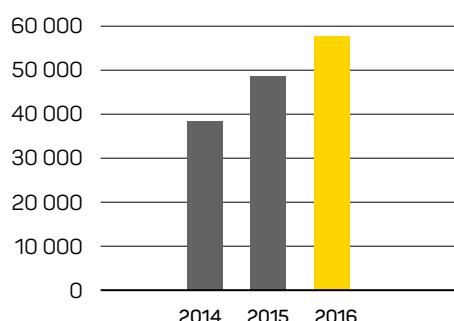
R&D EXPENDITURE, 1,000 EUR



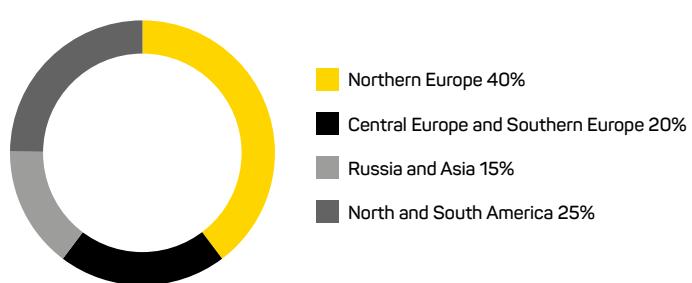
RETURN ON CAPITAL EMPLOYED, % (ROCE)



INVESTMENTS



NET SALES PER REGION 2016



CORPORATE SOCIAL RESPONSIBILITY (CSR) AT PONSSE

ECONOMIC RESPONSIBILITY

With the term 'economical responsibility', Ponsse refers to balanced, sustainable financial development, in which attention is paid to the perspectives of company stakeholders as well as environmental aspects. Ponsse values a good balance between operational growth, profitability and cash flow from business operations.

The Ponsse Group comprises the parent company Ponsse Plc, its subsidiary Epec Oy in Finland, as well as subsidiaries in Sweden, Norway, Russia, France, Great Britain, the United States, Brazil, Uruguay, and China.

BALANCED AND SUSTAINABLE COMPANY FINANCES

Ponsse aims at responsible growth, which means that the company's decision-making emphasises long-term operational development and securing a solid financial position in order to guarantee continuity. In practice, the company's goal is to grow profitably while generating a positive cash flow. This will secure a good solvency, financial position and liquidity. In order to ensure operational development and continuity, Ponsse makes significant investments in its R&D activities, supply chain and service business network in Finland and other countries.

RELIABLE AND EVOLVING FINANCIAL MANAGEMENT

Throughout its history, Ponsse has been a predominantly personally- and family-owned company, and values have always played a big role in its management. Ponsse's financial management is based on an active, proactive approach and it aims at improving the company's ability to respond to developments in the financial situation by utilising analyses, scenarios and good situational awareness in decision-making.

As part of the responsible financial management, the company deploys sustainable financing solutions to ensure the implementation of required investments and adjustment to the inevitable fluctuations related to the business. Investments are made on a long-term basis, the related risk management is taken into account in decision-making.

STAKEHOLDERS

One of the key tasks in responsible financial development and management is to make sure that the company can fulfil its obligations towards the key stakeholders. The company's most important obligations are the employees' salaries, owners' dividends, suppliers' payments and applicable taxes, as well as customer promises.

DEVELOPMENT OF GROUP RESPONSIBILITY

Ponsse identified the goals for its CSR development as the result of a materiality assessment, in which the focus areas and goals outlined in our responsibility model were assessed against stakeholder expectations and business significance. This assessment resulted in the Action Plan for 2017–2019, which is followed up and updated annually as part of our strategy work.

All in all, it can be said that the selected development tasks concern goals contributing to the creation of a uniform understanding of responsibility and company culture throughout the Ponsse Group, and the inclusion of CSR perspectives and targets in our existing management systems. A significant part of the development efforts is related to the development of tools enabling joint efforts.

ACTION PLAN FOR 2017-2019

FOCUS AREA: TARGET	MEASURES	TARGET 2019
PERSONNEL: Ponsse is a developing and safe workplace	<ul style="list-style-type: none"> The responsibility model has been communicated and implemented throughout the Group Safety management has been surveyed and the creation of a uniform model has begun Feedback channel defined and implemented at Group level 	<ol style="list-style-type: none"> 1. Uniform responsibility programme in the Group 2. Systematic safety programme in the Group 3. One channel for responsibility-related feedback
OPERATION AND COLLABORATION: We operate and communicate honestly, ethically and in a collaborative spirit	<ul style="list-style-type: none"> Code of Conduct training started Responsibility survey defined for stakeholders and included in the personnel survey Responsibility communication plan and materials defined, implementation started Responsibility criteria included in audits 	<ol style="list-style-type: none"> 1. Ponsse people are committed to the Code of Conduct 2. Ponsse's CSR activities comply with stakeholder expectations 3. Well-functioning responsibility communication 4. Responsibility targets included in audits
Our supply chain and customer service operate responsibly	<ul style="list-style-type: none"> Number of committed suppliers increases year by year The process of committing sales and service partners has started 	<ol style="list-style-type: none"> 1. Responsibility of supply chain 2. Customer service works in a responsible, consistent way
SUSTAINABLE FORESTRY: Innovative products supporting sustainable forestry and the preservation of nature	<ul style="list-style-type: none"> Increasing customers' awareness of the CTL method, expanding CTL markets Environmental impacts of products have been identified and described, development targets and indicators updated 	<ol style="list-style-type: none"> 1. Promoting the use of the CTL method 2. Reducing products' environmental impacts
LIFE CYCLE MANAGEMENT: Services supporting the environmentally sustainable use of our products	<ul style="list-style-type: none"> Environmental programme defined, implementation started Increasing number of service contracts 	<ol style="list-style-type: none"> 1. Environmental programme for service businesses in the Group 2. Increasing sales of services supporting the environmentally sustainable use of products
NATURAL RESOURCES: Environmental awareness and sustainable practices present in everyday work	<ul style="list-style-type: none"> Functions and subsidiaries are committed to the common goals New solutions to save natural resources, minimise waste and support recycling 	<ol style="list-style-type: none"> 1. Commitment to the environmental targets 2. Minimising natural resource use and waste generation
COMPANY FINANCES: Balanced, sustainable company finances	<ul style="list-style-type: none"> Cash flow, min EBITDA EBIT $\geq 12\%$ Capital turnover 	<ol style="list-style-type: none"> 1. Securing balanced, sustainable company finances in the long term.



03

BALANCE SHEET

Ponsse Plc's financial statements 2016 including Board of Director's report, consolidated financial statements (IFRS) and parent company's financial statements (FAS).



INFORMATION FOR SHAREHOLDERS

INFORMATION FOR SHAREHOLDERS

Ponsse Plc's Annual General Meeting for 2017 will be held on Tuesday 11 April 2017 at the company's registered office at Ponsentie 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 31 March 2017 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 6 April 2017 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 Thursday 6 April 2015, 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/yhtiokokous. 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 0.60 per share be paid for 2016. 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, 13 April 2017. The dividend shall be paid on 24 April 2017.

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 2017

In addition to the financial statements and the Annual Report for 2016, Ponsse Plc will issue three interim

reports. Interim reports for the financial period 2017 will be published as follows:

• January–March	25 April 2017
• January–June	8 August 2017
• January–September	17 October 2017

The interim reports will be published in Finnish and English on the Ponsse website at 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
Ponsentie 22, FI-74200 Vieremä, Finland
Tel. +358 (0)20 768 800
Fax +358 (0)20 768 8690
E-mail: corporate.communications@ponsse.com

The Annual Report will also be available online at 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
Fax +358 (0)20 768 8749
E-mail: juho.nummela@ponsse.com

Petri Härkönen, CFO
Tel. +358 (0)50 409 8362
Fax +358 (0)20 768 8749
E-mail: petri.harkonen@ponsse.com

INVESTMENT ANALYSES

The following companies, among others, follow Ponsse as an investment object:
Evli Bank Plc, 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 1 January – 31 December 2016

General

Ponsse Group recorded net sales amounting to EUR 517.4 million (in 2015, EUR 461.9 million) and an operating result of EUR 55.2 (56.0) million for the period. Result before taxes was EUR 58.3 (50.4) million. Earnings per share were EUR 1.63 (EUR 1.48).

Net sales

consolidated net sales for the period under review amounted to EUR 517.4 (461.9) million, which was 12.0 per cent more than in the comparison period. International business operations accounted for 76.6 (76.9) per cent of net sales.

Net sales were regionally distributed as follows: Northern Europe 39.3 (37.3) per cent, Central and Southern Europe 20.3 (18.6) per cent, Russia and Asia 14.7 (12.3) per cent, North and South America 24.6 (31.5) per cent and other countries 1.1 (0.4) per cent.

Profit performance

The operating result amounted to EUR 55.2 (56.0) million. The operating result equalled 10.7 (12.1) per cent of net sales for the period under review. Consolidated return on capital employed (ROCE) stood at 30.7 (32.8) per cent.

Staff costs for the period totalled EUR 73.9 (67.6) million. Other operating expenses stood at EUR 44.7 (40.3) million. The net total of financial income and expenses amounted to EUR 3.1 (-5.6) million. Exchange rate gains and losses with a net effect of EUR 3.9 (-4.0) million were recognised under financial items for the period. Result for the period under review totalled EUR 45.7 (41.3) million. Diluted and undiluted earnings per share (EPS) came to EUR 1.63 (1.48).

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 301.6 (267.7) million. Inventories stood at EUR 118.3 (104.6) million. Trade receivables totalled EUR 35.9 (40.2) million, while liquid assets stood at EUR 37.3 (26.5) million. Group shareholders' equity stood at EUR 149.8 (117.9) million and parent company shareholders' equity (FAS) at EUR 138.4 (113.6) million. The amount of interest-bearing liabilities was EUR 60.1 (62.4) million. The company has used 15 per cent of its credit facility limit. The parent company's net receivables from other Group companies stood at EUR 80.4 (60.9) million. The parent company's receivables from subsidiaries mainly consisted of trade receivables. Consolidated net liabilities totalled EUR 22.6 (35.9) million, and the debt-equity ratio (net gearing) was 15.1 (30.5) per cent. The equity ratio stood at 50.3 (44.8) percent at the end of the period under review.

Cash flow from operating activities amounted to EUR 53.7 (44.0) million. Cash flow from investment activities came to EUR -28.1 (-24.2) million.

Order intake and order books

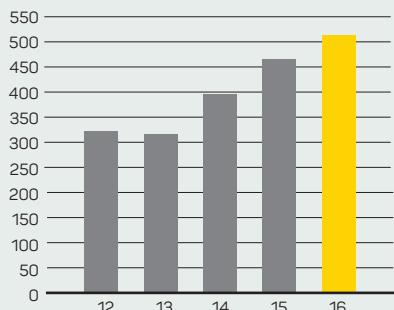
Order intake for the period totalled EUR 493.8 (469.4) million, while period-end order books were valued at EUR 123.9 (158.1) million.

Distribution network

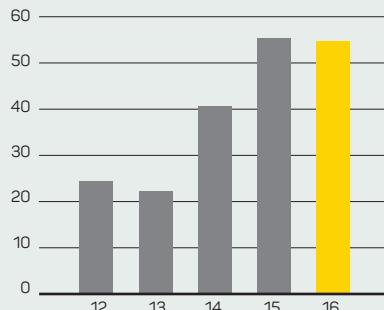
No changes took place in the Group structure during the period under review.

