

PONSSE

2017

ANNUAL REPORT



CONTENTS

PONSSE'S YEAR 2017

- 3 Ponsse in brief
- 6 Mission, vision ja values
- 8 Review by the Chairman of the Board and the President and CEO
- 10 Market review
- 12 Events in 2017
- 14 Ponsse's model range is changing with customer needs
- 18 Maintenance services adapt to local conditions
- 20 Board of Directors, 31 December 2017
- 22 Management team, 31 December 2017
- 23 Area Directors and Subsidiary Managing Directors, 31 December 2017

CORPORATE SOCIAL RESPONSIBILITY

- 26 Corporate social responsibility (CSR) at Ponsse
- 31 Social responsibility
- 32 Environmental responsibility
- 36 Economic responsibility

FINANCIAL STATEMENTS

- 43 Contents of financial statements



PONSSE IN BRIEF

NET SALES

576,6 M€

SHARE OF EXPORTS

77.3 %

EMPLOYEES

1,508

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 13,000 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 77.3 per cent of net sales.

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





PONSSE'S YEAR 2017

2017 was an excellent year for Ponsse with respect to balanced growth, profitability and cash flow from operations. During the period under review, the Vieremä factory produced a record number of forest machines while the work for constructing the new factory was in progress. We are developing Ponsse with a long-term focus in order to support our customers' businesses.





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



"The operating environment has remained favourable for long, and the good situation in the forest industry has a positive impact on the forest machine market."

The year 2017 was excellent for Ponsse. We succeeded during each quarter throughout the year. Our profitability was good at 11.7 per cent, while we also achieved an 11.4 per cent growth figure and a positive cash flow of EUR 56.5 million. Our goal of balancing profitable growth and operational cash flows was fulfilled with success. Our international operations continued to grow strongly, with the share of exports being more than 77 per cent of net sales.

The operating environment has remained favourable for long, and the good situation in the forest industry has a positive impact on the forest machine market. Overall, the market grew well in 2017. The forest machine market in Russia developed strongly, surpassing Sweden and Finland to become the world's largest market for cut-to-length forest machines. Ponsse has a strong market share in Russia. In addition to Russia, the forest machine market grew in Finland, Sweden, Germany and Latin America. The market situation was normal in North America.

Of our business areas, the service business also grew considerably. Ponsse has expanded to areas in which the annual engine hours of forest machines are very high. For example, forest machines are used more than 6,000 hours a year in regions such as Russia and Latin America. An increasing number of machines, the new range of maintenance services and high engine hours in new regions have significantly increased the net sales of our service businesses.

The continuous development of the company's operations is essential. During 2017, we invested in expanding our service business network and in developing the Vieremä factory. As a result of the factory development, it is vital that we can expand our sales and maintenance network and continuously develop our distribution network. We opened new service centres in France, Uruguay and the UK. The factory development is heavily focused on the improvement of productivity and the quality production

ability throughout the manufacturing network. The expansion of our factory is progressing as planned, and the construction work was completed in late 2017. Our aim is to take a significant step forward in factory operations in the near future.

Our investments in product technology and product development have increased annually. Rapid technological development and digitalisation, in particular, open up new opportunities to develop products and new services.

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. Since 2010, we have invested around EUR 82.1 million in product development and around EUR 153.2 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 personnel will enable our success in the future as well.



"Of our business areas, the service business also grew considerably. Ponsse has expanded to areas in which the annual engine hours of forest machines are very high."

A handwritten signature in black ink, appearing to read 'Juha Vidgrén'.

Juha Vidgrén
Chairman of the Board of Directors

A handwritten signature in black ink, appearing to read 'Juho Nummela'.

Juho Nummela
President and CEO

Market review



"By opting instead for moderate growth, we were able to maintain the high quality of our products and services while at the same time upgrading our product range with features requested by customers."

2017 was a record year for Ponsse, when we strengthened our position in a fiercely competitive sector. Forest machines sold well in all of our market areas. In addition to record-breaking sales of new machines, turnover from maintenance services was at a record high. We also sold more used machines than ever before. The Russian market was particularly strong, and was for the first time the world's largest market for cut-to-length forest machines. In Finland, the total market for forest machines grew slightly, to a total of 511. Ponsse's domestic market share was 48 percent, and the market demand even exceeded our actual sales. However, we resisted the temptation to increase production volumes too quickly. By opting instead for moderate growth, we were able to maintain the high quality of our products and services while at the same time upgrading our product range with features requested by customers.

Growth in sales volumes has also enabled investments in local services in several markets. Last year we opened new service centres in France, Uruguay, Great Britain and the United States, and invested in training both for staff and customers. Investing in the appropriate facilities, new tools and training ensures a better and safer working environment for our service staff. For the customer, this means more efficient services and shorter turnaround times for maintenance.

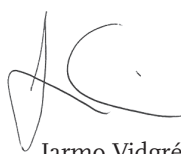
We are highly committed to developing local services as our customer base grows. The cornerstones of the forestry business are long-term sustainability and seamless overall operations. High-quality products and skilled service lead to increased sales, and the growing machine fleet ensures a good circulation of spare parts and used machines. This paves the path for continuous development for the benefit of our customers.

Ponsse's operations are driven by the needs of

foreign markets more strongly than ever before. It is essential to have a good understanding of the requirements for harvesters in each particular market, so that the products will be suitable for local harvesting conditions. This is only possible through close and open cooperation with good partners and local forest industry professionals. Ponsse's longest-standing partnership is with the dealer Wahlers Forsttechnik, and we are honoured and thankful to have been working with this German company for 25 years so far.

This year is shaping up to be an interesting one for Ponsse in many ways. Our assembly line and warehouse operations in Vieremä, Finland have been completely refurbished as part of the factory extension, making our operations even more flexible. We will continue to invest in maintenance services, and we are building a new service centre in the Mikkeli sales region. We will introduce new product innovations and improvements throughout the year, including at the year's largest forest trade fairs, the Expoforest fair in Brazil and FinnMETKO in Finland. Our firm focus on the efficiency and fuel economy of our machines is reflected in our new products and applications, which enable more extensive digitalisation to make daily forestry work easier. For example, last year we launched the PONSSE Parts Online application, which allows spare parts to be ordered 24 hours a day, seven days a week based on the product information for the particular machine.

Without ongoing feedback, continuous development would not be possible, or would lead in the wrong direction. We hope we will continue to receive feedback on our products, services and other activities. Our warmest thanks to all our customers and other partners for such successful cooperation! We work hard every day to earn and keep your trust.



Jarmo Vidgrén
Sales and Marketing Director

Events in 2017



- **2 FEBRUARY** The twelve-thousandth PONSSE forest machine was handed over to the customer at Ponsse's factory in Vieremä, Finland. The machine, a PONSSE Scorpion-King, was received by a French family company, Sarl NC Bois, based in Trémilly.



- **24 MARCH** The Finnish Family Firms Association chose Ponsse the Family Business of the Year 2017.



- **31 MARCH** Ponsse Uruguay celebrated its 10th anniversary.

2017

2/21

3/24

3/31

5/20

5/24

6/7

- **20 MAY** The new maintenance service centre of Ponsse's French subsidiary, Ponssé SAS, was taken into use in Labouheyre, southern France.



- **24 MAY** Maintaining the life's work of Einari Vidgrén, the Einari Vidgrén Foundation gave out EUR 157,700 in recognitions. Einari Awards, the main recognitions given out from the Foundation, were granted to veteran harvesting professionals Ahti Annala of the company Kone Annala Ky, and Jan-Erik Oldenburg of the company Puistometsäpalvelu Oldenburg Oy.



- **7 TO 10 JUNE** Elmia Wood in Jönköping, Sweden.





- **13 JUNE** The new premises for Ponsse's information system development were taken into use in Kajaani, Finland.



- **21 SEPTEMBER** Ponsse and its subsidiary Epec jointly established a product development unit in Tampere for the design of software and automation for mobile work machines. Tampere was chosen as the location of the new product development unit, since the city has become a growth centre for the work machine industry.



- Ponsse's factory investment is making progress. The buildings were completed at the end of the year, expanding the factory area from 2.7 hectares to four hectares.

6/13

9/21

11/2

6/11

11/24

2018

- **2 NOVEMBER** Sauli Niinistö, the President of Finland, granted Ponsse Plc a special recognition for the centenary of Finland's independence under the annual Internationalisation Award. The award has not previously been granted to the same company twice. Ponsse received the President's Internationalisation Award earlier in 2003.



- **6 NOVEMBER** Ponsse's Chinese subsidiary, Ponsse China, celebrated its 10th anniversary.



- **24 NOVEMBER** Ponsse UK Ltd, Ponsse's subsidiary in Britain, opened its new premises in Annan, Scotland.



Ponsse's model range is changing with customer needs



Ponsse manufactures the most modern and extensive forestry machines on the market. The PONSSE product range covers all size categories of forest machines, for first thinning, heavy-duty regeneration felling, as well as all logging sites from soft ground to steep slopes. The company's strategy is to focus on developing environmentally friendly forest machines based on cut-to-length (CTL) technology. Specialisation has created a clear competitive advantage for Ponsse.

There are a total of about 11,000 PONSSE forest machines operating worldwide, in 40 countries. This is why development work on forest machines must take into account a wide variety of operating conditions. Our product range has been developed as Ponsse has moved into new market areas.

"We are constantly challenging ourselves when it comes to product development by testing the machines in extreme conditions as well. The toughest conditions highlight the critical factors of machine operation and durability. In addition to testing, close cooperation with harvesting companies is essential for understanding local requirements", says Ponsse's Director of Technology

and R&D Juha Inberg.

"Ponsse's product development is always based on customer needs – it's not just limited to the design of new technology. Our existing range of machines is continuously being developed and improved. These continually ongoing efforts result in a total of about 1000 changes in our product range every year, based on customer needs and suggestions, and maintenance and production requirements", says Juha Inberg. Product development also applies to the older PONSSE models. The aim is to design new product features so that they can be upgraded on older PONSSE models as well, for example through upgrade packages.



The rate of development of forest machines has been faster than for perhaps any other kinds of machines. The advanced technical solutions of the products have created a whole new level of working comfort for operators, and the machines “sense” their own functions better than ever before.

INFORMATION SYSTEMS DEVELOPING AT AN ACCELERATING PACE

Modern harvesters are full of smart technology that has made them unprecedentedly effective and efficient. Harvesters take an average of about 40 seconds to handle a trunk, as the harvester head feeds in timber at the rate of about six metres per second. When movement of the machinery is also included in the calculations, the harvester can process about 60 trunks per hour. At the same time, the forest machine’s data systems calculate how the best possible value to the forest owner can be obtained from the wood.

Forest machines produce more data continuously, and current technology enables a wide range of data to be put to use. Data systems and control systems are the

“We are constantly challenging ourselves when it comes to product development by testing the machines in extreme conditions as well. The toughest conditions highlight the critical factors of machine operation and durability.”

heart of modern forest machines, and get maximum power and efficiency out of the mechanical technology to ensure superior performance for the machine operator.