The subsidiaries included in the Ponsse Group are Ponsse AB, Sweden; Ponsse AS, Norway; Ponssé S.A.S., France; Ponsse UK Ltd, the United Kingdom; Ponsse North America, Inc., the United States; Ponsse Latin America

NET SALES, MEUR



OPERATING RESULT, MEUR



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 OOO Ocean Safety Center, Russia. Sunit Oy, Finland, is an associate in which Ponsse Plc has a holding of 34 per cent.

Capital expenditure and r&d

Group's R&D expenses during the period under review totalled EUR 12.4 (12.1) million, of which EUR 4.0 (3.9) million was capitalised.

Capital expenditure totalled EUR 28.3 (24.4) 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

the Annual General Meeting was held in Vieremä, Finland 12 April 2016. 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 2015 financial period.

The AGM decided to pay a dividend of EUR 0.55 per share for 2015 (dividends totaling EUR 15,381,799). No dividend will be paid to shares owned by the company itself (33,092 shares). The dividend payment record date was 14 April 2016, and the dividends were paid on 21 April 2016.

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.

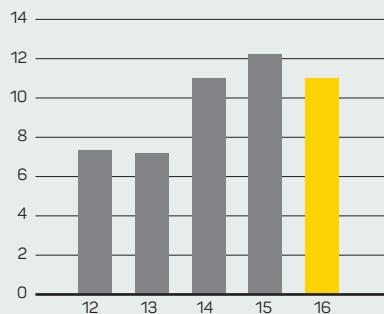
The authorisation is proposed to be valid until the next Annual General Meeting; however, no later than 30 June 2017. The previous authorisations are cancelled.

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.

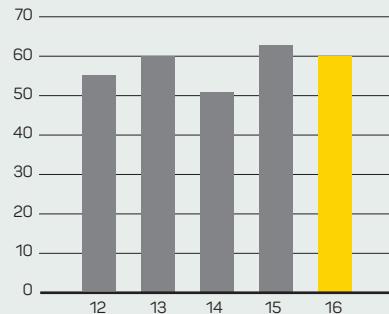
The authorisation includes the right of the Board to decide upon all other terms and conditions of the share issue. Thus, the authorisation includes a right to organise a directed issue in deviation of the shareholders' subscription rights under the provisions prescribed by law.

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

OPERATING RESULT, % OF NET SALES



INTEREST-BEARING LIABILITIES, MEUR



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 2017. Previous authorisations are cancelled.

Board of directors and the company's auditors

Juha Vidgrén acts as Chairman of the Board and Mammu Kaario as Vice Chairman of the Board. Members of the Board are Matti Kylävainio (from 12 April 2016), Ossi Saksman, Janne Vidgrén and Jukka Vidgrén. In addition, Heikki Hortling acted as Chairman of the Board until 10 April 2016 and Ilkka Kylävainio acted as member of the Board until the Annual General Meeting held on 12 April 2016.

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 92.7 percent.

During the period under review, auditing firm PricewaterhouseCoopers Oy acted as the company auditor with Sami Posti, 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 Häkkinen, 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, Group's Sales and Marketing Director and Tapio

Mertanen, Service Director. Area directors and managing directors of subsidiaries 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: Janne Vidgrén (Austria, Poland, Romania, Germany, Slovakia, the Czech Republic and Hungary), Clément Puybaret (France), Norbert Schalkx (Spain and Portugal) and Gary Glendinning (the United Kingdom and Ireland),

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

North and South America: Pekka Ruuskanen (the United States), Eero Lukkarinen (Canada), Jussi Hentunen (Chile), Marko Mattila (Brazil) and Martin Toledo (Uruguay).

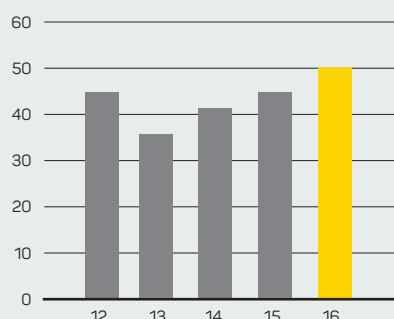
Personnel

The Group had an average staff of 1,435 (1,329) during the period and employed 1,453 (1,373) people at period-end.

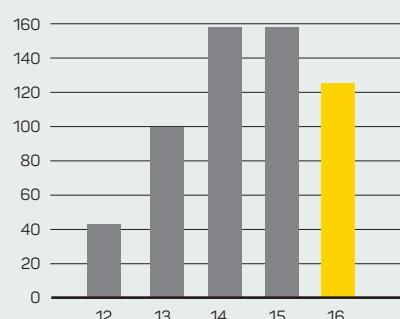
Share performance

the company's registered share capital consists of 28,000,000 shares. At the end of the period under review the company had 11,037 shareholders. The trading volume of Ponsse Plc shares for 1 January – 31 December 2016 totalled 2,764,765, accounting for 9.9. per cent of the total number of shares. Share turnover amounted to EUR 61.5 million, with the period's lowest and highest share prices amounting to EUR 15.57 and EUR 28.40, respectively.

EQUITY RATIO, %



ORDER BOOKS, MEUR



At the end of the period, shares closed at EUR 23.98, and market capitalisation totalled EUR 671.4 million.

At the end of the period under review, the company held 33,092 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, 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.

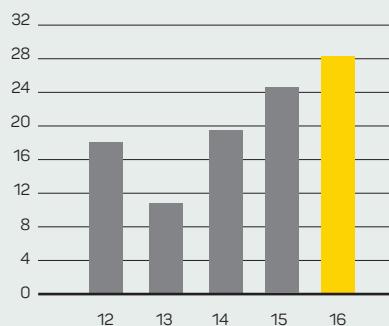
At Ponsse, operating methods and production processes are developed with both internal and external audits. The company's audit system has been a key tool in promoting the development during 2016. During the period under review, internal audits assessing the procedures and working environment of services were extended 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, the assessment model of the leading principles of the subsidiaries, that guides the leading policies of the subsidiaries' strategy, was developed.

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 Lean Six Sigma quality management principles.

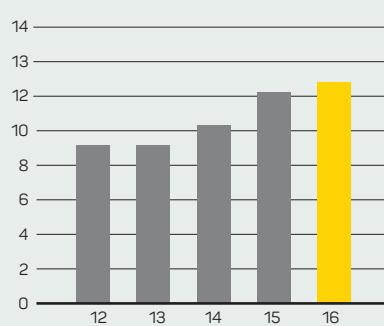
Governance

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

GROSS CAPITAL EXPENDITURE, MEUR



R&D EXPENDITURE, MEUR



that the company is professionally 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 proba-

bility. 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

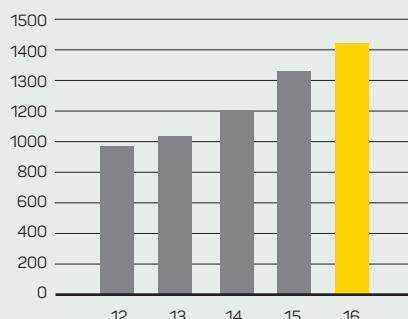
The prolonged insecurity in the world economy and weak economic situation may result in a decline in the demand for forest machines. The uncertainty may be increased by the volatility of developing countries' foreign exchange markets. The geopolitical situation, in particular, will increase the uncertainty through financial market operations and sanctions.

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

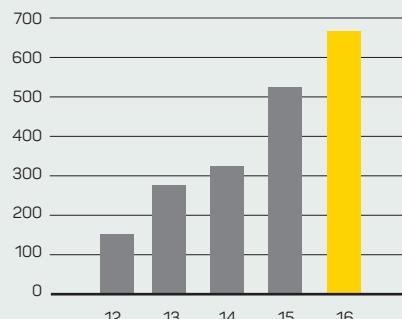
The key objective of the company's financial risk management policy is to manage liquidity, interest and currency risks. The company ensures its liquidity through credit limit facilities agreed with a number of financial institutions. The effect of adverse changes in interest rates is minimised by utilising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

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.

AVERAGE NUMBER OF EMPLOYEES



MARKET CAPITALISATION, MEUR



Events after the period

Company established a subsidiary Ponsse Machines Ireland Ltd in Ireland on 13 January 2017.

Outlook for the future

The Group's euro-denominated operating profit is expected to be at the same level in 2017 as it was in 2016.

Ponsse's updated and competitive product range and service solutions have had a significant impact on the company's growth. Our investments are directed at development of the service level and capacity of the delivery chain

and spare parts logistics and development of service business network both in Finland and abroad.

The expansion of the Vieremä factory is progressing as planned and the construction will be completed at the end of 2017. The investment in the factory is related to the development of safety, productivity, product quality and capacity of the Vieremä factory. The total investment to the factory is approximately EUR 32 million. The new PONSSE service centres in Uruguay, France and the UK will be completed during the current year.

THE MOST IMPORTANT EXCHANGE RATES

	Closing exchange rate 31 Dec 2016	Average exchange rate 2016	Closing exchange rate 31 Dec 2015	Average exchange rate 2015
SEK	9.55250	9.44958	9.18950	9.33640
NOK	9.08630	9.28878	9.60300	8.99181
GBP	0.85618	0.81587	0.73395	0.72790
USD	1.05410	1.10205	1.08870	1.11241
BRL	3.43050	3.85714	4.31170	3.70111
RUB	64.30000	73.87562	80.67360	69.01681
CNY	7.32020	7.31992	7.06080	6.98908

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



Consolidated statement of comprehensive income

(EUR 1,000)	Note ¹	2016	2015
Net sales	1, 4	517,400	461,928
Other operating income	5	1,915	2,152
Change in inventories of finished goods and work in progress		2,346	-1,021
Raw materials and services		-336,008	-289,294
Expenditure on employment-related benefits	8, 34	-73,879	-67,554
Depreciation and amortisation	7	-11,905	-9,890
Other operating expenses	6	-44,711	-40,335
Operating result		55,158	55,987
Financial income	10	22,489	33,102
Financial expenses	11	-19,415	-38,654
Share of results of associated companies		23	-50
Result before taxes		58,255	50,385
Income taxes	12	-12,543	-9,105
Net result for the period		45,712	41,280

Other items included in total comprehensive result:

Translation differences related to foreign units		1,554	880
Total comprehensive income for the financial period		47,266	42,160
Earnings per share calculated from the result belonging to parent company shareholders:			
undiluted earnings per share (EUR), result for the period	13	1.63	1.48
earnings per share (EUR) adjusted for dilution, result for the period	13	1.63	1.48

¹ The note refers to the Notes to the Accounts on pages 54–84.

Consolidated statement of financial position

[EUR 1,000)	Note ¹	2016	2015
ASSETS			
Non-current assets			
Property, plant and equipment	14	73,765	59,294
Goodwill	15	3,827	3,842
Intangible assets	15	19,928	18,009
Financial assets	18, 31	103	105
Investments in associated companies	17	781	817
Receivables	19	2,340	2,134
Deferred tax assets	20	2,525	2,786
Total non-current assets		103,269	86,988
Current assets			
Inventories	21	118,283	104,584
Trade receivables and other receivables	22, 31	41,847	49,487
Income tax receivables		859	104
Cash and cash equivalents	23, 31	37,342	26,495
Total current assets		198,332	180,670
TOTAL ASSETS		301,600	267,658
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital		7,000	7,000
Treasury shares		-346	-346
Translation differences		758	-796
Other reserves		2,452	2,452
Retained earnings		139,932	109,602
Equity owned by parent company shareholders		149,796	117,912
Non-current liabilities			
Deferred tax liabilities	20	799	905
Financial liabilities	28, 31	46,653	39,346
Other liabilities	29, 31	0	7
Total non-current liabilities		47,452	40,259
Current liabilities			
Trade creditors and other liabilities	29	81,511	78,405
Deferred tax liabilities based on the taxable income for the period		2,043	1,906
Provisions	27	7,336	6,120
Current financial liabilities	28, 31	13,462	23,056
Total current liabilities		104,353	109,487
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		301,600	267,658

¹ The note refers to the Notes to the Accounts on pages 54–84.

Consolidated statement of cash flows

(EUR 1,000)	Note ¹	2016	2015
Cash flows from operating activities:			
Net result for the period		45,712	41,280
Adjustments:			
Financial income and expenses	10, 11	-3,074	5,552
Share of the result of associated companies		-23	50
Depreciation and amortisation	7	11,905	9,890
Income taxes		12,543	9,105
Other adjustments		3,051	-26
Cash flow before changes in working capital		70,114	65,850
Change in working capital:			
Increase (-)/decrease (+) in trade receivables and other receivables		7,437	-19,666
Increase (-)/decrease (+) in inventories		-13,699	-11,850
Increase (+)/decrease (-) in trade creditors and other liabilities		2,777	17,238
Change in provisions for liabilities and charges		1,216	1,373
Interest received		222	224
Interest paid		-953	-1,069
Other financial items		-468	723
Income taxes paid		-12,905	-8,840
Net cash flows from operating activities (A)		53,740	43,982
Cash flows used in investing activities:			
Investments in tangible and intangible assets		-28,280	-24,360
Proceeds from sale of tangible and intangible assets		198	193
Net cash flows used in investing activities (B)		-28,082	-24,167
Cash flows from financing activities:			
Sales of treasury shares		0	1,118
Withdrawal/repayment of current loans		2,220	3,000
Withdrawal of non-current loans		1,004	17,520
Repayment of non-current loans		-5,702	-9,659
Payment of finance lease liabilities		191	-167
Increase (-)/decrease (+) in non-current receivables		-1,396	216
Dividends paid	24	-15,382	-12,586
Net cash flows from financing activities (C)		-19,065	-558
Change in cash and cash equivalents (A+B+C)		6,593	19,257
Cash and cash equivalents 1 Jan		26,495	12,719
Impact of changes in exchange rates		4,254	-5,481
Cash and cash equivalents 31 Dec	23	37,342	26,495

¹ The note refers to the Notes to the Accounts on pages 54–84.

Consolidated statement of changes in equity

		Equity owned by parent company shareholders					Shareholders' equity total
[EUR 1,000)	Note ¹	Share capital	Share premium account and other reserves	Translation differences	Treasury shares	Retained earnings	
Shareholders' equity, 1 Jan 2016		7,000	2,452	-796	-346	109,602	117,912
Translation differences		0	0	1,554	0	0	1,554
Result for the period		0	0	0	0	45,712	45,712
Total comprehensive income for the period		0	0	1,554	0	45,712	47,266
Matching Share Plan		0	0	0	0	0	0
Dividend distribution	24	0	0	0	0	-15,382	-15,382
Other changes		0	0	0	0	0	0
Shareholders' equity, 31 Dec 2016		7,000	2,452	758	-346	139,932	149,796
<hr/>							
Shareholders' equity, 1 Jan 2015		7,000	130	-1,676	-2,228	82,790	86,016
Translation differences		0	0	880	0	0	880
Result for the period		0	0	0	0	41,280	41,280
Total comprehensive income for the period		0	0	880	0	41,280	42,160
Matching Share Plan		0	2,422	0	1,882	-1,882	2,422
Dividend distribution	24	0	0	0	0	-12,586	-12,586
Other changes		0	-100	0	0	0	-100
Shareholders' equity, 31 Dec 2015		7,000	2,452	-796	-346	109,602	117,912

¹ The note refers to the Notes to the Accounts on pages 54–84.

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, Ponssé S.A.S. in France, Ponsse UK Ltd. in Great Britain, 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 OOO Ocean Safety Center 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 Ponsentie 22, 74200 Vieremä.

Copies of the consolidated financial statements are available on the Internet at www.ponsse.com and can be requested from the Group's head office at Ponsentie 22, 74200 Vieremä.

Ponsse Plc's Board of Directors approved the disclosure of these financial statements at its meeting on 13 February 2017. 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 2016. 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 2015 apart from the following new standards, interpretations and amendments to existing standards valid as of 1 January 2016.

- *Annual Improvements to IFRSs 2012–2014* (applicable to financial periods beginning on or after 1 January 2016). Minor and less urgent changes made in the standards by applying the Annual Improvements procedure are collected into a single entity to be implemented annually. The impacts of the amendments vary by standard, but they have not had a significant impact on the consolidated financial statements.
- Amendment to IAS 16, *Property, Plant and Equipment* and IAS 38 *Intangible Assets, Clarification of Acceptable Methods of Depreciation and Amortisation* (applicable to financial periods beginning on or after 1 January 2016). The amendment prohibits revenue-based depreciation of intangible assets. As an exception, revenue-based depreciation is possible only when revenue and consumption of the intangible economic benefit are very highly correlated to each other. Also, revenue-based depreciation of property, plant and equipment is not possible. The standard amendment has not had any effect on the consolidated financial statements.
- Amendment to IFRS 11, *Joint Arrangements, Accounting for Acquisitions of Interests in Joint Operations* (applicable to financial periods beginning on or after 1 January 2016). The amendment requires the application of the accounting principles on business combinations to the acquisition of an interest in a joint operation in which the activity constitutes a business. The standard amendment has not had any impact on the consolidated financial statements.
- Amendment to IAS 1 *Presentation of Financial Statements: Disclosure initiative* (applicable to financial periods beginning on or after 1 January 2016). The amendments clarify the IAS guidelines related to materiality, consolidation of profit and loss account and balance sheet items, presentation of subheadings and the structure and accounting policies for the financial statements. The standard amendment has not had any impact on the consolidated financial statements.

Preparation of financial statements in accordance with IFRS standards requires the Group's management to make certain estimates and considerations with regard to the application of the accounting policies, and the management has made these estimates and considerations.

Information on considerations made by management with regard to application of the Group's accounting policies that have the most significant effect on the figures presented in the financial statements is presented in the Section "Accounting policies requiring consideration by management and crucial factors of uncertainty associated with estimates".

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.

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 subsidiar-

ies, 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.

Property, plant and equipment

Property, plant and equipment are recognised at acquisition cost less accumulated depreciation and impairment losses.

Expenses incurred from the direct acquisition of property, plant and equipment 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 property, plant and equipment item for the intended use. Liability expenses directly incurred for the acquisition, construction or manufacture of a property, plant and equipment item fulfilling the conditions are capitalised as part of the acquisition cost of the asset item.

If a property, plant or equipment item consists 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 a property, plant or equipment item 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 a property, plant or equipment item 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 property, plant and equipment items are 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 property, plant and equipment items, are recognised as deductions in the book values of property, plant and equipment items 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	5 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

Stocks 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 property, plant or equipment items 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 divided 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 property, plant and equipment 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-gener-

ating 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 recognition 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

The Group has an incentive scheme paid partly in shares in the company 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 31 March 2018. The effect of the scheme on profit is disclosed in expenditure on employment-related benefits.

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 assess-

ment. 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 property, plant and equipment, 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

Net sales consist of the income from the sales of products and services measured at fair value and adjusted by indirect taxes and discounts.

Goods and services sold

Income from the sale of machines and spare parts is recognised once the significant risks, benefits and control associated with their ownership have been transferred to the purchaser. At this time, the Group no longer has any power of control associated with the product. As a rule, this takes place in connection with handover of the products in accordance with the terms and conditions of the agreement. Income from maintenance services is recognised when the service has been rendered.

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 liabilities

Financial assets

The Group's financial assets are classified into the following groups: financial assets at fair value through profit or loss, loans and receivables, and financial assets available for sale. The classification is based on the purpose of acquiring the financial assets and carried out upon 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. Derivatives that do not meet the IAS 39 criteria for hedge accounting are classified as assets held for trading. Derivatives held for trading are included in current assets and liabilities. The items within the group are measured at fair value. Both realised and unrealised gains and losses arising from changes in fair value are recognised through profit and loss for the reporting period during which they arise.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, not held by the Group for trading pur-

poses nor classified as held for sale when originally recognised. The basis for their measurement is amortised cost. On the balance sheet, they are included in trade receivables and other receivables based on their nature: in the latter group if the time to maturity is more than 12 months.

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified in any other group. They are included in non-current assets unless the intention is to hold them for less than 12 months from the closing date of the reporting period, in which case they are included in current assets.

Financial assets available for sale consist of unlisted shares. They are measured at acquisition.

Cash and cash equivalents

Liquid assets comprise cash and bank deposits withdrawable on demand.

Impairment of financial assets

On each closing date of a reporting period, the Group estimates whether there is objective evidence that the value of a financial asset item or financial asset group may have been impaired. If there is evidence that the fair value of equity investments is significantly below the acquisition cost, an impairment loss on the share available for sale is recognised through profit or loss.

The Group recognises an impairment loss on trade receivables when there is objective evidence that the receivable cannot be recovered in full. The debtor's substantial financial problems, the probability of bankruptcy, and default or substantial delay on payments are evidence of impairment of trade receivables. If the amount of impairment loss is reduced during a subsequent period and the reduction can be objectively considered to relate to an event subsequent to the recognition of the impairment loss, the recognised impairment loss shall be reversed through profit or loss.

Financial liabilities

Financial liabilities are initially recognised at fair value. Financial liabilities are included in non-current and current liabilities, and they are interest-bearing. Financial liabilities are categorised as current liabilities, unless the Group has an absolute right to postpone the payment of the debt so that the due date is at least twelve months after the end of the reporting period.

The principles for determining the fair values of all financial assets and liabilities are presented in Note 31.

Derivative contracts and hedge accounting

The Group handles derivative contracts in accordance with the standard IAS 39 Financial Instruments: Recognition and Measurement. Ponsse Group has categorised all

derivatives as derivatives held for trading as it does not apply hedge accounting in accordance with the IAS 39 standard. The derivatives held for trading include forward exchange agreements and interest rate swaps measured at fair value. The fair value of the derivatives is recognised in other current assets and liabilities. Both realised and unrealised gains and losses arising from changes in fair value are recognised under financial items on the profit and loss account for the financial period during which they arise.

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 stocks 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 assess-

ment 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 inter-

pretations 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 15 *Revenue from Contracts with Customers* (applicable to financial periods beginning on or after 1 January 2018). The new standard contains a five-step guideline on recognising revenue from contracts with customers, and it supersedes the current IAS 18 and IAS 11 standards and related interpretations. Revenue can be recognised over time or at a point in time, and the transfer of control is the key criterion. The standard also increases the number of notes to be disclosed.

Five-step guideline on recognising 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 possible impacts of the standard according to the above-mentioned five-step process. The most significant part of the Group's net sales comes from machine sales, where control is transferred in accordance with the INCOTERMS 2010 terms and conditions of delivery. With regard to services, control is transferred, as a rule, based on performance. Discounts granted can be included in the contracts. According to the current policy, discounts are allocated as adjustment items of net sales in the same period as the actual sales revenue. The standard amendment is not assessed to have an impact on the registration policy.