In the last few years, the biggest changes in data systems have come from the increasingly rapid pace of data processing. The latest generation of modules – that is, control computers – can process data up to a hundred times faster than the previous generation. For operators, improved data processing is felt in various ways, such as more precise control of the crane, which gives greater user comfort and increased productivity. Product development at Ponsse is guided by the principle of developing features that most support the work and business of operators and entrepreneurs.

Ponsse's model range is changing with customer needs



The new information system innovations benefit business operations more than ever before. The PONSSE Manager control application provides entrepreneurs with comprehensive real-time data on factors such as machine location, the stands to be harvested, and machine fleet performance, all the while keeping the business owner up to date about factors that affect profitability. The machine operator's work is supported by the PONSSE EcoDrive application, which works through the control system to show in real time whether the operator's working methods and the machine settings are economical and efficient. This enables the operator to continually develop their methods.

ECONOMICS DRIVES DEVELOPMENT OF FOREST MACHINES

The intensive development of forest machines is driven by the needs of wood harvesting entrepreneurs and the forest industry, by environmental considerations, and fierce competition in the industry. Eight-wheeled harvesters, the advanced PONSSE Scorpion forest machine

and extensive renewal of the wide range of our model series, and development of our maintenance services are the foundations of Ponsse's current growth. The first eight-wheeled PONSSE harvesters were launched on the market in 2009. The PONSSE Scorpion harvester was launched in 2013, and has been a great success. So far 650 of these harvesters have been produced.

Several criteria must be met to ensure economical use of forest machines. Last year, features were introduced to PONSSE harvester hydraulics to further reduce fuel consumption, hydraulic heat output, and pressure loss. These added features have been very effective.

The working environment for machine operators has been further upgraded for increased comfort and safety. When working in extreme conditions, even small improvements in work wellbeing can make a big difference, such as improved air quality and temperature in the cabin, and extra work lights. The wellbeing of machine operators also promotes efficient machine use.

Our range of harvester heads has also grown considerably, creating a strong basis for growth in harvester



CTL

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 harvesting site. The best possible yield is obtained from forests when precision-cut high-quality timber is produced, and produced efficiently.

Machines using the cut-to-length harvesting method have been designed to be very adaptable, and the same machines can be used for various tasks, including thinning and regeneration felling. The total cost also remains lower than for competing harvesting methods. Eight-wheeled machines put less strain on soft ground, and are also especially suitable for steep terrain.

head sales. Ponsse has been developing and manufacturing harvesters and harvester heads for over thirty years, and in recent years the range of harvester heads designed for wood processing has also been significantly expanded. These larger harvester heads are installed on tracked bases for markets where rubber-wheeled CTL machines have not yet become more common.

The PONSSE product range includes harvesters, harvester heads, and harvester cranes, forwarders, loaders and harvester-related technology. All PONSSE forest machines are made in Vieremä, Finland. To ensure 100% quality, each machine is tested and test-driven before being delivered to the customer.



Maintenance services adapt to local conditions



Net sales of Ponsse's maintenance services have increased steadily for several years, which can be explained by a growing number of machines and an evolving service range. The changing needs of customers steer the scope and content of services.

As an increasing number of PONSSE forest machines are being used in highly different operating conditions, maintenance services must be able to keep up with continuous development. Feedback on maintenance services is also significant in terms of the technical development of forest machines. Customers offer development requests, and the expertise of the personnel is used in planning the availability and serviceability of machines.

Ponsse has responded to customer demands in various ways. Ponsse expands its maintenance network every year and makes significant investments in new service centres, personnel training and new working methods and tools. The ultimate goal is that machines need to spend as little time as possible in maintenance,

away from productive work. The focus of maintenance is constantly shifting towards preventive maintenance.

Digitalisation is more often a keyword when it comes to efficiency and productivity. By bringing the benefits offered by digital solutions to a practical level, we can improve the efficiency of our operations and offer better services.

"We build systems and applications for our maintenance network spanning over different time zones. A good example of our advanced solutions is the Service Information System (SIS) which we have developed for our maintenance network. The system provides strong support for customer service, as it is based on the use of real-time machine, spare part and maintenance data. In addition, we develop service applications directly for

The ultimate goal is that machines need to spend as little time as possible in maintenance, away from productive work.

our customers to make their everyday activities easier. Ponsse Service Applications and the Parts Online spare part order system are unique in the industry. We need to be able to see the next step before our customers even need to take it. When it comes to digital maintenance service solutions, we are a pioneer in the forest machine industry”, says Service Director Tapio Mertanen.

“While digital solutions make the operations of our customers more efficient, skilled employees and a good service attitude are ultimately at the core of the customer experience”, Mertanen says.

NO LOCATION IS TOO FAR AWAY

Machines are used in ever more challenging conditions. Since there is great variation in conditions in terms of the terrain, trees, weather and operations, maintenance service solutions must always adapt to local conditions. A growing number of machines helps to develop business activities and new service products. Ponsse is constantly looking for new service solutions and operational improvements.

Every new environment creates a need for new practices. In a full service, maintenance services are offered where customer machines are located, with the machine manufacturer ensuring that machines remain productive, no matter what the conditions are. While customers transport their machines for maintenance to service centres in the Nordic countries, in Russia and Brazil maintenance is carried out directly at logging sites.

The development of service products is also affected by general economic trends. Requirements for machine availability are high, and the response and turnaround times of maintenance services are always expected to become shorter. The requirements of customers are a key driver in the development of services. The basic idea of PONSSE maintenance services is responding to customer needs. Without feedback from machine operators, services cannot be developed in the correct direction at a sufficient pace.

SIGNIFICANCE OF LOGISTICS INCREASES

As the number of machines and requirements for response times have increased, the significance of logistics has also grown. Forest machines operate far from



cities and transport hubs. Logistics is challenging in the forest machine industry in terms of machine and spare parts deliveries but, at the same time, it has heavily steered the development of service solutions. In order to offer a functional customer service, it is important to adapt to local conditions.

In the event of machine breakage, spare parts must be readily available, regardless of the machine location. The availability of spare parts is one of the cornerstones of maintenance services. Local spare parts providers, combined with efficient logistics, determine the level and quickness of services. The spare parts stocks of service centres are monitored locally and through Ponsse's central warehouse, as well as during ESW audits that define the service level of local stocks.

Currently, Ponsse's service network consists of 182 service centres and dozens of maintenance vehicles operating in the field. The network consists of Ponsse's service centres and those of contractual service providers. In practice, there is no difference which service provider offers services to Ponsse's customers.

One excellent tool in the development of the service network is Effective and Safe Workshop (ESW), Ponsse's auditing system, which covers the services of Ponsse and its contractual service providers. By the end of last year, a total of 270 audits had been conducted within PONSSE maintenance services. Even though criteria are becoming ever stricter, most service centres have been able to increase their level by means of investments, training and operational changes.

Board of Directors, 31 December 2017



The Board was selected by the Annual General Meeting on 11 April 2017.

Selecting Board members

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

Board meetings

During the year under review, the Board convened nine times. The Board members actively participated in the meetings – the attendance rate was 90.7%.

Chairman of the Board**JUHA VIDGRÈN, b. 1970**

Master of Pedagogy
Ponsse Plc, Board Member since 2000
Shareholding in Ponsse Plc on 31 December 2017:
6,207,000 shares
Epec Oy, Chairman of the Board

Work experience

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

Other key positions of trust

Epec Oy, Chairman of the Board
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 Orihdistys Association, Chairman of the Board
Suomen Filmitölliys (SF) Oy, Board Member

Deputy Chairman of the Board**MAMMU KAARIO, b. 1963**

Board professional
Master of Law, MBA
Ponsse Plc, Board Member since 2010
Shareholding in Ponsse Plc on 31 December 2017:
4,500 shares
Independent of the company and major shareholders

Work experience

Partner Oy, Managing Director 2016–2017
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
CapMan Oyj, Board Member
Makai Holding Oy, Chairman of the Board
PerusTerveys Suomi 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 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 2017:
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

Commercial College Graduate
Ponsse Plc, Board Member since 2013
Shareholding in Ponsse Plc on 31 December 2017:
3,691,742 shares

Work experience

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

Other key positions of trust

Epec Oy, Board Member

JUKKA VIDGRÈN, b. 1983

Managing Director of Mutant Koala Pictures
Bachelor of Culture and Arts
Ponsse Plc, Board Member since 2011
Shareholding in Ponsse Plc on 31 December 2017:
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 Filmitölliys SF, Chairman of the Board

Management team, 31 December 2017

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 2017:

50,115 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 2017:

3,684,263 shares

Petri Härkönen, b. 1969

M. Sc. (Tech.)

CFO

Member of the Management Team since

1 October 2009

Joined Ponsse in 2009

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

Shareholding in Ponsse Plc on 31 December 2017:

5,980 shares

Juha Inberg, b. 1973

Dr. Tech.

Director, Technology and R&D

Member of the Management Team since

1 January 2009

Joined Ponsse in 2003

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

Shareholding in Ponsse Plc on 31 December 2017:

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 2017:

1,200 shares

Paula Oksman, b. 1959

MA

Director of Human Resources and Ponsse Academy

Member of the Management Team since

1 August 2005

Joined Ponsse in 2005

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

Shareholding in Ponsse Plc on 31 December 2017:

3,960 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 2017:

4,340 shares

Area Directors and Subsidiary Managing Directors, 31 December 2017

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. and Ponsse
Machines Ireland Ltd since 31 January 2017
Area Director, Croatia, Hungary, Romania, Serbia
and Slovenia, since 1 August 2017
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, since 1 August 2017
Poland, Slovakia and the Czech Republic,
Product Manager, used machines
Joined Ponsse in 2006

Risto Kääriäinen, b. 1971

Managing Director, Ponsse China
(Beihai Ponsse Trading Co. Ltd)
Area Director, Japan since 14 June 2017
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, Canada
Joined Ponsse in 2012

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

Sigurd Skotte, b. 1962

Managing Director, Ponsse AS
Joined Ponsse in 2011

Janne Tarvainen, b. 1968

Area Director, Austria, South Africa, Spain, Portugal
since 14 June 2017
Joined Ponsse in 2017

Martin Toledo, b. 1971

Managing Director, Ponsse Uruguay Ltd.
Area Director, Argentina and Chile since 14 June 2017
Joined Ponsse in 2005