According to the current estimate, the new recognising standard is not expected to have a material impact as a whole on the Group income statement or the balance sheet. The amendment may, however, have an impact on the financial statements because of the new requirements regarding notes. The standard will be adopted by giving additional information non-retrospectively.

- IFRS 9 *Financial Instruments as amended* (applicable to financial periods beginning on or after 1 January 2018). The new standard supersedes the current standard IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 amends 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. With regard to hedge accounting, there are still three types of hedge accounting. More risk exposures than previously can be included in hedge accounting, and the principles of hedge accounting have been unified with risk management. The Group is currently assessing the effects of the standard. The standard has not yet been approved for application in the EU.

- 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 is currently assessing the effects of the implementation of the standard. The standard has not yet been approved for application in the EU.
- IAS 12 *Income Taxes* amendment *Recognition of Deferred Tax Assets from Unrealised Losses* (applicable to financial periods beginning on or after 1 January 2017).

Amendments to IAS 12 were made in January 2016. The purpose of the amendments was to clarify the recognition of deferred taxes when an asset item is measured at fair value and that fair value is lower than the tax value of said asset item. The amendment is not expected to have any material impact on the consolidated financial statements. The amendments have not yet been approved for application in the EU.

- IAS 7 *Cash flow statements* amendment *Disclosure Initiative* (applicable to financial periods beginning on or after 1 January 2017). Henceforth, companies have to present a report on changes in liabilities due to financing operations. This includes changes due to cash flows (for example, withdrawals and repayment of loans) as well as changes not including cash flows, such as acquisitions, divestments, accrued interests and unrealised exchange rate differences. The Group is currently assessing any effects of the amendment. The amendments have not yet been approved for application in the EU.
- IFRS 2 *Share-based Payments* (applicable to financial periods beginning on or after 1 January 2018). Clarifications on classification and evaluating share-based payment arrangements. The amendment is not expected to have any material impact on the consolidated financial statements. The amendments have not yet been approved for application in the EU.

1. OPERATING SEGMENTS

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 2016

	Northern Europe	Central and Southern Europe	Russia and Asia	North and South America	Total
(EUR 1,000)					
Net sales of the segment	360,031	106,390	77,256	131,500	675,178
Revenues between segments	-156,774	-1,365	-1,002	-4,473	-163,615
Unallocated sales					5,837
Net sales from external customers	203,256	105,025	76,255	127,027	517,400
Operating result of the segment	9,636	17,109	12,316	15,117	54,178
Unallocated items					980
Operating result	9,636	17,109	12,316	15,117	55,158
Depreciation and amortisation	10,490	213	263	939	11,905

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

OPERATING SEGMENTS 2015

(EUR 1,000)	Northern Europe	Central and Southern Europe	Russia and Asia	North and South America	Total
Net sales of the segment	300,510	87,217	57,173	148,032	592,933
Revenues between segments	-128,381	-1,269	-564	-2,493	-132,707
Unallocated sales					1,702
Net sales from external customers	172,129	85,948	56,609	145,539	461,928
Operating result of the segment	5,878	14,032	11,119	24,552	55,581
Unallocated items					406
Operating result	5,878	14,032	11,119	24,552	55,987
Depreciation and amortisation	8,937	212	282	458	9,890

RECONCILIATIONS

(EUR 1,000)	2016	2015
Net sales		
Net sales of the reporting segments	675,178	592,933
Income from all other segments	5,837	1,702
Elimination of income between segments	-163,615	-132,707
Group's net sales, total	517,400	461,928
Operating result		
Result of the reporting segments	54,178	55,581
Result of all other segments	345	294
Items not allocated to any segment	635	113
Group's operating result, total	55,158	55,987

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 does not have any of these items.

4. NET SALES

(EUR 1,000)	2016	2015
Machine sales	422,315	377,531
Service	95,086	84,396
Total	517,400	461,928

There were no long-term projects during the accounting period.

5. OTHER OPERATING INCOME

(EUR 1,000)	2016	2015
Sales profits on property, plant and equipment	198	193
Public subsidies	131	232
Other	1,586	1,728
Total	1,915	2,152

6. OTHER OPERATING EXPENSES

(EUR 1,000)	2016	2015
Voluntary employee expenses	3,567	3,358
Operating and maintenance expenses	7,425	7,102
Shipping and handling expenses	8,465	7,770
Rent expenses	3,405	2,943
Marketing and representation expenses	6,153	4,836
Administrative expenses	6,591	6,396
R&D expenditure	820	955
Other expense items	8,286	6,974
Total	44,711	40,335

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

6.1 AUDITOR'S REMUNERATIONS

(EUR 1,000)	2016	2015
PricewaterhouseCoopers Oy		
Auditor's remunerations	131	125
Certificates and statements	1	2
Tax advice	21	6
Other remunerations	20	39
	173	172
Other organisations		
Auditor's remunerations	40	21
Certificates and statements	0	0
Tax advice	28	27
Other remunerations	97	74
	165	122
Total	338	295

7. DEPRECIATION, AMORTISATION AND IMPAIRMENT

(EUR 1,000)	2016	2015
Intangible assets		
Capitalised development expenditure	2,633	2,224
Patents	56	51
Intangible rights	252	238
Other intangible assets	416	388
Total	3,356	2,900
Property, plant and equipment		
Buildings	2,735	2,416
Machinery and equipment	5,814	4,573
Total	8,549	6,989

8. EXPENDITURE ON EMPLOYMENT-RELATED BENEFITS

(EUR 1,000)	2016	2015
Wages and salaries	57,958	53,638
Pension expenditure - defined contribution plans	8,145	7,643
Share plan	1,298	916
Other social security costs	6,478	5,357
Total	73,879	67,554
Average number of staff during the financial period	2016	2015
Employees	876	810
Clerical workers	559	519
Total	1,435	1,329

Information on management's employment-related benefits is presented in Note 34, Related party transactions.

9. R&D EXPENDITURE

(EUR 1,000)	2016	2015
R&D expenditure recorded as a cost item in the consolidated statement of comprehensive income	10,990	10,416

10. FINANCIAL INCOME

(EUR 1,000)	2016	2015
Dividend income from financial assets available for sale	2	1
Interest income from loans and receivables	222	224
Exchange rate gains	17,634	26,886
Change in the fair value of derivative instruments	4,012	5,937
Other financial income	621	53
Total	22,490	33,102

11. FINANCIAL EXPENSES

(EUR 1,000)	2016	2015
Interest expenses for financial loans	702	804
Exchange rate losses	12,984	29,006
Change in the fair value of derivative instruments	4,760	7,846
Other financial expenses	971	998
Total	19,416	38,654

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. INCOME TAXES		2016	2015
(EUR 1,000)			
Tax based on the taxable income for the period		12,732	10,463
Taxes from previous financial periods		-446	123
Deferred taxes		257	-1,480
Total		12,543	9,105
Reconciliation of tax expenses in the consolidated statement of comprehensive income and taxes calculated at the Group's domestic tax rate (2016: 20.0%, 2015: 20.0 %)			
(EUR 1,000)			
Result before taxes		58,255	50,385
Tax calculated using the domestic tax rate		11,651	10,077
Effect of the different tax rates used in foreign subsidiaries		1,190	263
Tax-exempt income		0	-12
Non-deductible expenses		1,440	1,125
Tax reliefs and supports		-376	-16
Use of tax losses not recorded previously		-121	-2,880
Unbooked deferred tax assets		-1,030	1,731
Impacts of group consolidation and elimination		101	27
Deferred tax asset booked during the financial period		134	-1,334
Taxes for previous financial periods		-446	123
Taxes in the consolidated statement of comprehensive income		12,543	9,105

13. 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)	2016	2015
Result for the financial period belonging to parent company shareholders	45,712	41,280
Weighted average number of shares during the financial period (1,000 pcs)		
Weighted average number of shares during the financial period (1,000 pcs)	27,967	27,967
Undiluted earnings per share (EUR/share)	1,63	1,48

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.

14. PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	Land and water	Buildings	Machinery and equipment	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2016	2,077	53,075	58,702	2,736	116,590
Increase	472	2,340	8,373	18,608	29,794
Decrease	0	0	-859	-7,274	-8,132
Exchange rate difference	39	512	524	82	1,157
Acquisition cost 31 Dec 2016	2,588	55,927	66,740	14,152	139,408
Accumulated depreciation and impairment 1 Jan 2016	0	-20,053	-37,243	0	-57,296
Depreciation and amortisation	0	-2,736	-5,814	0	-8,550
Accumulated depreciation on decrease and transfers	0	0	553	0	553
Exchange rate difference	0	-23	-328	0	-351
Accumulated depreciation and impairment 31 Dec 2016	0	-22,811	-42,832	0	-65,644
Book value 1 Jan 2016	2,077	33,022	21,459	2,736	59,294
Book value 31 Dec 2016	2,588	33,116	23,908	14,152	73,765
(EUR 1,000)	Land and water	Buildings	Machinery and equipment	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2015	1,889	44,350	47,693	4,322	98,254
Increase	141	8,704	12,366	9,830	31,041
Decrease	0	-113	-1,210	-11,419	-12,741
Exchange rate difference	47	134	-147	3	37
Acquisition cost 31 Dec 2015	2,077	53,075	58,702	2,736	116,590
Accumulated depreciation and impairment 1 Jan 2015	0	-17,536	-33,436	0	-50,972
Depreciation and amortisation	0	-2,416	-4,573	0	-6,989
Accumulated depreciation on decrease and transfers	0	5	665	0	669
Exchange rate difference	0	-106	101	0	-5
Accumulated depreciation and impairment 31 Dec 2015	0	-20,053	-37,243	0	-57,296
Book value 1 Jan 2015	1,889	26,814	14,257	4,322	47,282
Book value 31 Dec 2015	2,077	33,022	21,459	2,736	59,294

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Financial lease contracts						
[EUR 1,000]						
Property, plant and equipment includes the following items rented under a finance lease contract:						
31 Dec 2016	Buildings	Machinery and equipment			Total	
Acquisition cost	762	984			1,746	
Accumulated depreciation	-571	-208			-779	
Book value	191	776			967	
31 Dec 2015	Buildings	Machinery and equipment			Total	
Acquisition cost	762	691			1,453	
Accumulated depreciation	-533	-219			-752	
Book value	229	472			701	
15. INTANGIBLE ASSETS						
(EUR 1,000)	Development expenditure	Patent costs	Intangible rights	Other intangible assets	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2016	16,113	827	2,101	5,253	8,356	32,650
Increase	1,065	24	232	868	5,583	7,773
Decrease	0	0	0	0	-2,498	-2,498
Acquisition cost 31 Dec 2016	17,179	851	2,333	6,121	11,441	37,925
Accumulated depreciation and impairment						
1 Jan 2016	-8,226	-651	-1,490	-4,274	0	-14,642
Depreciation and amortisation	-2,633	-56	-252	-415	0	-3,355
Accumulated depreciation and impairment						
31 Dec 2016	-10,859	-707	-1,742	-4,689	0	-17,997
Book value 1 Jan 2016	7,888	176	611	979	8,356	18,009
Book value 31 Dec 2016	6,320	145	591	1,432	11,441	19,928
(EUR 1,000)	Development expenditure	Patent costs	Intangible rights	Other intangible assets	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2015	12,425	751	1,893	4,964	7,662	27,695
Increase	3,689	76	208	289	4,828	9,090
Decrease	0	0	0	0	-4,134	-4,134
Acquisition cost 31 Dec 2015	16,113	827	2,101	5,253	8,356	32,650
Accumulated depreciation and impairment						
1 Jan 2015	-6,002	-600	-1,253	-3,887	0	-11,742
Depreciation and amortisation	-2,224	-51	-238	-388	0	-2,900
Accumulated depreciation and impairment						
31 Dec 2015	-8,226	-651	-1,490	-4,274	0	-14,642
Book value 1 Jan 2015	6,422	151	641	1,077	7,662	15,954
Book value 31 Dec 2015	7,888	176	611	979	8,356	18,009

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.

Allocation of goodwill	2016	2015
(EUR 1,000)		
Goodwill is allocated to the following cash-generating unit:		
Northern Europe segment: Epec Oy	3,440	3,440
Northern Europe segment: Business in Norrbotten region, Sweden	387	403
Total	3,827	3,842

Impairment testing

For impairment testing, the recoverable amounts from Epec Oy 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 2019 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 to remain at the same level as the budgeted EBITDA and none of the planned increases in the EBITDA were experienced.

16. INVESTMENT PROPERTIES

The Group has no investment properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

17. INVESTMENTS IN ASSOCIATED COMPANIES

(EUR 1,000)	2016	2015
At beginning of financial period	817	946
Share of the result of the financial period	-36	-129
At end of financial period	781	817

Information concerning the Group's associated company, its assets, liabilities, net sales and result:

(EUR 1,000)	2016	2015
Associated company		
Sunit Oy, Kajaani, Finland		
Assets	2,742	2,836
Liabilities	524	512
Net sales	4,067	3,424
Result	68	-352
Share of ownership	34 %	34 %

Sunit Oy specialises in telematics and manufactures vehicle computers.

18. OTHER FINANCIAL ASSETS

(EUR 1,000)		
Investments available for sale		Other shares and holdings
Acquisition cost 1 Jan 2016		105
Increase		5
Decrease		-7
Acquisition cost 31 Dec 2016		103
Acquisition cost 1 Jan 2015		104
Increase		1
Decrease		0
Acquisition cost 31 Dec 2015		105

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.

19. RECEIVABLES (NON-CURRENT)

(EUR 1,000)	2016	2015
Trade receivables	0	0
Loan receivables	135	0
Other receivables	2,085	2,128
Accrued income	120	6
Total	2,340	2,134

Receivables do not have any significant credit risk concentrations and the changes of the accounting period do not include any write-downs.

20. DEFERRED TAX RECEIVABLES AND LIABILITIES

(EUR 1,000)

Changes in deferred taxes during 2016:

Deferred tax assets:	31 Dec 2015	Recognised through profit or loss	31 Dec 2016
Inventories	1,235	679	1,913
Fixed assets	100	-100	0
Confirmed losses in taxation	1,358	-810	549
Other items	93	-30	63
Total	2,786	-261	2,525

Deferred tax liabilities:	31 Dec 2015	Recognised through profit or loss	31 Dec 2016
Inventories	0	0	0
Fixed assets	905	-107	799
Other items	0	0	0
Total	905	-107	799

Changes in deferred taxes during 2015:

Deferred tax assets:	31 Dec 2014	Recognised through profit or loss	31 Dec 2015
Inventories	1,007	228	1,235
Fixed assets	120	-20	100
Confirmed losses in taxation	0	1,358	1,358
Other items	141	-48	93
Total	1,267	1,518	2,786

Deferred tax liabilities:	31 Dec 2014	Recognised through profit or loss	31 Dec 2015
Inventories	114	-114	0
Fixed assets	723	183	905
Other items	30	-30	0
Total	867	38	905

No deferred tax has been recognised through shareholders' equity.

A deferred tax asset of EUR 0.5 million has been recognised for confirmed losses EUR 23.1 million (29.0 in 2015) associated with the Group's foreign subsidiaries. The confirmed losses mentioned have no maturity time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

21. INVENTORIES

(EUR 1,000)	2016	2015
Raw materials and consumables	62,746	59,631
Work in progress	9,785	10,641
Finished products/goods	13,016	9,122
Other stocks	32,735	25,190
Total	118,283	104,584

EUR 3.5 million was recognised as an expense item, which was used to reduce the book value of stocks to correspond to the net realisable value (EUR 2.8 million in 2015).

22. TRADE RECEIVABLES AND OTHER RECEIVABLES (CURRENT)

(EUR 1,000)	2016	2015
Trade receivables	35,933	40,199
Accrued income	1,562	1,660
Other receivables	4,244	7,317
	41,739	49,175
Derivative contracts held for trading	108	312
Total	41,847	49,487

The Group's credit losses for trade receivables amounted to EUR 350 thousand (EUR 173 thousand in 2015) during the financial period and cancellation of credit losses to EUR 107 thousand (EUR 86 thousand in 2015). 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 fair values are presented in Note 31.

Trade receivables by age and items recognised as credit losses

(EUR 1,000)	2016	2015
Non-matured	20,917	25,561
Matured		
Less than 30 days	10,210 ¹	10,824 ¹
30-90 days	2,451 ¹	2,647 ¹
91-180 days	655 ¹	523 ¹
181-360 days	1,425 ²	638 ²
More than 360 days	3,561 ²	3,050 ²
Impairment losses	-3,287	-3,044
Total	35,933³	40,199³

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

²Trade receivables that have matured and whose value has impaired at the end of the financial period. The amount of impairment is presented in Impairment losses.

³Non-current and current trade receivables

23. CASH AND CASH EQUIVALENTS

(EUR 1,000)	2016	2015
Cash in hand and at banks	37,342	26,495
Total	37,342	26,495

24. NOTES ON SHAREHOLDERS' EQUITY

	Number of shares (1,000)	Share capital (EUR 1,000)	Other reserves (EUR 1,000)	Treasury shares (EUR 1,000)
31 Dec 2015 / 31 Dec 2016	27,967	7,000	2,452	-346

The maximum number of shares is 48 million (48 million in 2015). 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 2015). The number of shares outstanding is 28 million (28 million in 2015). 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.

Below are descriptions of the equity reserves:

Treasury shares

The treasury shares fund includes the parent company's acquisition cost of own shares, amounting to EUR 346 thousand, and it is shown as a decrease of equity.

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 2016, a dividend of EUR 0.55 was paid per share, for a total of EUR 15.4 million (in 2015, EUR 0.45 per share, for a total of EUR 12.5 million). The Board of Directors has proposed after the closing date of the reporting period that a dividend of EUR 0.60 per share shall be paid, i.e. a total of EUR 16.8 million.

25. SHARE-BASED PAYMENT PLANS

During the financial period, the Group has had a valid incentive scheme launched in 2015 for the Group's key employees.

The prerequisite for participating in the plan is that a key employee owns the Company's shares up to the number determined by the Board of Directors, or acquires them from the market or in the Company's directed share issue. 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 spring 2015. 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 31 March 2018. 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.

"In 2015, a maximum total of 106,450 shares held by the Company were offered in the directed share issue against payment for subscription to the key employees belonging to the target group of the Matching Share Plan 2015. The share subscription price for the shares was EUR 12.12 per share, which was to be paid upon subscription. The share subscription period ended on 18 March 2015. The Board of Directors of the company approved the subscriptions of a total of 92,310 shares in the share issue, corresponding to a total of EUR 1,119 thousand. "

A total of 87,498 shares held by the company were given as reward to the Group's key employees belonging to the target group of the Matching Share Plan in a directed share issue without payment on 31 March 2015. EUR 1,298 thousand (in 2015, EUR 916 thousand) was recognised as an expense for the financial period on an accrual basis.

26. PENSION LIABILITIES

The Group did not have any pension obligations

27. PROVISIONS

(EUR 1,000)	Guarantee provision
31 Dec 2015	6,120
Change in provisions	1,216
31 Dec 2016	7,336

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 2016 amounted to EUR 7,336 thousand (EUR 6,120 thousand in 2015). 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.

28. FINANCIAL LIABILITIES

(EUR 1,000)	2016	2015
Non-current financial liabilities		
Loans from financial institutions	39,190	30,253
Pension loans	450	1,350
Other liabilities	6,461	7,419
Finance lease liabilities	552	325
Total	46,653	39,346
Current financial liabilities		
Loans from financial institutions	11,410	19,190
Pension loans	900	1,043
Other liabilities	958	2,594
Finance lease liabilities	194	230
Total	13,462	23,056

The fair values for liabilities is presented in Note 31.

The Group has both floating rate and fixed rate bank loans.

EUR 12,116 thousand of all liabilities have a fixed interest rate (EUR 13,632 thousand in 2015). Other loans are bound to Euribor EUR 48,000 thousand (EUR 48,771 thousand in 2015).

The Group's floating rate liabilities and their contractual repricing periods are:

(EUR 1,000)	2016	2015
Within less than twelve months	48,000	48,771
Within one to five years	0	0
Total	48,000	48,771

Due dates of finance lease liabilities

(EUR 1,000)	2016	2015
Finance lease liabilities - total amount of minimum rents		
Within less than twelve months	203	367
Within one to five years	573	292
After more than five years	0	17
Total	776	675

Finance lease liabilities - present value of minimum rents

	2016	2015
Within less than twelve months	194	231
Within one to five years	551	290
After more than five years	0	16
Total	745	537

Financial expenses to be accrued in the future

Total finance lease liabilities	776	675
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29. TRADE CREDITORS AND OTHER LIABILITIES

(EUR 1,000)	2016	2015
Trade creditors (other financial liabilities)	58,555	52,294
Advances received	3,950	4,215
Advance invoicing	0	1,038
Other liabilities	3,329	2,676
Accruals and deferred income		
Accrued staff expenses	12,923	13,616
Interest accruals	36	55
Accruals and deferred income in respect of inventories	726	601
Other accruals and deferred income	1,233	3,499
Derivative contracts held for trading	760	411
Total	81,511	78,405
Non-current financial liabilities measured at original amortised cost		
Accruals and deferred income	0	0
Total	0	0

30. 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 28.6 million (EUR 18.8 million in 2015), including a dividend of EUR 1.2 million (EUR 0.5 million in 2015) 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 10 and 11).

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, Brasilian real and Russian rouble, with all other factors remaining unchanged. The total net position of the aforementioned currencies is 3.0 million euros (-6.6 million euros in 2015). 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.

(EUR 1,000)	2016				2015			
Change in EUR exchange rate	Strengthening		Weakening		Strengthening		Weakening	
Effect on result after taxes								
USD	4 %	-320	3 %	255	5 %	-88	2 %	29
SEK	3 %	-63	4 %	93	2 %	-26	2 %	29
GBP	7 %	-93	10 %	145	3 %	-13	3 %	12
REAL	11 %	1,168	15 %	-1,567	19 %	1,340	21 %	-1,511
RUB	13 %	-274	12 %	257	17 %	330	17 %	-323
Total		419		-817			1,543	-1,763

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 64 per cent of all floating rate loans.

(EUR 1,000)	2016	2015
Sensitivity analysis for floating interest loans:		
Change percentage	+1 %	-1 %
Effect on result after taxes	-384	384

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 22.