CORPORATE SOCIAL RESPONSIBILITY (CSR) AT PONSSE

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

Corporate social responsibility (CSR) at Ponsse

PRODUCT AND SERVICE	PERSONNEL	OPERATION AND COLLABORATION
<p>R&D EXPENSES</p> <p>MEUR 15</p> <p>GROSS INVESTMENTS IN FIXED ASSETS</p> <p>MEUR 38</p>	<p>Average number of employees in the Group: 1,508 of whom 60% in Finland and 40% in other countries.</p> <p>Average employment duration 7,2 yrs</p> <p>Voluntary turnover 4,2%</p> <p>Incentive programme coverage 100%</p>	<p>Active operation in 40 countries</p> <p>Number of service offices 182</p> <p>77% of suppliers are Finnish</p> <p>77% of turnover generated outside Finland</p>
SUSTAINABLE FORESTRY	LIFE CYCLE MANAGEMENT	NATURAL RESOURCES
<p>CUT-TO-LENGTH METHOD (CTL) products help ensure economical use of wood raw materials.</p> <p>MINIMAL IMPACT TO TOPSOIL</p> <p>8-wheel harvesters and the 10w forwarder designed for soft forest environment keep damage to a minimum.</p> <p>FUEL EFFICIENCY</p> <p>We keep developing our working methods to further reduce consumption of fossil fuels.</p>	<p>CAREFUL MANAGEMENT OF AFTER-SALES SERVICE CONTRACTS</p> <ul style="list-style-type: none">• Longer maintenance cycles• Fewer maintenance products• Less waste from maintenance• Waste management and recycling at Ponsse <p>ENVIRONMENTALLY FRIENDLY SERVICE PRODUCTS AND SPARE PARTS</p> <ul style="list-style-type: none">• Recycling – Budget Parts• Refurbishing – Reman Parts• Older models – Classic Parts• Biodegradable oils• Digital services 24/7	<p>We pay special attention to the ENERGY efficiency of our premises and we prefer green electricity.</p> <p>Production WATER is circulated in a closed system and reused several times.</p> <p>MATERIAL efficiency is improved with thorough planning and good logistics.</p> <p>The minimisation, proper processing and recycling of WASTE is essential in all our activities.</p>
FINANCIAL DATA	STAKEHOLDERS	
<p>NET SALES</p> <p>MEUR 577</p> <p>CASH FLOW FROM BUSINESS OPERATIONS</p> <p>MEUR 57</p>	<p>PROFITABILITY</p> <p>Operating result MEUR 67 equalling 12% of net sales</p> <p>SOLVENCY</p> <p>Equity ratio 52%</p> <p>Net gearing ratio 14%</p>	<p>Personnel: salaries MEUR 80</p> <p>Owners: dividends MEUR 17</p> <p>Suppliers: purchases MEUR 302</p> <p>Customers: investments in R&D and fixed assets MEUR 53</p> <p>Society: paid taxes, customs duties and payroll taxes MEUR 39</p>

The purpose of this review is to describe the responsibility practices and principles at Ponsse. The sustainability review is based on an application of the EU directive on the reporting of data other than economic data. However, this review is not intended as a report on the company's non-financial information in accordance with the European Union directive on disclosure of non-financial and diversity information (2014/95/EU) and the Finnish Accounting Act (1336/1997) that governs its implementation. Ponsse will publish the actual report separately on the company's website by the end of June 2018.

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-financial 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 Com-

PONSSE'S ROLE AS A CONTRIBUTOR TO SUSTAINABLE FORESTRY



Corporate social responsibility (CSR) at Ponsse

pany 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 responsibility, together with the company's employees and partners. Ponsse has always operated responsibly. The formal, goal-oriented CSR efforts and CSR report-

ing development by the company management and employee representatives started in 2016.




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

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

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.

We are a responsible corporate citizen, and we contribute to openness in tax policy. That is why we will publish our tax policy and taxation footprint this year, for the first time.

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 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 have 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 co-operation. 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 contin-

Corporate social responsibility (CSR) at Ponsse


uous 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 and ISO 14000 certified. 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 sup-

port 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

PONSSE RESPONSIBILITY MODEL

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

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 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.

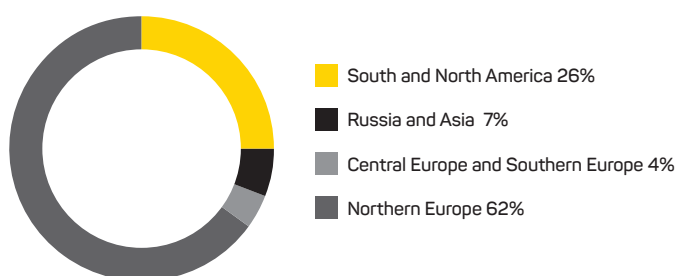
RESPONSIBLE PRODUCTS AND SERVICES

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

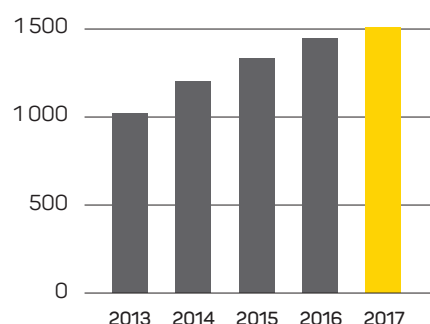
KEY FIGURES AND RATIOS

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

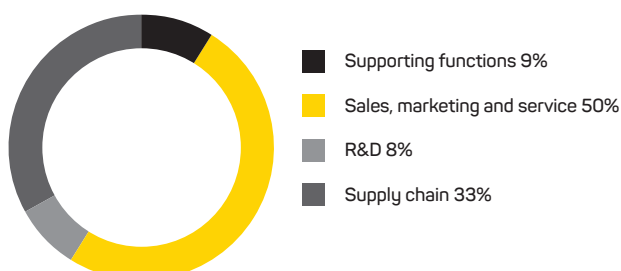
EMPLOYEES BY REGION 2017



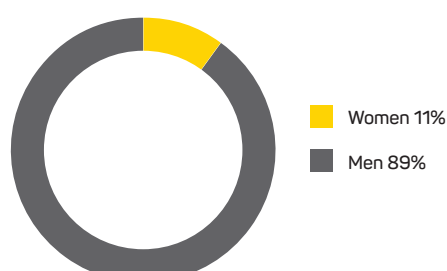
AVERAGE NUMBER OF PERSONNEL



PERSONNEL PER PROCESS 2017



GENDER DISTRIBUTION 2017



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 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 work safety, our goal throughout Ponsse Group is a zero-accident work environment. We are working towards this by investing in proactive observation of potential risks and systematic risk assessment work, and by promoting continuous development of a pleasant and safe working environment.

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,

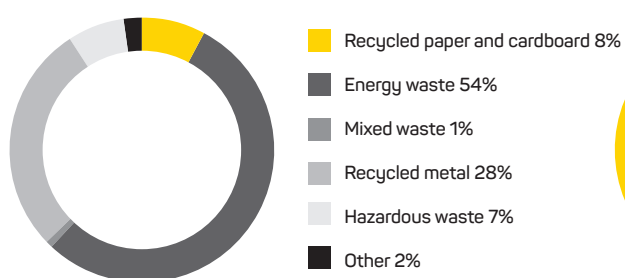
KEY FIGURES AND RATIOS

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

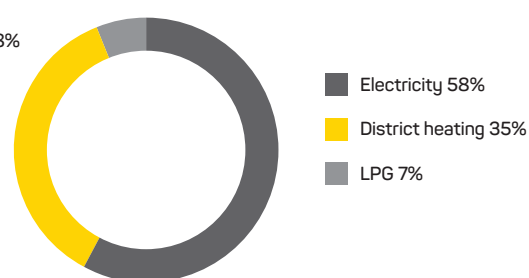
NATURAL RESOURCE USE AND WASTE

Site (Production, Vieremä Finland)	2015	2016	2017
Energy consumption (MWh)	10,785	11,091	11,633
Electricity (MWh)	6,439	6,414	6,714
District heating (MWh)	3,561	3,960	4,024
LPG (MWh)	785	717	925
Total water consumption (m³)	8,915	11,252	11,140
Emissions, VOC (kg)	11,456	14,439	14,081
Total amount of waste (thousand tonnes)	1,467	1,251	1,343
Number of employees (Vieremä)	723	774	806

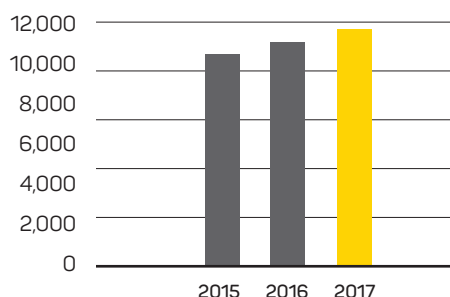
WASTE RECYCLING, VIEREMÄ 2017



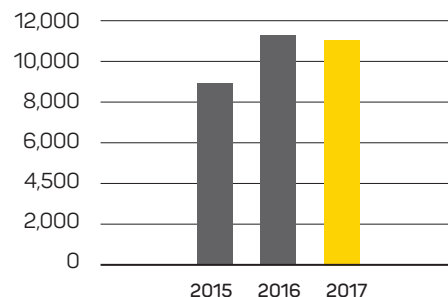
ENERGY CONSUMPTION 2017 (MWh)



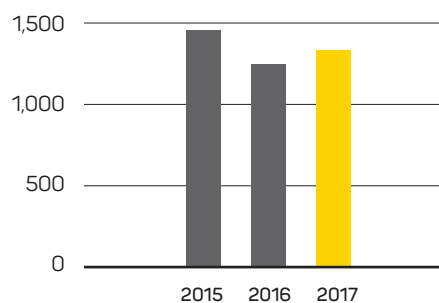
TOTAL ENERGY CONSUMPTION (MWh)



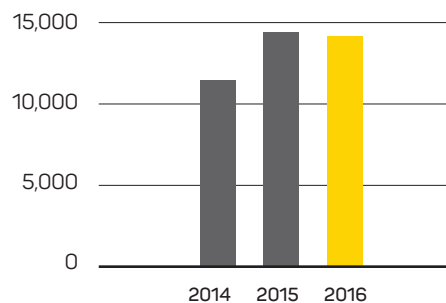
TOTAL WATER CONSUMPTION (M³)



TOTAL AMOUNT OF WASTE (T)



EMISSIONS VOC (KG)



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 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 improve our energy efficiency and reduce natural resource consumption.

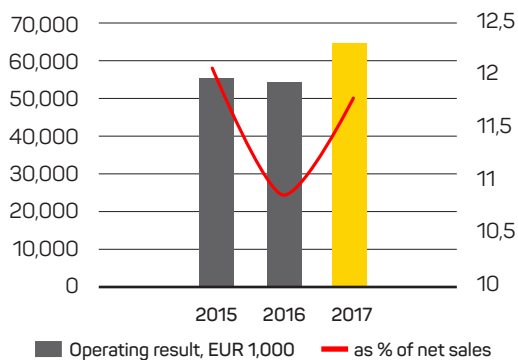
ENVIRONMENTAL IMPACTS OF SERVICES

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),

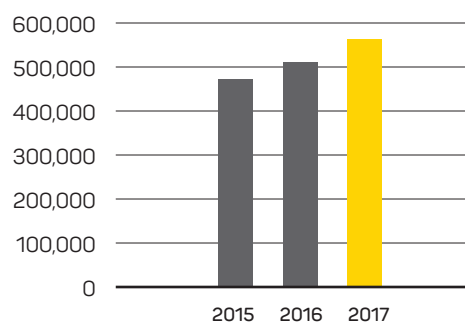
KEY FIGURES AND RATIOS

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

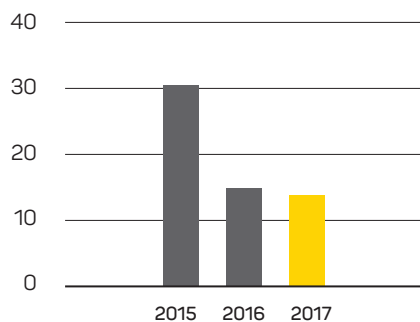
PROFITABILITY



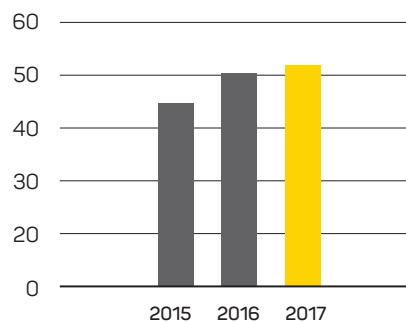
NET SALES, MEUR



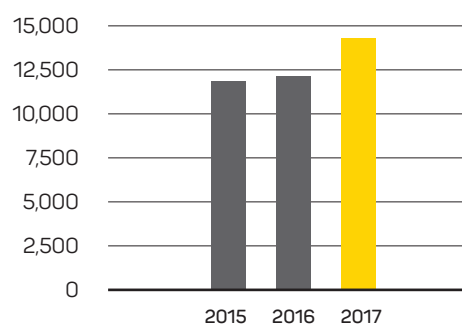
NET GEARING RATIO, %



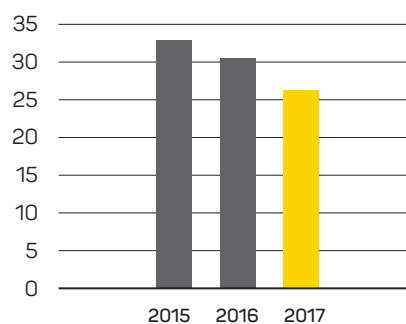
EQUITY RATIO, %



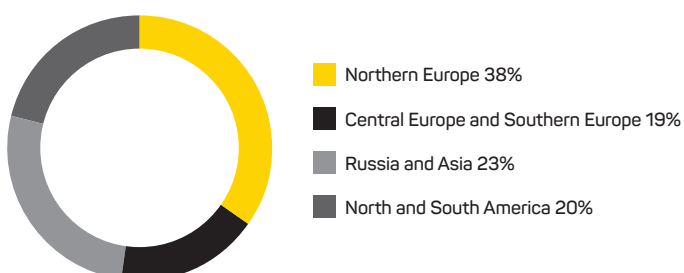
R&D EXPENDITURE, 1,000 EUR



RETURN ON CAPITAL EMPLOYED, % (ROCE)



NET SALES PER REGION 2017



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.

ECONOMIC RESPONSIBILITY

With the term 'economic 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, Ireland, 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.

TAX POLICY AND TAX FOOTPRINT

TAX POLICY

Ponsse aims to be a responsible corporate citizen consistent with its values. The company also wants to be a trendsetter of the forest machine industry in the promotion of open tax policies. Ponsse's tax policy describes the company's main principles regarding taxation, which are based on its values and Code of Conduct. The tax policy is the responsibility of Ponsse's CFO and it is approved by the company's Board of Directors.

MAIN PRINCIPLES REGARDING TAXATION

- Ponsse complies with valid tax laws and regulations in all countries where the company has operations.
- Ponsse complies with the OECD's Transfer Pricing Guidelines and reviews the market basis of the Group's internal pricing at regular intervals.
- Ponsse is committed to paying the respective statutory taxes wherever it operates and results are produced without delay.
- Ponsse reports and releases its fiscal information in accordance with valid legislation and the transparency goals of the company's own tax policy.
- At Ponsse, the objective of tax management is predictable and effective taxation with high morals.

COMPLIANCE WITH THE TAX POLICY AND OPENNESS OF TAXATION

The tax policy applies to all Ponsse employees whose work involves Ponsse's business operations and particularly the related taxation matters. Ponsse also requires the company's external advisers to comply with its tax policy in instances where the reporting and

other tasks related to taxes have been outsourced.

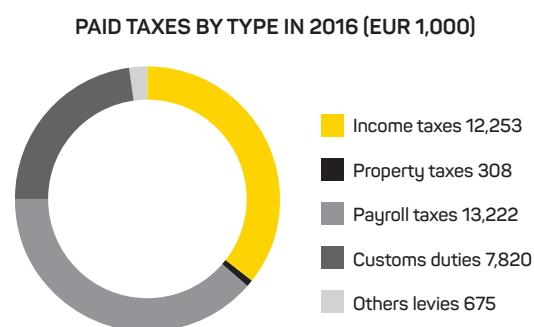
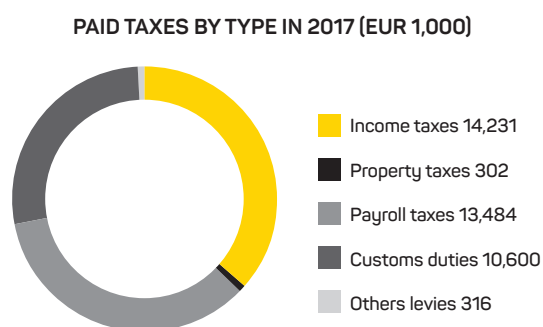
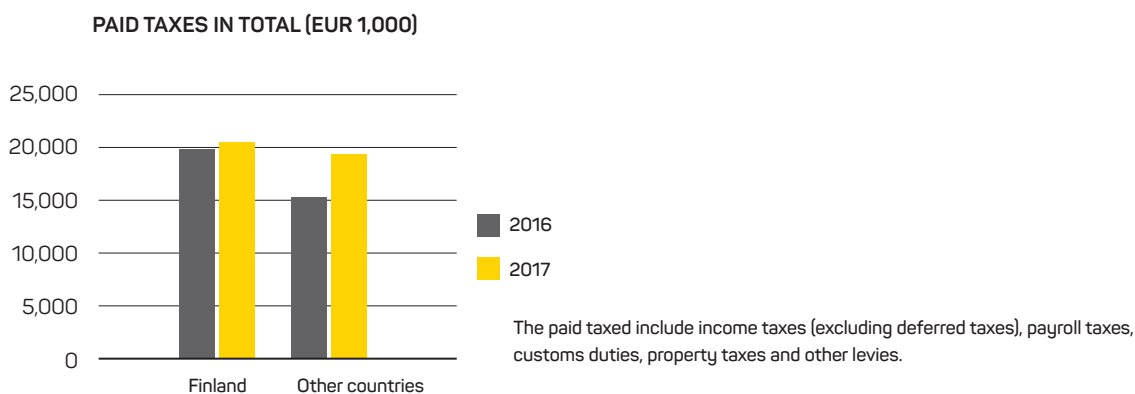
Ponsse pursues open cooperation and discussion with the Tax Administration. The company also seeks the Tax Administration's advance ruling or opinion on the most significant business transactions.

STRUCTURE OF BUSINESS

Ponsse's business is always conducted in a commercial purpose, and the company has been structured in accordance with the business. The parent company's operations cover product development, sourcing, production, logistics, sales, maintenance services and Group management.

Ponsse's subsidiaries outside Finland operate as local sales companies and provide maintenance services. The Finnish subsidiary Epec designs and manufactures control systems which it sells to the parent company and external customers. All of the subsidiaries are in the direct ownership of the parent company.

Tax footprint



(EUR 1,000)	FINLAND (2017)	OTHER COUNTRIES (2017)	TOTAL (2017)	FINLAND (2016)	OTHER COUNTRIES (2016)	TOTAL (2016)
TURNOVER	470,803*	345,322*	576,553**	427,434*	303,321*	517,400**
EARNINGS BEFORE TAXES	53,007*	9,049*	57,792**	44,075*	14,181*	52,990**
PERSONNEL	910	636	1,546	897	556	1,453
INCOME TAXES	10,604	3,627	14,231	9,102	3,151	12,253
PROPERTY TAXES	145	157	302	155	153	308
PAYROLL TAXES	9,921	3,564	13,484	10,072	3,150	13,222
CUSTOMS DUTIES	22	10,578	10,600	45	7,775	7,820
OTHER LEVIES	38	278	316	37	638	675
PAID TAXES IN TOTAL	20,730	18,204	38,934	19,412	14,867	34,279

*) Unconsolidated ***) Consolidated

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"> Uniform responsibility programme in the Group Systematic safety programme in the Group 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"> Ponsse people are committed to the Code of Conduct Ponsse's CSR activities comply with stakeholder expectations Well-functioning responsibility communication 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"> Responsibility of supply chain 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"> Promoting the use of the CTL method 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"> Environmental programme for service businesses in the Group 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"> Commitment to the environmental targets 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 \geq 2 	<ol style="list-style-type: none"> Securing balanced, sustainable company finances in the long term.



A large forest of tall, thin trees with a logging machine and a log truck in the foreground. The logging machine is a blue and yellow Ponsse Wipac 20m, with a yellow crane arm and a yellow grapple. It is positioned next to a log truck loaded with logs. The truck is a yellow and black Ponsse Wipac 20m. The background is a dense forest of tall, thin trees.

FINANCIAL STATEMENTS

Ponsse Plc's financial statements 2017 include Board of Director's report, consolidated financial statements (IFRS) and parent company's financial statements (FAS).

Information for shareholders

Ponsse Plc's Annual General Meeting for 2018 will be held on Monday 9 April 2018 at the company's registered office at Ponssentie 22, FI-74200 Vieremä, Finland, commencing at 11:00 a.m. Finnish time.

ELIGIBILITY TO ATTEND

To be eligible to attend the AGM, shareholders must be registered by 26 March 2018 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 4 April 2018 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 Wednesday 4 April 2018, 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 0.75 per share be paid for 2017. 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, 11 April 2018. The dividend shall be paid on 18 April 2018.

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 2018

In addition to the financial statements and the Annual Report for 2017, Ponsse Plc will issue three interim reports. Interim reports for the financial period 2018 will be published as follows:

- January–March 17 April 2018
- January–June 7 August 2018
- January–September 23 October 2018

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
Ponssentie 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: Inderes Oy, Nordea Bank Finland Plc, Pohjola Bank Plc.

Contents

44	Board of Directors' report
49	The most important exchange rates
	Consolidated financial statements (IFRS)
50	Consolidated statement of comprehensive income
51	Consolidated statement of financial position
52	Consolidated statement of cash flows
53	Consolidated statement of changes in equity
54	Notes to the consolidated financial statements
85	Financial indicators
86	Per-share data
87	Formulae for financial indicators
	Parent company's financial statements (FAS)
88	Parent company's profit and loss account
89	Parent company's balance sheet
90	Parent company's cash flow statement
91	Notes to the parent company's accounts
100	Share capital and shares
104	Board of Directors' proposal for the disposal of profit
105	Auditor's report

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 Director's report for the period 1 January – 31 December 2017

General

Ponsse Group recorded net sales amounting to EUR 576.6 million (in 2016, EUR 517.4 million) and an operating result of EUR 67.4 (55.2) million for the period. Result before taxes was EUR 57.8 (58.3) million. Earnings per share were EUR 1.60 (EUR 1.63).

Net sales

Consolidated net sales for the period under review amounted to EUR 576.6 (517.4) million, which was 11.4 per cent more than in the comparison period. International business operations accounted for 77.3 (76.6) per cent of net sales.

Net sales were regionally distributed as follows: Northern Europe 38.0 (39.3) per cent, Central and Southern Europe 18.6 (20.3) per cent, Russia and Asia 20.1 (14.7) per cent, North and South America 22.9 (24.6) per cent and other countries 0.5 (1.1) per cent.