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 2016 was EUR 51.0 million, which equals 85 per cent of the total credit facilities (2015: EUR 50.0 million, 83 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

31 Dec 2016 (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	50,601	52,223	11,976	40,247	0
Pension loans	1,350	1,379	922	457	0
Other liabilities	7,419	8,402	1,181	4,514	2,708
Finance lease liabilities	745	776	203	573	0
Trade creditors and other liabilities	80,752	80,752	80,752		
Derivative contract liabilities	760	760	760		
Guarantee agreements **	0	4,747	4,747		

31 Dec 2015 (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	49,443	50,475	19,635	29,831	1,009
Pension loans	2,393	2,460	1,081	1,379	0
Other liabilities	10,013	11,246	2,894	4,657	3,695
Finance lease liabilities	537	675	367	292	17
Trade creditors and other liabilities	77,994	77,994	77,994		
Derivative contract liabilities	411	411	411		
Guarantee agreements **	0	5,028	5,028		

* 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 2016 were EUR 22.6 million (31 Dec 2015: EUR 35.9 million) and net gearing was 15.1 per cent (31 Dec 2015: 30.5 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)	2016	2015
Interest-bearing liabilities	60,116	62,403
Interest-bearing receivables	-135	0
Cash and cash equivalents	-37,342	-26,495
Net liabilities	22,638	35,907
Total shareholders' equity	149,796	117,912
Net gearing	15,1%	30,5 %

31. FINANCIAL INSTRUMENTS BY GROUPS AND FAIR VALUES(**EUR 1,000**)**31 Dec 2016**

Balance sheet assets	Loans and other receivables	Assets at fair value through profit or loss	Available-for-sale	Total
Available-for-sale financial assets	0	0	103	103
Derivative instruments	0	108	0	108
Trade receivables and other receivables (excluding prepayments)	35,933	0	0	35,933
Cash and cash equivalents	37,342	0	0	37,342
Total	73,275	108	103	73,486

Balance sheet liabilities	Liabilities at fair value through profit or loss	Liabilities at original amortised cost	Total
Loans (excluding finance lease liabilities)	0	51,951	51,951
Finance lease liabilities	0	745	745
Derivative instruments	760	0	760
Trade creditors and other liabilities (excluding statutory obligations)	0	58,555	58,555
Total	760	111,251	112,011

31 Dec 2015

Balance sheet assets	Loans and other receivables	Assets at fair value through profit or loss	Available-for-sale	Total
Available-for-sale financial assets	0	0	105	105
Derivative instruments	0	312	0	312
Trade receivables and other receivables (excluding prepayments)	40,199	0	0	40,199
Cash and cash equivalents	26,495	0	0	26,495
Total	66,694	312	105	67,111

Balance sheet liabilities	Liabilities at fair value through profit or loss	Liabilities at original amortised cost	Total
Loans (excluding finance lease liabilities)	0	51,835	51,835
Finance lease liabilities	0	537	537
Derivative instruments	411	0	411
Trade creditors and other liabilities (excluding statutory obligations)	0	52,294	52,294
Total	411	104,667	105,078

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 2016	Fair value 2016	Book value 2015	Fair value 2015
Financial assets					
Other financial assets	18	103	103	105	105
Trade receivables and other receivables (non-current)	19	2,340	2,340	2,134	2,134
Trade receivables and other receivables (current)	22	41,739	41,739	49,175	49,175
Cash and cash equivalents	23	37,342	37,342	26,495	26,495
Forward exchange agreements	22	108	108	312	312
Interest rate swaps	22	0	0	0	0
Total		81,633	81,633	78,222	78,222
Financial liabilities					
Loans from financial institutions	28	50,601	48,549	49,443	46,643
Pension loans	28	1,350	1,328	2,393	2,145
Finance lease liabilities	28	746	696	554	523
Trade creditors and other liabilities	29	81,511	81,511	78,405	78,405
Forward exchange agreements	29	731	731	368	368
Interest rate swaps	29	29	29	43	43
Total		134,967	132,844	131,205	128,128

The nominal values of forward agreements were EUR 27.4 million in 2016 and EUR 30.5 million in 2015.

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.

32. OTHER LEASE CONTRACTS**Group as lessee**

Minimum rents due based on other non-cancellable leases:

(EUR 1,000)	2016	2015
Within one year	1,217	1,382
Within one to five years	1,947	851
After more than five years	31	124

The Group has leased some of the service facilities it has used. 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 2016 includes EUR 1.4 million of rent expenses paid on the basis of other lease contracts (EUR 2.2 million in 2015).

Group as lessor

The Group does not have any substantial non-cancellable leases.

33. CONTINGENT LIABILITIES

(EUR 1,000)	2016	2015
Guarantees given on behalf of others	549	462
Repurchase commitments	3,021	4,290
Other commitments	1,177	275
Total	4,747	5,028

34. 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, Lockerbie, United Kingdom	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
OOO Ocean Safety Center, 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

Management's employment-related benefits		2016	2015
(EUR 1,000)			
Salaries and other short-term employment-related benefits		3,790	3,539
Benefits paid upon termination of employment		198	0
Pension liabilities, statutory pension security		557	502
Total		4,544	4,041
Salaries and bonuses			
(EUR 1,000)		2016	2015
Managing director			
Salaries and other short-term employment-related benefits		541	459
Pension liabilities, statutory pension security		151	82
Total		692	541
Compensation of the members of the Board of Directors			
Hortling Heikki		10	40
Kaario Mammu		40	34
Kylävainio Ilkka		9	34
Kylävainio Matti		26	0
Saksman Ossi		35	34
Vidgrén Janne		35	34
Vidgrén Juha		46	45
Vidgrén Jukka		35	34
Total		236	257

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.

35. EVENTS AFTER THE CLOSING DATE OF THE REPORTING PERIOD

Company established a subsidiary Ponsse Machines Ireland Ltd in Ireland on 13 January 2017.

Financial indicators

	IFRS 2016	IFRS 2015	IFRS 2014
Extent of operations			
Net sales (EUR 1,000)	517,400	461,928	390,831
Change, %	12.0	18.2	24.9
R&D expenditure, total (EUR 1,000)	12,382	12,091	10,130
of which capitalised (EUR 1,000)	4,025	3,898	3,120
as % of net sales	2.4	2.6	2.6
Gross capital expenditure (EUR 1,000)	28,280	24,360	19,154
as % of net sales	5.5	5.3	4.9
Average number of employees	1,435	1,329	1,200
Net sales/employee (EUR 1,000)	361	348	326
Order stock, EUR million	123.9	158.1	158.4
Profitability			
Operating result (EUR 1,000)	55,158	55,987	41,704
as % of net sales	10.7	12.1	10.7
Result before taxes (EUR 1,000)	58,255	50,385	37,959
as % of net sales	11.3	10.9	9.7
Result for the period (EUR 1,000)	45,712	41,280	29,795
as % of net sales	8.8	8.9	7.6
Return on equity, % (ROE)	34.2	40.5	38.8
Return on capital employed, % (ROCE)	30.7	32.8	30.1
Financing and financial position			
Current ratio	1.9	1.7	1.6
Equity ratio, %	50.3	44.8	42.0
Net gearing, %	15.1	30.5	45.3
Interest-bearing liabilities (EUR 1,000)	60,116	62,403	51,709
Non-interest-bearing liabilities (EUR 1,000)	91,689	87,343	68,071

Per-share data¹

	IFRS 2016	IFRS 2015	IFRS 2014
Earnings per share (EPS), EUR	1.63	1.48	1.07
Equity per share, EUR	5.35	4.21	3.07
Nominal dividend per share, EUR	0.60 ¹	0.55	0.45
Dividend per share adjusted for share issues, EUR	0.60 ¹	0.55	0.45
Dividend per earnings, %	36.7 ¹	37.3	42.0
Effective dividend yield, %	2.5 ¹	3.0	3.7
Price/earnings ratio (P/E)	14.7	12.4	11.2
Share performance			
Lowest trading price	15.57	11.66	9.02
Highest trading price	28.40	19.77	13.35
Closing price	23.98	18.36	12.02
Average price	22.25	15.28	11.49
Market capitalisation, EUR million	671.4	514.1	336.6
Dividends paid, EUR million	16.8 ¹	15.4	12.5
Shares traded	2,764,765	4,190,494	4,144,642
Shares traded, %	9.9	15.0	14.8
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

¹ The company's Board of Directors proposes to the Annual General Meeting that a dividend of EUR 0.60 per share shall be paid for the year 2016.

Formulae for financial indicators

Return on equity, % (ROE)	=	$\frac{\text{Net result for the period}}{\text{Shareholders' equity} + \text{minority interest (average during the year)}} \times 100$
Return on capital employed, % (ROCE)	=	$\frac{\text{Result before taxes} + \text{financial expenses}}{\text{Shareholders' equity} + \text{interest-bearing financial liabilities (average during the year)}} \times 100$
Equity ratio, %	=	$\frac{\text{Shareholders' equity} + \text{minority interest}}{\text{Balance sheet total} - \text{advance payments received}} \times 100$
Net gearing, %	=	$\frac{\text{Interest-bearing financial liabilities} - \text{cash and cash equivalents}}{\text{Shareholders' equity}} \times 100$
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)	=	$\frac{\text{Net result for the period} - \text{minority interest}}{\text{Average number of shares during the accounting period, adjusted for share issues}}$
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)	Liite ¹	2016	2015
Net sales	2	411,309	366,453
Increase (+)/decrease (-) in inventories of finished goods and work in progress		-973	-894
Other operating income	3	3,856	3,527
Raw materials and services	4	-284,320	-252,019
Staff costs	5, 6, 7	-46,755	-43,670
Depreciation, amortisation and impairment	8	-9,579	-7,426
Other operating expenses		-26,430	-38,994
Operating result		47,107	26,977
Financial income and expenses	10	1,183	2,108
Result before extraordinary items		48,290	29,085
Extraordinary items		0	0
Result after extraordinary items		48,290	29,085
Appropriations	11	823	-1,197
Direct taxes	12	-8,933	-8,329
Net result for the period		40,180	19,559

¹ The note refers to the Notes to the Accounts on pages 91–99.

Parent company's balance sheet

(EUR 1,000)	Note ¹	2016	2015
ASSETS			
Non-current assets			
Intangible assets	13	18,380	16,714
Tangible assets	13	56,976	48,930
Financial assets	14	11,491	11,498
Total non-current assets		86,847	77,142
Current assets			
Inventories	15	58,796	60,632
Non-current receivables	16	13,501	11,365
Current receivables	16	82,377	80,127
Cash in hand and at banks		28,294	22,071
Total current assets		182,968	174,194
TOTAL ASSETS		269,815	251,336
LIABILITIES			
Shareholders' equity			
Share capital	17, 18	7,000	7,000
Revaluation reserve		841	841
Other reserves		2,423	2,423
Retained earnings		87,993	83,816
Net result for the period		40,180	19,559
Total shareholders' equity		138,436	113,638
Appropriations			
Provisions for liabilities and charges	19	1,854	2,677
20		7,336	6,120
Creditors			
Non-current creditors	21	45,911	38,769
Current creditors	22	76,277	90,132
Total creditors		122,189	128,901
TOTAL LIABILITIES		269,815	251,336

¹The note refers to the Notes to the Accounts on pages 91–99.