Profit performance

The operating result amounted to EUR 67.4 (55.2) million. The operating result equalled 11.7 (10.7) per cent of net sales for the period under review. Consolidated return on capital employed (ROCE) stood at 26.4 (30.7) per cent.

Staff costs for the period totalled EUR 80.3 (73.9) million. Other operating expenses stood at EUR 49.7 (44.7) million. The net total of financial income and expenses amounted to EUR -9.7 (3.1) million. Exchange rate gains and losses with a net effect of EUR -6.3 (3.9) million were recognised under financial items for the period. Result for the period under review totalled EUR 44.8 (45.7) million. Diluted and undiluted earnings per share (EPS) came to EUR 1.60 (1.63).

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 345.2 (301.6) million. Inventories stood at EUR 122.3 (118.3) million. Trade receivables totalled EUR 41.5 (35.9) million, while liquid assets stood at EUR 42.6 (37.3) million. Group shareholders' equity stood at EUR 176.8 (149.8) million and parent company shareholders' equity (FAS) at EUR 162.9 (138.4) million. The amount of interest-bearing liabilities was EUR 68.2 (60.1) million. The company has used 0 per cent of its credit facility limit. The parent company's net receivables from other Group companies stood at EUR 85.3 (80.4) million. The parent company's receivables from subsidiaries mainly consisted of trade receivables. Consolidated net liabilities totalled EUR 25.5 (22.6) million, and the debt-equity ratio (net gearing) was 14.4 (15.1) per cent. The equity ratio stood at 51.9 (50.3) percent at the end of the period under review.

Cash flow from operating activities amounted to EUR 56.5 (53.7) million. Cash flow from investment activities came to EUR -37.7 (-28.1) million.

Order intake and order books

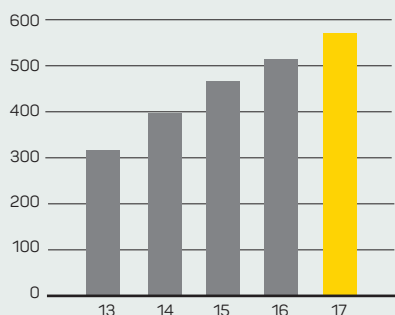
Order intake for the period totalled EUR 582.1 (493.8) million, while period-end order books were valued at EUR 124.6 (123.9) million.

Distribution network

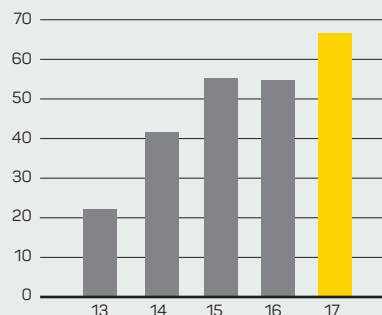
The parent company Ponsse Plc established a new subsidiary Ponsse Machines Ireland Ltd. in Ireland on 13 January 2017.

The subsidiaries included in the Ponsse Group are Ponsse AB, Sweden; Ponsse AS, Norway; Ponssé S.A.S.,

NET SALES, MEUR



OPERATING RESULT, MEUR



France; Ponsse UK Ltd., the United Kingdom; Ponsse Machines Ireland Ltd., Ireland; Ponsse North America, Inc., the United States; Ponsse Latin America Ltda, Brazil; Ponsse Uruguay S.A., Uruguay; OOO Ponsse, Russia; Ponsse Asia-Pacific Ltd., Hong Kong; Ponsse China Ltd., China and Epec Oy, Finland. The Group includes also the property company 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 14.8 (12.4) million, of which EUR 4.7 (4.0) million was capitalised.

Capital expenditure totalled EUR 37.8 (28.3) 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 11 April 2017. 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 2016 financial period.

The AGM decided to pay a dividend of EUR 0.60 per share for 2016 (dividends totaling EUR 16,780,145). No dividend will be paid to shares owned by the company itself (33,092 shares). The dividend payment record date was 13 April 2017, and the dividends were paid on 24 April 2017.

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.

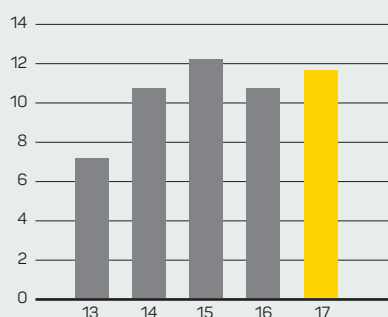
The authorisation is proposed for use in supporting the Company's growth strategy in the Company's potential corporate acquisitions or other arrangements. In addition, the shares can be issued to the Company's current shareholders, used for increasing shareholders' ownership value by invalidating shares 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 2018. The previous authorisations are cancelled.

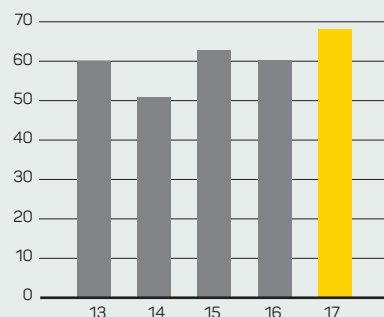
The AGM authorised the Board of Directors to decide on the assignment of treasury shares held by the company against payment or free of charge so that a maximum of 250,000 shares will be issued on the basis of the authorisation. The maximum amount corresponds to approximately 0.89 per cent of the company's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

OPERATING RESULT, % OF NET SALES



INTEREST-BEARING LIABILITIES, MEUR



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 2018. Previous authorisations are cancelled.

Board of directors and the company's auditors

Juha Vidgrén acted as Chairman of the Board and Mammu Kaario as Vice Chairman of the Board. Members of the Board were Matti Kylävaio, Ossi Saksman, Janne Vidgrén and Jukka Vidgrén.

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

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

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

Management

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

CEO, Sales and Marketing Director. The company management has regular management liability insurance.

The area director organisation of sales is led by Jarmo Vidgrén, 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: Tuomo Moilanen (Germany and Austria), Clément Puybaret (France), Janne Tarvainen (Spain and Portugal), Gary Glendinning (the United Kingdom, Ireland, Hungary, Romania, Slovenia, Croatia and Serbia) and Jussi Hentunen (Poland, Czech Republic and Slovakia).

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

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

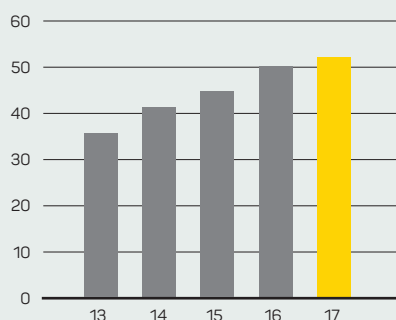
Personnel

The Group had an average staff of 1,508 (1,435) during the period and employed 1,546 (1,453) people at period-end.

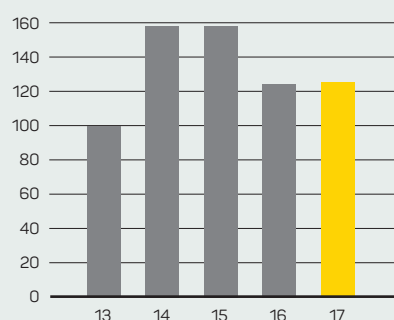
Share performance

The company's registered share capital consists of 28,000,000 shares. The trading volume of Ponsse Plc

EQUITY RATIO, %



ORDER BOOKS, MEUR



shares for 1 January – 31 December 2017 totalled 2,513,292, accounting for 9.0 per cent of the total number of shares. Share turnover amounted to EUR 60.8 million, with the period's lowest and highest share prices amounting to EUR 20.85 and EUR 27.80, respectively.

At the end of the period, shares closed at EUR 26.38, and market capitalisation totalled EUR 738.6 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.

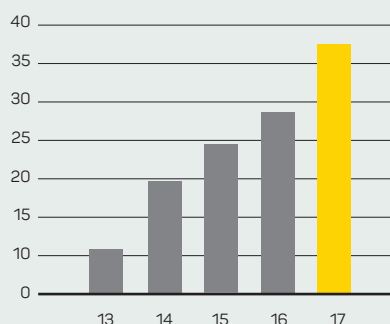
Implementation of the principles of sustainable development and responsible leadership are guided by the management systems based on the company's quality, environmental and occupational safety and health standards. At Ponsse, sustainable development means taking the economic, social and ecological points 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.

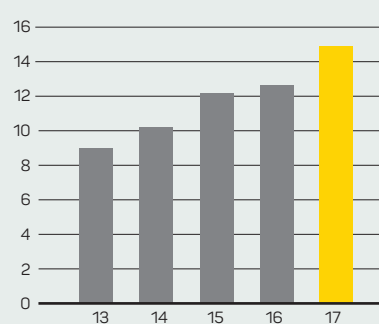
At Ponsse, operating methods and production processes are developed with both internal and external audits. The company's audit system has been a key tool in promoting the development during 2017. During the period under review, internal audits assessing the procedures and working environment of services 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.

GROSS CAPITAL EXPENDITURE, MEUR



R&D EXPENDITURE, MEUR



Governance

In its decision-making and administration, the company observes the Finnish Limited Liability Companies Act, other regulations governing publicly listed companies and the company's Articles of Association. The company's Board of Directors has adopted the Code of Governance that complies with the Finnish Corporate Governance Code approved by the Board of the Securities Market Association in 2015. The purpose of the code is to ensure that the company is 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 probability. Methods of risk management include avoiding, mitigating and transferring risks. Risks can also be managed by controlling and minimising their impact.

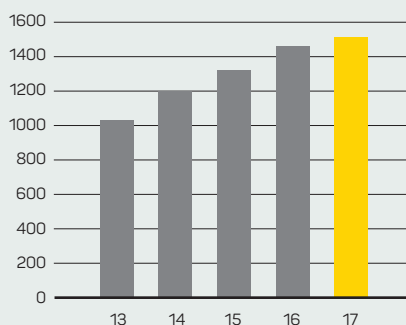
Short-term risks and their management

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

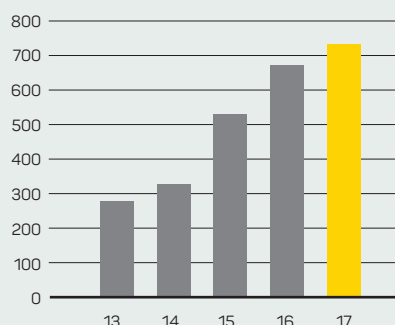
The parent company monitors the changes in the Group's internal and external trade receivables and the associated risk of impairment.

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

AVERAGE NUMBER OF EMPLOYEES



MARKET CAPITALISATION, MEUR



Events after the period

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

Outlook for the future

The Group's euro-denominated operating profit is expected to be at the same level in 2018 as it was in 2017.

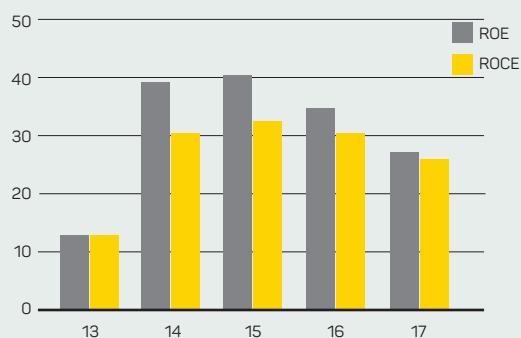
Ponsse's updated and competitive product range and service solutions have had a significant impact on the company's growth. The market situation has continued to be favourable.

Our investments are focused on developing the level of service and capacity of the supply chain and spare part logistics and developing the service network in Finland and abroad. Expansion of the Vieremä factory is progressing in schedule. The start-up of the new factory will take place during the first six months of 2018. The added benefits of the expansion will begin to be realised as planned in the second half of 2018. The investment in the factory is related to the development of safety, productivity, product quality and flexibility of the Vieremä factory.

THE MOST IMPORTANT EXCHANGE RATES

	Closing exchange rate 31 Dec 2017	Average exchange rate 2017	Closing exchange rate 31 Dec 2016	Average exchange rate 2016
SEK	9.84380	9.63918	9.55250	9.44958
NOK	9.84030	9.34975	9.08630	9.28878
GBP	0.88723	0.87422	0.85618	0.81587
USD	1.19930	1.13065	1.05410	1.10205
BRL	3.97290	3.62706	3.43050	3.85714
RUB	69.39200	66.03495	64.30000	73.87562
CNY	7.80440	7.62986	7.32020	7.31992

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



Consolidated statement of comprehensive income

(EUR 1,000)	Note ¹	2017	2016
Net sales	1, 4	576,553	517,400
Other operating income	5	1,618	1,915
Change in inventories of finished goods and work in progress		7,900	2,346
Raw materials and services		-375,529	-336,008
Expenditure on employment-related benefits	8, 34	-80,263	-73,879
Depreciation and amortisation	7	-13,112	-11,905
Other operating expenses	6	-49,734	-44,711
Operating result		67,432	55,158
Financial income	10	18,159	22,489
Financial expenses	11	-27,819	-19,415
Share of results of associated companies		19	23
Result before taxes		57,792	58,255
Income taxes	12	-13,021	-12,543
Net result for the period		44,771	45,712
Other items included in total comprehensive result:			
Translation differences related to foreign units		-941	1,554
Total comprehensive income for the financial period		43,830	47,266
Earnings per share calculated from the result belonging to parent company shareholders:			
undiluted earnings per share (EUR), result for the period	13	1.60	1.63
earnings per share (EUR) adjusted for dilution, result for the period	13	1.60	1.63

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

Consolidated statement of financial position

(EUR 1,000)	Note ¹	2017	2016
ASSETS			
Non-current assets			
Tangible assets	14	95,454	73,765
Goodwill	15	3,816	3,827
Intangible assets	15	22,975	19,928
Financial assets	18, 31	103	103
Investments in associated companies	17	714	781
Receivables	19	916	2,340
Deferred tax assets	20	3,538	2,525
Total non-current assets		127,516	103,269
Current assets			
Inventories	21	122,302	118,283
Trade receivables and other receivables	22, 31	52,345	41,847
Income tax receivables		413	859
Cash and cash equivalents	23, 31	42,596	37,342
Total current assets		217,656	198,332
TOTAL ASSETS		345,172	301,600
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
	24		
Share capital		7,000	7,000
Treasury shares		-346	-346
Translation differences		-183	758
Other reserves		2,452	2,452
Retained earnings		167,923	139,932
Equity owned by parent company shareholders		176,846	149,796
Non-current liabilities			
Deferred tax liabilities	20	823	799
Interest-bearing liabilities	28, 31	46,126	46,653
Other liabilities	29, 31	57	0
Total non-current liabilities		47,006	47,452
Current liabilities			
Interest-bearing liabilities	28, 31	22,115	13,462
Trade creditors and other liabilities	29	92,698	82,877
Income tax liabilities		738	2,043
Provisions	27	5,769	5,970
Total current liabilities		121,320	104,353
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		345,172	301,600

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

Consolidated statement of cash flows

(EUR 1,000)	Note ¹	2017	2016
Cash flows from operating activities:			
Net result for the period		44,771	45,712
Adjustments:			
Financial income and expenses	10, 11	9,660	-3,074
Share of the result of associated companies		-19	-23
Depreciation and amortisation	7	13,112	11,905
Income taxes		13,021	12,543
Other adjustments		-923	3,051
Cash flow before changes in working capital		79,621	70,114
Change in working capital:			
Increase (-)/decrease (+) in trade receivables and other receivables		-10,165	7,437
Increase (-)/decrease (+) in inventories		-4,018	-13,699
Increase (+)/decrease (-) in trade creditors and other liabilities		10,572	2,777
Change in provisions for liabilities and charges		-201	1,216
Interest received		240	222
Interest paid		-954	-953
Other financial items		-3,518	-468
Income taxes paid		-15,030	-12,905
Net cash flows from operating activities (A)		56,549	53,740
Cash flows used in investing activities:			
Investments in tangible and intangible assets		-37,836	-28,280
Proceeds from sale of tangible and intangible assets		127	198
Net cash flows used in investing activities (B)		-37,709	-28,082
Cash flows from financing activities:			
Withdrawal/repayment of current loans		7,944	2,220
Withdrawal of non-current loans		0	1,004
Repayment of non-current loans		-900	-5,702
Payment of finance lease liabilities		1,082	191
Increase (-)/decrease (+) in non-current receivables		520	-1,396
Dividends paid	24	-16,780	-15,382
Net cash flows from financing activities (C)		-8,135	-19,065
Change in cash and cash equivalents (A+B+C)		10,705	6,593
Cash and cash equivalents 1 Jan		37,342	26,495
Impact of changes in exchange rates		-5,451	4,254
Cash and cash equivalents 31 Dec	23	42,596	37,342

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					
(EUR 1,000)	Note ¹	Share capital	Share premium account and other reserves	Translation differences	Treasury shares	Retained earnings	Shareholders' equity total
Shareholders' equity, 1 Jan 2017		7,000	2,452	758	-346	139,932	149,796
Translation differences		0	0	-941	0	0	-941
Result for the period		0	0	0	0	44,771	44,771
Total comprehensive income for the period		0	0	-941	0	44,771	43,830
Matching Share Plan		0	0	0	0	0	0
Dividend distribution	24	0	0	0	0	-16,780	-16,780
Other changes		0	0	0	0	0	0
Shareholders' equity, 31 Dec 2017		7,000	2,452	-183	-346	167,923	176,846
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

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, Ponsse S.A.S. in France, Ponsse UK Ltd. in Great Britain, Ponsse Machines Ltd. in Ireland, Ponsse North America Inc. in the United States, Ponsse Latin America in Brazil, OOO Ponsse in Russia, Ponsse Asia-Pacific Ltd. in Hong Kong, Ponsse China Ltd. in China, Ponsse Uruguay S.A. in Uruguay and Epec Oy in Finland. As of the financial period 2014, the Group includes the property companies 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 Ponssentie 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 Ponssentie 22, 74200 Vieremä.

Ponsse Plc's Board of Directors approved the disclosure of these financial statements at its meeting on 12 February 2018. 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 2017. 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 2016 apart from the following new standards, interpretations and amendments to existing standards valid as of 1 January 2017.

- Amendment to IAS 12 *Deferred tax, Recognition of Deferred Tax Assets for Unrealised Losses* (applicable to financial periods beginning on or after 1 January 2017). Amendments made to IAS 12 in January 2016 clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. The standard had not any material impact on the consolidated financial statements.
- Amendment to IAS 7 *Cash flow statements, Disclosure Initiative* (applicable to financial periods beginning on or after 1 January 2017). Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (e.g. drawdowns and repayments of borrowings) and non-cash changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences. The standard had not any material impact on the consolidated financial statements.

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.

Segment reporting

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

Foreign currency translation

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

Transactions denominated in a foreign currency

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

Conversion of the financial statements of foreign Group companies

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

Tangible assets

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

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

If tangible assets consist of several parts whose estimated useful lives differ, each part is treated as a separate item. In such a case, all replacement costs are activated

and any remaining book value in connection with replacement is derecognised. In any other cases, costs arising at a later date are included in the book value of tangible assets only if it is likely that the future economic benefits related to the item will benefit the Group and the item's acquisition cost can be reliably defined. Other repair and maintenance costs are recognised through profit or loss as they are realised.

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

Buildings	20 years
Machinery and equipment	5 to 10 years

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

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

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

Public subsidies

Public subsidies, such as government grants associated with the acquisition of tangible assets, are recognised as deductions in the book values of tangible assets when it is reasonably certain that the subsidies will be received and the Group fulfils the preconditions for receiving such subsidies. The subsidies will be recognised as income during the useful life of the asset items. Any subsidies covering already realised expenses are recognised through profit or loss for the accounting period during which the right to obtain the subsidy arises. Such subsidies are presented in other operating income.

Intangible assets

Goodwill

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

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

R&D expenditure

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

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

Other intangible assets

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

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

The amortisation periods for intangible assets are the following:

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

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

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

The recording of depreciation and amortisation is discontinued when an intangible asset item is classi-

fied as held for sale (or included in a group of assignable items classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Inventories

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

Lease contracts

Group as lessee

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

Impairments to tangible and intangible assets

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

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

An impairment loss is recognised when the book value of an asset exceeds its recoverable amount. Impairment losses are immediately recognised through profit or loss. If an impairment loss is attributable to a cash-generating unit, it is first allocated to reduce the goodwill attributable to the cash-generating unit and then to reduce other asset items within the unit on a pro rata basis. In connection with the 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 assessment. Changes in provisions are recognised in the income statement at the same amount as the initial recognition of the provision.

A guarantee provision is recognised upon the sale of a product subject to a guarantee condition. The amount of guarantee provision is based on empirical data on actual guarantee costs.

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

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

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

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

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

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

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

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

Revenue recognition

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 interest-bearing 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 purposes 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.

Interest-bearing liabilities

Interest-bearing liabilities are initially recognised at fair value. Interest-bearing liabilities are included in non-current and current liabilities, and they are interest-bearing. Interest-bearing 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 inventories of finished and unfinished products and costs of manufacture for own use, and subtracting costs of employee benefits, depreciation and amortisation, any impairment losses and other operating expenses. All profit and loss items other than the above are presented below operating profit. Exchange rate differences are recognised in financial items.

Accounting policies requiring consideration by management and crucial factors of uncertainty associated with estimates

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

Management consideration connected with accounting policies and their adoption

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

Uncertainties connected with estimates

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

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

Trade receivables

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

Inventories

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

Guarantee provision

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

Capitalisation of R&D expenditure

On the date of the financial statements, the Group assesses whether the new product is technically feasible, whether it can be commercially utilised and whether future economic benefits will be received from the product, which makes it possible to capitalise development expenditure arising from the design of new or advanced products on the balance sheet as intangible assets.

Income taxes

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

Impairment testing

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

Application of new and amended IFRS standards

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

- IFRS 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. The standard has not yet been approved for application in the EU.

Accordingly, the group does not expect the new guidance IFRS 9 *Financial Instruments* to affect the classification and measurement of these financial assets. The new model of the recognition of impairment provisions based on expected credit losses will be applied to impairment of financial instruments. The standard amendment is not assessed to have any significant impact on the consolidated financial statements.