Parent company's cash flow statement

(EUR 1,000)	2016	2015
Cash flows from operating activities:		
Operating result	47,107	26,977
Depreciation, amortisation and impairment	9,579	7,426
Change in provisions	1,216	1,373
Change in provisions	776	637
Cash flow before changes in working capital	58,678	36,413
Change in working capital:		
Increase (-)/decrease (+) in current non-interest-bearing receivables	-2,123	308
Increase (-)/decrease (+) in inventories	1,835	-3,854
Increase (+)/decrease (-) in current non-interest-bearing liabilities	-2,283	10,362
Cash flow from operations before financial items and income taxes	56,108	43,228
Interest received	1,000	2,019
Interest paid	-750	-758
Dividends received	1,260	589
Other financial items	-472	821
Income taxes paid	-8,935	-7,318
Net cash flows from operating activities (A)	48,210	38,580
Cash flows used in investing activities:		
Investments in tangible and intangible assets	-19,284	-25,171
Proceeds from sale of tangible and intangible assets	98	69
Net cash flows used in investing activities (B)	-19,185	-25,102
Cash flows from financing activities:		
Sales of treasury shares	0	1,119
Increase (+)/decrease (-) in current loans	-1,000	3,000
Increase (+)/decrease (-) in non-current loans	-3,408	9,168
Increase (-)/decrease (+) in non-current receivables	-3,011	155
Dividends paid and other distribution of profit	-15,382	-12,585
Net cash flows from financing activities (C)	-22,801	857
Increase (+)/decrease (-) in liquid assets (A+B+C)	6,224	14,334
Cash and cash equivalents on 1 Jan	22,071	7,736
Cash and cash equivalents on 31 Dec	28,294	22,071

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:

Intangible rights	5 years
Other capitalised long-term expenses	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

The parent company's derivatives include forward exchange agreements and interest rate swaps measured at fair value on the balance sheet date. Changes in fair value are booked in financial items in the profit and loss account.

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 2016 is comparable with the previous year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. NET SALES BY MARKET AREA

(EUR 1,000)	2016	2015
Northern Europe	173,116	146,400
Southern and Central Europe	82,341	65,902
Russia and Asia	62,618	46,905
North and South America	87,409	105,582
Other countries	5,825	1,664
Total	411,309	366,453

3. OTHER OPERATING INCOME

(EUR 1,000)	2016	2015
Sales profits on property, plant and equipment	98	69
Public subsidies	103	209
Other	3,654	3,249
Total	3,856	3,527

4. RAW MATERIALS AND SERVICES

(EUR 1,000)	2016	2015
Raw materials and consumables		
Purchases during the financial period	272,033	248,155
Increase (-)/decrease (+) in inventories	824	-4,748
External services	11,462	8,612
Total	284,320	252,019

5. AVERAGE NUMBER OF STAFF

persons	2016	2015
Employees	448	420
Clerical workers	325	303
Total	773	723

6. STAFF COSTS

(EUR 1,000)	2016	2015
Salaries and bonuses	37,787	35,656
Pension costs	6,636	6,262
Other social security costs	2,331	1,753
Total	46,755	43,670

7. MANAGEMENT SALARIES AND REMUNERATIONS

(EUR 1,000)	2016	2015
Managing director	541	459
Members of the Board of Directors	406	414
Total	947	873

8. DEPRECIATION AND VALUE ADJUSTMENTS

(EUR 1,000)	2016	2015
Depreciation according to plan	9,579	7,426
Total	9,579	7,426

9. AUDITOR'S REMUNERATIONS

(EUR 1,000)	2016	2015
Authorised Public Accountants PricewaterhouseCoopers Oy		
Auditor's remunerations	63	61
Certificates and statements	1	2
Tax advice	10	4
Other remunerations	5	20
Total	78	87

10. FINANCIAL INCOME AND EXPENSES

(EUR 1,000)	2016	2015
Income from investments in non-current assets		
From Group companies	1,200	510
From associated companies	60	79
From others	0	0
Income from investments in non-current assets total	1,260	589
Interest income and other financial income		
From Group companies	968	1,983
Change in the fair value of derivative instruments	4,012	5,937
From others	10,147	14,571
Interest income and other financial income, total	15,126	22,491
Financial income, total	16,386	23,080
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	4,760	7,846
To others	10,443	13,126
Interest expenses and other financial expenses, total	15,203	20,972
Financial expenses, total	15,203	20,972
Financial income and expenses, total	1,183	2,108
The item "Financial income and expenses" includes exchange rate profit/loss (net)	518	2,780

11. APPROPRIATIONS

(EUR 1,000)	2016	2015
Difference between depreciations according to plan and depreciations in taxation	823	-1,197

12. INCOME TAX

(EUR 1,000)	2016	2015
Income tax on extraordinary items	0	0
Income taxes from actual operation	8,933	8,329
Change in deferred tax asset	0	0
Total	8,933	8,329

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

13. INTANGIBLE AND TANGIBLE ASSETS

(EUR 1,000)	Development costs	Patent costs	Goodwill	Intangible rights	Other capitalised long-term expenses	Pre-payments and unfinished acquisitions	Total
Intangible assets 2016							
Acquisition cost 1 Jan 2016	13,622	799	905	1,401	6,553	7,551	30,832
Increase	692	25	0	180	763	4,575	6,235
Decrease	0	0	0	0	0	-1,523	-1,523
Transfers between items	0	0	0	0	0	0	0
Acquisition cost 31 Dec 2016	14,314	825	905	1,581	7,316	10,602	35,544
Accumulated depreciation on 1 Jan 2016	-6,687	-639	-844	-1,003	-4,944	0	-14,118
Accumulated depreciation on decrease and transfers	0	0	0	0	0	0	0
Depreciation for the accounting period	-2,272	-54	-60	-180	-480	0	-3,046
Accumulated depreciation on 31 Dec 2016	-8,959	-692	-905	-1,184	-5,424	0	-17,164
Book value 31 Dec 2016	5,356	132	0	397	1,892	10,602	18,380
Book value 31 Dec 2015	6,935	160	60	398	1,609	7,551	16,714
Tangible assets 2016							
(EUR 1,000)	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Pre-payments and unfinished acquisitions	Total	
Acquisition cost 1 Jan 2016	1,042	45,499	43,495	29	2,129	92,194	
Increase	23	359	4,988	40	14,352	19,762	
Decrease	0	0	0	0	-5,183	-5,183	
Transfers between items	0	0	0	0	0	0	
Acquisition cost 31 Dec 2016	1,065	45,858	48,483	69	11,298	106,773	
Accumulated depreciation on 1 Jan 2016	0	-16,921	-27,185	0	0	-44,105	
Accumulated depreciation on decrease and transfers	0	0	0	0	0	0	
Depreciation for the accounting period	0	-2,485	-4,048	0	0	-6,533	
Accumulated depreciation on 31 Dec 2016	0	-19,406	-31,233	0	0	-50,638	
Revaluations	0	841	0	0	0	841	
Book value 31 Dec 2016	1,065	27,293	17,250	69	11,298	56,976	
Book value 31 Dec 2015	1,042	29,419	16,310	29	2,129	48,930	
Book value of operating machinery and equipment							
31 Dec 2016			15,784				
31 Dec 2015			14,934				

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.

14. FINANCIAL ASSETS

(EUR 1,000)	Shares in Group companies	Shares in associated companies	Shares, other	Receivables from Group companies	Receivables, other	Total
Financial assets 2016						
Acquisition cost 1 Jan 2016	17,277	335	96	0	0	17,708
Increase	0	0	0	0	0	0
Decrease	0	0	0	0	0	0
Acquisition cost 31 Dec 2016	17,277	335	96	0	0	17,708
Accumulated write-downs 1 Jan 2016	-6,210	0	0	0	0	-6,210
Decrease	0	0	-7	0	0	-7
Write-downs	0	0	0	0	0	0
Revaluations	0	0	0	0	0	0
Book value 31 Dec 2016	11,067	335	90	0	0	11,491

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, Lockerbie, United Kingdom	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
000 Ponsse, St. Petersburg, Russia	100.00
000 Ocean Safety Center, St. Petersburg, Russia (owned by 000 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, Suomi	34.00

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. INVENTORIES

(EUR 1,000)	2016	2015
Raw materials and consumables	39,196	40,282
Work in progress	9,155	10,067
Finished products/goods	2,352	2,481
Other stocks	8,094	7,763
Prepayments	0	39
Total	58,796	60,632

16. RECEIVABLES

(EUR 1,000)	2016	2015
Non-current receivables		
Receivables from Group companies		
Loan receivables	13,282	10,271
Loan receivables	0	0
Other receivables	219	1,093
Non-current receivables, total	13,501	11,365
Current receivables		
Trade receivables	11,160	22,478
Receivables from Group companies		
Trade receivables	68,408	52,222
Other receivables	2,372	4,641
Accrued income		
Grants receivable	76	56
Income tax receivables	0	0
Derivative contracts	108	312
Other accrued income	253	418
Other accrued income, total	437	787
Current receivables, total	82,377	80,127
Receivables, total	95,878	91,492

17. SHAREHOLDERS' EQUITY

(EUR 1,000)	2016	2015
Equity employed		
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
Equity employed, total	7,841	7,841
Shareholders' surplus		
Other reserves 1 Jan	2,423	0
Matching Share Plan, change	0	2,423
Other reserves 31 Dec	2,423	2,423
Retained earnings on 1 Jan	103,374	96,401
Purchase of treasury shares	0	0
Dividend distribution	-15,382	-12,585
Retained earnings on 31 Dec	87,993	83,816
Result for the period	40,180	19,559
Shareholders' surplus, total	130,595	105,797
Total shareholders' equity	138,436	113,638

18. DISTRIBUTABLE FUNDS

(EUR 1,000)	2016	2015
Retained earnings	87,993	83,816
Result for the period	40,180	19,559
Capitalised R&D expenses	-14,285	0
Total	113,888	103,374

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 2016 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 has no outstanding convertible notes or bonds with warrants. The parent company holds 33,092 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

19. ACCUMULATED APPROPRIATIONS

(EUR 1,000)	2016	2015
Depreciation difference	1,854	2,677

20. PROVISIONS FOR LIABILITIES AND CHARGES

(EUR 1,000)	2016	2015
Guarantee provision	7,336	6,120
Other compulsory provisions	0	0
Total	7,336	6,120

21. NON-CURRENT CREDITORS

(EUR 1,000)	2016	2015
Loans from financial institutions	39,000	30,000
Pension loans	450	1,350
Other loans	6,461	7,419
Non-current creditors, total	45,911	38,769
Debts falling due in more than five years		
Loans from financial institutions	0	1,000
Pension loans	0	0
Other loans	0	3,587
Total	0	4,587

23. CURRENT CREDITORS

(EUR 1,000)	2016	2015
Loans from financial institutions	9,000	18,771
Pension loans	900	1,043
Other loans	958	2,594
Advances received	21	2,617
Trade creditors	52,273	48,185
Liabilities to Group companies		
Advances received	0	0
Intra-Group trade creditors	1,250	1,642
Other intra-Group liabilities	0	0
Accruals and deferred income	0	0
Liabilities to Group companies, total	1,250	1,642
Advance invoicing	0	62
Other liabilities	1,274	1,340
Accruals and deferred income		
Accrued staff expenses	7,285	8,573
Interest accruals	35	55
Income tax liability	1,421	1,423
Accruals and deferred income in respect of inventories	0	0
Other accruals and deferred income	1,859	3,827
Accruals and deferred income, total	10,601	13,878
Current creditors, total	76,277	90,132

23. PLEDGES GIVEN, CONTINGENT AND OTHER LIABILITIES

(EUR 1,000)	2016	2015
23.1 Pledges given for own debt		
Debts for which mortgages have been pledged as collateral		
Loans from financial institutions	0	0
Mortgages given on land and buildings	0	0
Chattel mortgages granted	0	0
Total	0	0
23.2 Leasing commitments		
Leasing payments payable under leasing agreements		
Leasing payments payable during the next financial period	248	254
Leasing payments payable thereafter	161	249
Total	409	503
23.3 Contingent liabilities on behalf of Group companies		
Guarantees given on behalf of companies within the Group	301	288

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

23.4 Other contingent liabilities

Guarantees given on behalf of others	200	0
Repurchase commitments	1,010	909
Other commitments	1,177	276
Total	2,387	1,185

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 1,149,848, and the last auditing year is 2024.