- IFRS 15 *Revenue from contracts with customers*. Ponsse applies the standard for a financial year commencing on 1 January 2018 prospective application with additional disclosures. The new standard includes five-step process for the recognition of revenue based on contracts with customer and will replace current IAS 18 and IAS 11 standards and comprise clarifications of the guidance.

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

Furthermore, the new standard is not expected to have any significant impact on the time when net sales are recognised or the amount of net sales recognised and, therefore, on the consolidated income statement or balance sheet. However, the new standard will have a minor impact on the time when net sales are recognised and liabilities based on agreements, for example, regarding the service-based component of warranties provided for new machines and any options provided for customers to acquire additional services with a discount. In addition, the new standard will have an impact on financial statements as a result of new requirements regarding notes.

- 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.
- 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 does not have any material impact on the consolidated financial statements. The amendments have not yet been approved for application in the EU.
- IFRIC 23 *Uncertainty over Income Tax Treatments* adds to the requirements in IAS 12 *Income Taxes* by specifying how to reflect the effects of uncertainty in accounting for income taxes when it is unclear how tax law applies to a particular transaction or circumstance, or it is unclear whether a taxation authority will accept an entity's tax treatment (applicable 1 January 2019). The amendment does not have any material impact on the consolidated financial statements. The amendment has not yet been approved for application in the EU.
- Amendment to IFRS 9 *Financial Instruments* (applicable to financial periods beginning on or after 1 January 2019). By applying *Prepayment Features with Negative Compensation* (amendment to IFRS 9), particular financial assets – with prepayment features that may result in reasonable negative compensation for the early termination of the contract – are eligible to be measured at amortised cost or at fair value through other comprehensive income, instead of at fair value through profit or loss. The amendment does not have any material impact on the consolidated financial statements. The amendment has not yet been approved for application in the EU.
- *Annual improvements 2015–2017* contains amendments to IFRS 3 *Business Combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income Taxes* and IAS 23 *Borrowing Costs* (applicable to financial periods beginning on or after 1 January 2019). The amendment does not have any material impact on the consolidated financial statements. The amendment has not yet been approved for application in the EU.

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 2017

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

OPERATING SEGMENTS 2016

(EUR 1,000)	Northern Europe	Central and Southern Europe	Russia and Asia	North and South America	Total
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

RECONCILIATIONS

(EUR 1,000)	2017	2016
Net sales		
Net sales of the reporting segments	764,417	675,178
Income from all other segments	2,977	5,837
Elimination of income between segments	-190,841	-163,615
Group's net sales, total	576,553	517,400
Operating result		
Result of the reporting segments	65,262	54,178
Result of all other segments	2,004	345
Items not allocated to any segment	166	635
Group's operating result, total	67,432	55,158

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)	2017	2016
Machine sales	471,190	422,315
Service	105,363	95,086
Total	576,553	517,400

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

5. OTHER OPERATING INCOME

(EUR 1,000)	2017	2016
Sales profits on tangible assets	127	198
Public subsidies	39	131
Other	1,452	1,586
Total	1,618	1,915

6. OTHER OPERATING EXPENSES

(EUR 1,000)	2017	2016
Voluntary employee expenses	3,872	3,567
Operating and maintenance expenses	7,869	7,425
Shipping and handling expenses	8,834	8,465
Rent expenses	3,157	3,405
Marketing and representation expenses	6,931	6,153
Administrative expenses	7,965	6,591
R&D expenditure	1,663	820
Other expense items	9,443	8,286
Total	49,734	44,711

6.1 AUDITOR'S REMUNERATIONS		
(EUR 1,000)	2017	2016
PwC		
Auditor's remunerations	102	131
Certificates and statements	3	1
Tax advice	3	21
Other remunerations	67	20
	174	173
Above-mentioned other remunerations than auditor's remunerations paid to PricewaterhouseCoopers Oy amounted to EUR 52 thousand (EUR 16 thousand in 2016).		
Other organisations		
Auditor's remunerations	30	40
Certificates and statements	0	0
Tax advice	11	10
Other remunerations	20	41
	61	91
Total	235	265

7. DEPRECIATION, AMORTISATION AND IMPAIRMENT		
(EUR 1,000)	2017	2016
Intangible assets		
Capitalised development expenditure	2,752	2,633
Patents	52	56
Intangible rights	246	252
Other intangible assets	555	416
Total	3,605	3,356
Tangible assets		
Buildings	3,020	2,735
Machinery and equipment	6,488	5,814
Total	9,508	8,549

8. EXPENDITURE ON EMPLOYMENT-RELATED BENEFITS

(EUR 1,000)	2017	2016
Wages and salaries	64,068	57,958
Pension expenditure – defined contribution plans	8,637	8,145
Share plan	1,196	1,298
Other social security costs	6,362	6,478
Total	80,263	73,879

Average number of staff during the financial period	2017	2016
Employees	914	876
Clerical workers	594	559
Total	1,508	1,435

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

9. R&D EXPENDITURE

(EUR 1,000)	2017	2016
R&D expenditure recorded as a cost item in the consolidated statement of comprehensive income	12,837	10,990

10. FINANCIAL INCOME

(EUR 1,000)	2017	2016
Dividend income from financial assets available for sale	4	2
Interest income from loans and receivables	240	222
Exchange rate gains	11,507	17,634
Change in the fair value of derivative instruments	6,160	4,012
Other financial income	249	621
Total	18,159	22,490

11. FINANCIAL EXPENSES

(EUR 1,000)	2017	2016
Interest expenses for financial loans	721	702
Exchange rate losses	21,572	12,984
Change in the fair value of derivative instruments	3,959	4,760
Other financial expenses	1,567	971
Total	27,819	19,416

12. INCOME TAXES

(EUR 1,000)	2017	2016
Tax based on the taxable income for the period	14,025	12,732
Taxes from previous financial periods	145	-446
Deferred taxes	-1,149	257
Total	13,021	12,543

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	57,792	58,255
Tax calculated using the domestic tax rate	11,558	11,651
Effect of the different tax rates used in foreign subsidiaries	272	1,190
Tax-exempt income	-26	0
Non-deductible expenses	49	1,440
Tax reliefs and supports	-183	-376
Use of tax losses not recorded previously	-177	-121
Unbooked deferred tax assets	2,566	-1,030
Impacts of group consolidation and elimination	-79	101
Deferred tax asset booked during the financial period	-1,104	134
Taxes for previous financial periods	145	-446
Taxes in the consolidated statement of comprehensive income	13,021	12,543

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)	2017	2016
Result for the financial period belonging to parent company shareholders	44,771	45,712
Weighted average number of shares during the financial period (1,000 pcs)	27,967	27,967
Undiluted earnings per share (EUR/share)	1.60	1.63

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. TANGIBLE ASSETS

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

	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
Transfers between items	0	0	0	0	0
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

Financial lease contracts

(EUR 1,000)

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

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

31 Dec 2016	Buildings	Machinery and equipment	Total
Acquisition cost	762	984	1,746
Accumulated depreciation	-571	-208	-779
Book value	191	776	967

15. INTANGIBLE ASSETS

(EUR 1,000)	Development expenditure	Patent costs	Intangible rights	Other intangible assets	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2017	17,179	851	2,333	6,121	11,440	37,925
Increase	8,061	58	368	890	6,110	15,486
Transfers between items	767	0	0	0	-767	0
Decrease	-6	0	0	0	-8,828	-8,834
Acquisition cost 31 Dec 2017	26,001	910	2,700	7,011	7,955	44,577
Accumulated depreciation and impairment 1 Jan 2017	-10,859	-707	-1,742	-4,689	0	-17,997
Depreciation and amortisation	-2,752	-52	-246	-555	0	-3,605
Accumulated depreciation on decrease and transfers	0	0	4	-4	0	0
Accumulated depreciation and impairment 31 Dec 2017	-13,611	-759	-1,983	-5,248	0	-21,601
Book value 1 Jan 2017	6,320	145	591	1,432	11,440	19,928
Book value 31 Dec 2017	12,390	151	717	1,763	7,955	22,975

(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	773	24	217	754	5,583	7,351
Transfers between items	293	0	15	114	-422	0
Decrease	0	0	0	0	-2,076	-2,076
Acquisition cost 31 Dec 2016	17,179	851	2,333	6,121	11,440	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 on decrease and transfers	0	0	0	0	0	0
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	11,440	19,928

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		
(EUR 1,000)	2017	2016
Goodwill is allocated to the following cash-generating units:		
Northern Europe segment: Epec Oy	3,440	3,440
Northern Europe segment: Business in Norrbotten region, Sweden	376	387
Total	3,816	3,827

Impairment testing

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

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

1. Budgeted EBITDA – Determined on the basis of forecast EBITDA for the next three years. The value of the variable is based on realised development.
2. Forecast residual value – Determined on the basis of the last budgeted year 2020 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 slightly lower than the budgeted EBITDA and none of the planned increases in the EBITDA were experienced.

16. INVESTMENT PROPERTIES

The Group has no investment properties.

17. INVESTMENTS IN ASSOCIATED COMPANIES

(EUR 1,000)	2017	2016
At beginning of financial period	781	817
Share of the result of the financial period	-67	-36
At end of financial period	714	781

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

(EUR 1,000)	2017	2016
Associated company		
Sunit Oy, Kajaani, Finland		
Assets	2,627	2,742
Liabilities	517	524
Net sales	3,687	4,067
Result	67	68
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 2017	103
Increase	0
Decrease	0
Acquisition cost 31 Dec 2017	103
Acquisition cost 1 Jan 2016	105
Increase	5
Decrease	-7
Acquisition cost 31 Dec 2016	103

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

19. RECEIVABLES (NON-CURRENT)

(EUR 1,000)	2017	2016
Trade receivables	0	0
Loan receivables	162	135
Other receivables	560	2,085
Accrued income	194	120
Total	916	2,340

Receivables do not have any significant credit risk concentrations. A write-down of 576 thousand euros has been recognised for other receivables in the financial year.

20. DEFERRED TAX RECEIVABLES AND LIABILITIES

(EUR 1,000)

Changes in deferred taxes during 2017:

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

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

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

No deferred tax has been recognised through shareholders' equity.

A deferred tax asset of EUR 1.2 million has been recognised for confirmed losses EUR 29.9 million (23.1 in 2016) associated with the Group's foreign subsidiaries. The confirmed losses mentioned have no maturity time.

21. INVENTORIES

(EUR 1,000)	2017	2016
Raw materials and consumables	65,381	62,746
Work in progress	8,981	9,785
Finished products/goods	19,895	13,016
Other inventories	28,044	32,735
Total	122,302	118,283

EUR 4.1 million was recognised as an expense item, which was used to reduce the book value of inventories to correspond to the net realisable value (EUR 3.5 million in 2016).

22. TRADE RECEIVABLES AND OTHER RECEIVABLES (CURRENT)

(EUR 1,000)	2017	2016
Trade receivables	41,481	35,933
Accrued income	1,666	1,917
Other receivables	8,756	3,889
	51,903	41,739
Derivative contracts held for trading	442	108
Total	52,345	41,847

The Group's credit losses for trade receivables amounted to EUR 483 thousand (EUR 350 thousand in 2016) during the financial period and cancellation of credit losses to EUR 125 thousand (EUR 107 thousand in 2016). Balance sheet values best describe the amount of money that is the maximum amount of the credit risk, not taking into account the fair value of the guarantee in the case that the other contracting parties are unable to fulfil their obligations associated with financial instruments. As a rule, the sold machine is guarantee for trade receivables until the purchase price has been paid.