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. The company cancelled the share-based incentive scheme for key personnel during the accounting period.

Treasury shares

The parent company holds 33,092 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 2017.

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 2017.

INCREASES IN SHARE CAPITAL 1994–2016

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

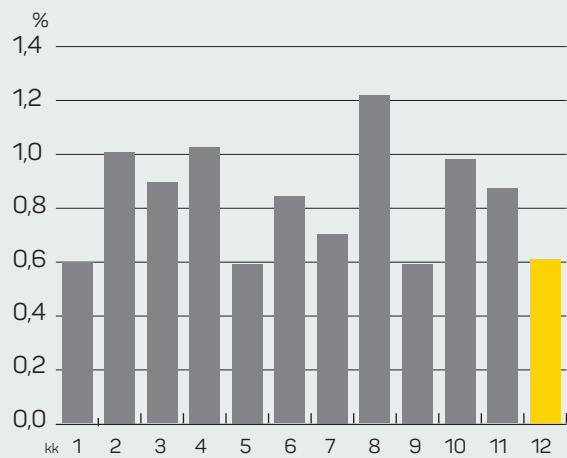
Authorisation to increase share capital

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.

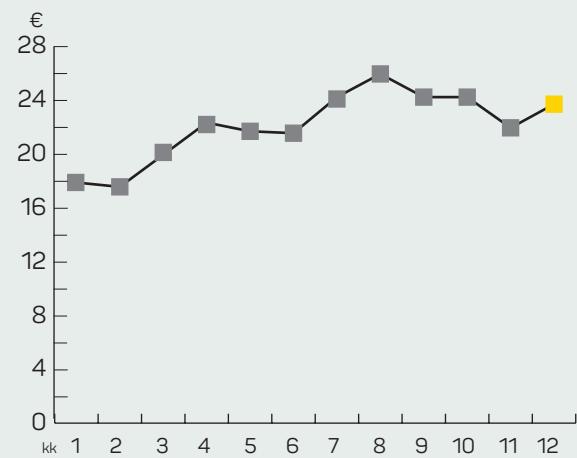
SHARE TURNOVER 1 JANUARY – 31 DECEMBER 2016

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	2,931,361	163,806	16.91	19.00	17.90	18.16	508,480,000	28,000,000	0.59
2	4,936,464	282,367	15.57	19.00	17.55	19.00	532,000,000	28,000,000	1.01
3	4,983,190	249,030	18.77	22.50	20.01	22.01	616,280,000	28,000,000	0.89
4	6,509,294	288,188	21.50	23.53	22.59	22.34	625,520,000	28,000,000	1.03
5	3,528,174	162,867	20.50	22.69	21.68	20.90	585,200,000	28,000,000	0.58
6	5,100,367	237,631	19.80	22.95	21.45	22.90	641,200,000	28,000,000	0.85
7	4,670,590	191,908	22.14	26.78	24.34	26.50	742,000,000	28,000,000	0.69
8	8,739,232	337,685	24.10	28.40	25.86	25.02	700,560,000	28,000,000	1.21
9	3,998,829	163,678	23.66	25.30	24.43	25.00	700,000,000	28,000,000	0.58
10	6,598,438	270,469	22.62	25.90	24.40	22.76	637,280,000	28,000,000	0.97
11	5,455,840	246,987	20.60	22.98	22.09	22.29	624,120,000	28,000,000	0.88
12	4,000,116	170,149	22.00	24.20	23.51	23.98	671,440,000	28,000,000	0.61
2016	61,451,897	2,764,765	15.57	28.40	22.25	23.98	671,440,000	28,000,000	9.87

RELATIVE SHARE TURNOVER
BY MONTH IN 2016



WEIGHTED AVERAGE SHARE PRICE
BY MONTH IN 2016



SHARE CAPITAL AND SHARES

SHAREHOLDER PROFILE ON 31 DECEMBER 2016

	Shares, pcs	Percentage of shares and votes, %	Shares of nominee-registered, pcs	Shares of nominee-registered, %	Votes, pcs	Percentage of votes, %
Enterprises	909,652	3.249	0	0	909,652	3.249
Financial institutions and insurance companies	1,569,179	5.604	1,110,002	3.965	2,679,181	9.569
Public sector entities	802,055	2.864	0	0	802,055	2.864
Households	22,891,641	81.756	0	0	22,891,641	81.756
Non-profit organisations	578,612	2.066	0	0	578,612	2.066
Foreign holding	106,307	0.380	32,552	0.116	138,859	0.496
Total	26,857,446	95.919	1,142,554	4.081	28,000,000	100.000

ANALYSIS OF SHAREHOLDERS ON 31 DECEMBER 2016

Shares per shareholder	Number of shareholders	Percentage of shareholders, %	Shares, total, pcs	Percentage of shares and votes, %
1–100	4,856	43.999	252,292	0.901
101–500	3,958	35.861	1,062,266	3.794
501–1 000	1,076	9.749	847,409	3.026
1 001–5 000	949	8.598	2,076,077	7.415
5 001–10 000	101	0.915	732,733	2.617
10 001–50 000	77	0.698	1,531,616	5.470
50 001–100 000	6	0.054	479,983	1.714
100 001–500 000	8	0.072	2,232,835	7.974
over 500,000	6	0.054	18,784,789	67.089
Total	11,037	100.000	28,000,000	100.000

SHAREHOLDERS ON 31 DEC 2016

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	728,690	2.60	2.60
6	Nordea Bank AB (publ), Finnish Branch	708,316	2.53	2.53
7	Ilmarinen Mutual Pension Insurance Company	392,666	1.40	1.40
8	Varma Mutual Pension Insurance Company	389,000	1.39	1.39
9	Einari Vidgrén Foundation	388,000	1.39	1.39
10	Skandinaviska Enskilda Banken Ab (nom. reg.)	358,133	1.28	1.28
11	Aktia Capital mutual fund	218,000	0.78	0.78
12	Evli Suomi Pienyhtiöt mutual fund	206,644	0.74	0.74
13	Säästöpankki Kotimaa mutual fund	179,392	0.64	0.64
14	SEB Finland Small Cap	101,000	0.36	0.36
15	Danske Invest Suomen Pienyhtiöt mutual fund	98,500	0.35	0.35
16	EQ Pohjoismaat Pienyhtiö	87,592	0.31	0.31
17	Mutual fund Alfred Berg Finland Fokus	82,750	0.30	0.30
18	Laakkonen Mikko	80,000	0.29	0.29
19	Relander Harald estate	80,000	0.29	0.29
20	Randelin Mari	51,141	0.18	0.18
21	Rinta-Jouppi Jarmo	50,000	0.18	0.18
22	Tiitinen Arto	50,000	0.18	0.18
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	Nummela Juho	33,259	0.12	0.12
28	Outokummun Metalli Oy	33,183	0.12	0.12
29	Ponsse Oyj	33,092	0.12	0.12
30	Kamprad Ingvar	30,000	0.11	0.11
	Other shareholders	6,117,248	21.85	21.85
	Total	28,000,000	100.00	100.00

At year-end 2016, Ponsse Plc had 11,037 shareholders (on 31 December 2015: 9,206).

Management holdings

Members of the Board of Directors, President and CEO, companies under their control and their underage children held a total of 13,730,004 Ponsse Plc shares on 31 December 2016, 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 113,887,695.83, of which the net result for the period amounted to EUR 40,179,918.73.

The company's Board of Directors proposes that the Annual General Meeting authorise a dividend of EUR 0.60 per share for 2016 totalling to EUR 16,780,144.80. No dividend shall be paid on treasury shares.

EUR 97,107,551.03 shall be retained in the parent company's non-restricted equity.

Vieremä, 13 February 2017

JUHA VIDGRÉN

MAMMU KAARIO

MATTI KYLÄVAINIO

OSSI SAKSMAN

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

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial performance and financial position 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.

What we have audited

We have audited the financial statements of Ponsse Oyj (business identity code 0934209-0) for the year ended 31 December, 2016. The financial statements comprise:

- the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

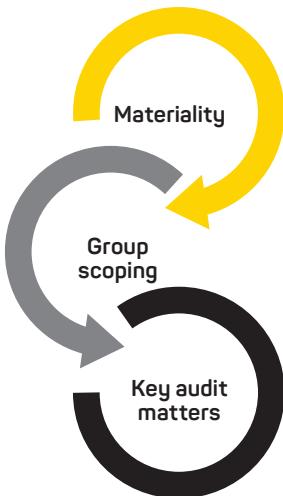
We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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.

Our Audit Approach



Overview

- Overall group materiality: € 2.9 million, which is 5% of result before taxes.
- Scope of the audit: 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 an audit of the component's financial information to analytical procedures performed at group level.
- Recognition of revenue from machine sales
- Valuation of inventories – trade-in machines and inventory of materials and supplies
- Guarantee provision
- 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	€ 2.9 million (previous year: € 2.5 million)
How we determined it	5% of result before taxes
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 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 specific audit procedures or analytical procedures were performed.

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.

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 and note 4 "Net sales" 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 when the significant risks, benefits and control associated with their ownership have been transferred to the buyer. At this time, the Group no longer has any power or control associated with the product.

As a rule, this takes place in connection with handover of the products in accordance with the terms and conditions of the agreement.

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.

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, and performed substantive audit procedures on net sales.

Our substantive procedures included:

- testing of sales transactions recognized within proximity of the year-end.
- testing of net sales based on journal entries.
- testing balance sheet items related to net sales
- computer-assisted audit procedures.

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 21 on inventories.

Of the total balance of inventories (ca. € 118 million), approximately € 95 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 significant management judgment involved in the measurement of those items, the valuation of these balance sheet items is regarded as a key audit matter.

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 GROUP**Guarantee provision**

See Accounting principles concerning the consolidated financial statements – Provisions, the note on management judgments relating to inventories, and note 27 on guarantee provision.

Our audit procedures relating to the guarantee provision were focused around the risk that the provision would not fully reflect the guarantee obligations relating to machines already sold. As described in the financial statements, the amount of the provision is based on empirical data on actual guarantee costs. The guarantee provision involves, by its nature, significant management judgments, and accordingly, it is a highly judgmental item. Based on the above, the accuracy of the guarantee provision is a key audit matter.

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

To evaluate the adequacy and accuracy of the guarantee provision, we assessed the historical accuracy of management's estimates by comparing the actual costs incurred to the provision recognized.

We agreed the recognized guarantee provision to the company's follow-up data on guarantees. Furthermore, we considered, through interviews of the company's management and observation, whether there were any events that would require the recognition of a provision in excess of actual guarantee costs. In addition to the above, we analyzed the development of guarantee costs and guarantee provisions over a longer term, and thereby obtained an overall understanding of the adequacy and accuracy of the guarantee provision.

The parent company's net investment in subsidiaries

See parent company notes 14 ("Investments"), 16 ("Receivables"), and 22 ("Current liabilities")

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. € 82 million, and its current liabilities owed to subsidiaries are ca. € 1 million. Accordingly, the amount of net investment is approximately € 92 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 assets. As a result of the above, the parent company's net investment in subsidiaries is a 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.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

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 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 cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on 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

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and 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 identified above 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 16 March 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Sami Posti
Authorised Public Accountant (KHT)

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