The currency distribution for receivables is presented in Note 30 and fair values in Note 31.

Trade receivables by age and items recognised as credit losses		
(EUR 1,000)	2017	2016
Non-matured	26,163	20,917
Matured		
Less than 30 days	11,430	10,210 ¹
30–90 days	1,963	2,451 ¹
91–180 days	747	655 ¹
181–360 days	704	1,425 ²
More than 360 days	926	881 ²
Provision for bad debts	-451	-606
Total	41,481	35,933³

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 Provision for bad debts.

³Non-current and current trade receivables.

23. CASH AND CASH EQUIVALENTS

(EUR 1,000)	2017	2016
Cash in hand and at banks	42,596	37,342
Total	42,596	37,342

24. NOTES ON SHAREHOLDERS' EQUITY

The following table is a presentation of the effects of changes in the numbers of shares:

	Number of shares (1,000)	Share capital (EUR 1,000)	Other reserves (EUR 1,000)	Treasury shares (EUR 1,000)
31 Dec 2016 / 31 Dec 2017	27,967	7,000	2,452	-346

The maximum number of shares is 48 million (48 million in 2016). 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 2016). The number of shares outstanding is 28 million (28 million in 2016). 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 2017, a dividend of EUR 0.60 was paid per share, for a total of EUR 16.8 million (in 2016, EUR 0.55 per share, for a total of EUR 15.4 million). The Board of Directors has proposed after the closing date of the reporting period that a dividend of EUR 0.75 per share shall be paid, i.e. a total of EUR 21.0 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 1,196 thousand (in 2016, EUR 1,298 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 2016	7,336
Change in accounting principle *)	-1,366
31 Dec 2017	5,970
Change in provisions	-201
31 Dec 2017	5,769

The accounting principle concerning the provision has been changed as of 1 January 2017 so that the amount shown as guarantee provision equals the amount to which the Company is bound by the terms and conditions of the sales contract. The change has not had effect on the result.

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 2017 amounted to EUR 5,769 thousand (EUR 5,970 thousand in 2016). 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)	2017	2016
Non-current interest-bearing liabilities		
Loans from financial institutions	39,226	39,190
Pension loans	0	450
Other liabilities	5,503	6,461
Finance lease liabilities	1,397	552
Total	46,126	46,653
Current interest-bearing liabilities		
Loans from financial institutions	277	11,410
Pension loans	450	900
Other liabilities	20,958	958
Finance lease liabilities	430	194
Total	22,115	13,462

The fair values for liabilities is presented in Note 31.

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

Ponsse Plc has on 1 September 2017 signed an agreement on a Finnish commercial paper programme to the value of EUR 50 million.

The main organiser of the programme is OP Corporate Bank. The brokers are OP Corporate Bank and Nordea Bank AB (publ), Finnish Branch. This financial restructuring will diversify Ponsse Plc's financial base and strengthen the Group's normal financing of its investments and working capital.

EUR 29,242 thousand of all liabilities have a fixed interest rate (EUR 12,116 thousand in 2016). Other loans are bound to Euribor EUR 39,000 thousand (EUR 48,000 thousand in 2016).

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

(EUR 1,000)	2017	2016
Within less than twelve months	39,000	48,000
Within one to five years	0	0
Total	39,000	48,000

Due dates of finance lease liabilities

(EUR 1,000)	2017	2016
Finance lease liabilities - total amount of minimum rents		
Within less than twelve months	449	203
Within one to five years	870	573
After more than five years	595	0
Total	1,914	776

Finance lease liabilities - present value of minimum rents

Within less than twelve months	430	194
Within one to five years	1,397	551
After more than five years	0	0
Total	1,827	745

Financial expenses to be accrued in the future	87	31
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Total finance lease liabilities	1,914	776
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29. TRADE CREDITORS AND OTHER LIABILITIES

(EUR 1,000)	2017	2016
Trade creditors (other financial liabilities)	65,304	58,555
Advances received	4,442	3,950
Advance invoicing	1,085	0
Other liabilities	2,783	3,329
Accruals and deferred income		
Accrued staff expenses	15,370	12,923
Interest accruals	32	36
Liabilities based on sales contracts	1,464	2,091
Other accruals and deferred income	1,440	1,233
Derivative contracts held for trading	778	760
Total	92,698	82,877
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 34.0 million (EUR 28.6 million in 2016), including a dividend of EUR 2.0 million (EUR 1.2 million in 2016) 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, Brazilian real and Russian rouble, with all other factors remaining unchanged. The total net position of the aforementioned currencies is -16.9 million euros (3.0 million euros in 2016). 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)	2017				2016			
Change in EUR exchange rate	Strengthening		Weakening		Strengthening		Weakening	
Effect on result after taxes								
USD	6 %	-71	6 %	69	4 %	-320	3 %	255
SEK	2 %	-17	3 %	25	3 %	-63	4 %	93
GBP	3 %	-31	5 %	47	7 %	-93	10 %	145
REAL	10 %	1,539	10 %	-1,538	11 %	1,168	15 %	-1,567
RUB	9 %	23	7 %	-17	13 %	-274	12 %	257
Total	1,443		-1,414		419		-817	

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 79 per cent of all floating rate loans.

(EUR 1,000)	2017		2016	
Sensitivity analysis for floating interest loans:				
Change percentage	+1%	-1%	+1%	-1%
Effect on result after taxes	-312	312	-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 2017 was EUR 40.0 million, which equals 100 per cent of the total credit facilities (2016: EUR 51.0 million, 85 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 2017 (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	39,502	58,875	652	58,223	0
Pension loans	450	454	454	0	0
Other liabilities	26,461	26,689	21,090	4,864	735
Finance lease liabilities	1,827	1,914	449	870	595
Trade creditors and other liabilities	91,920	91,920	91,920		
Derivative contract liabilities	778	778	778		
Guarantee agreements **	0	5,968	5,968		

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	1,375	922	454	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	82,117	82,117	82,117		
Derivative contract liabilities	760	760	760		
Guarantee agreements **	0	4,747	4,747		

* 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 2017 were EUR 25.5 million (31 Dec 2016: EUR 22.6 million) and net gearing was 14.4 per cent (31 Dec 2016: 15.1 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)	2017	2016
Interest-bearing liabilities	68,241	60,116
Interest-bearing receivables	-162	-135
Cash and cash equivalents	-42,596	-37,342
Net liabilities	25,483	22,638
Total shareholders' equity	176,846	149,796
Net gearing	14.4%	15.1%

31. FINANCIAL INSTRUMENTS BY GROUPS AND FAIR VALUES

(EUR 1,000)

31 Dec 2017

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	442	0	442
Trade receivables and other receivables (excluding prepayments)	41,481	0	0	41,481
Cash and cash equivalents	42,596	0	0	42,596
Total	84,077	442	103	84,622

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

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

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 2017	Fair value 2017	Book value 2016	Fair value 2016
Financial assets					
Other financial assets	18	103	103	103	103
Trade receivables and other receivables (non-current)	19	916	916	2,340	2,340
Trade receivables and other receivables (current)	22	51,903	51,903	41,739	41,739
Cash and cash equivalents	23	42,596	42,596	37,342	37,342
Forward exchange agreements	22	442	442	108	108
Interest rate swaps	22	0	0	0	0
Total		95,961	95,961	81,633	81,633
Financial liabilities					
Loans from financial institutions	28	39,502	36,701	50,601	48,549
Pension loans	28	450	443	1,350	1,332
Other liabilities	28	26,461	25,599	7,419	6,635
Finance lease liabilities	28	1,827	1,737	746	696
Trade creditors and other liabilities	29	92,698	92,698	82,877	82,877
Forward exchange agreements	29	68	68	731	731
Interest rate swaps	29	710	710	29	29
Total		161,716	157,955	143,752	140,848

The nominal values of forward agreements were EUR 33.4 million in 2017 and EUR 27.4 million in 2016.

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)	2017	2016
Within one year	1,305	1,217
Within one to five years	1,364	1,947
After more than five years	0	31

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 2017 includes EUR 0.8 million of rent expenses paid on the basis of other lease contracts (EUR 0.8 million in 2016).

Group as lessor

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

33. CONTINGENT LIABILITIES

(EUR 1,000)	2017	2016
Guarantees given on behalf of others	1,541	549
Repurchase commitments	3,464	3,021
Other commitments	963	1,177
Total	5,968	4,747

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 Machines Ireland Ltd., Ireland	100.00
Ponsse North America, Inc., Rhinelander, United States	100.00
Ponsse Latin America Indústria de Máquinas Florestais Ltda, Mogi das Cruzes, Brazil	100.00
OOO Ponsse, St. Petersburg, Russia	100.00
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.

Management's employment-related benefits		
(EUR 1,000)	2017	2016
Salaries and other short-term employment-related benefits	3,485	3,790
Benefits paid upon termination of employment	0	198
Pension liabilities, statutory pension security	524	557
Total	4,009	4,544
Salaries and bonuses		
(EUR 1,000)	2017	2016
Managing director		
Salaries and other short-term employment-related benefits	513	541
Pension liabilities, statutory pension security	162	151
Total	674	692
Compensation of the members of the Board of Directors		
Hortling Heikki	0	10
Kaario Mammu	41	40
Kyläivainio Ilkka	0	9
Kyläivainio Matti	35	26
Saksman Ossi	35	35
Vidgrén Janne	35	35
Vidgrén Juha	46	46
Vidgrén Jukka	35	35
Total	227	236

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

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

Financial indicators

	IFRS 2017	IFRS 2016	IFRS 2015
Extent of operations			
Net sales (EUR 1,000)	576,553	517,400	461,928
Change, %	11.4	12.0	18.2
R&D expenditure, total (EUR 1,000)	14,784	12,382	12,091
of which capitalised (EUR 1,000)	4,699	4,025	3,898
as % of net sales	2.6	2.4	2.6
Gross capital expenditure (EUR 1,000)	37,836	28,280	24,360
as % of net sales	6.6	5.5	5.3
Average number of employees	1,508	1,435	1,329
Net sales/employee (EUR 1,000)	382	361	348
Order stock, EUR million	124.6	123.9	158.1
Profitability			
Operating result (EUR 1,000)	67,432	55,158	55,987
as % of net sales	11.7	10.7	12.1
Result before taxes (EUR 1,000)	57,792	58,255	50,385
as % of net sales	10.0	11.3	10.9
Result for the period (EUR 1,000)	44,771	45,712	41,280
as % of net sales	7.8	8.8	8.9
Return on equity, % (ROE)	27.4	34.2	40.5
Return on capital employed, % (ROCE)	26.4	30.7	32.8
Financing and financial position			
Current ratio	1.8	1.9	1.7
Equity ratio, %	51.9	50.3	44.8
Net gearing, %	14.4	15.1	30.5
Interest-bearing liabilities (EUR 1,000)	68,241	60,116	62,403
Non-interest-bearing liabilities (EUR 1,000)	100,085	91,689	87,343

Per-share data¹

	IFRS 2017	IFRS 2016	IFRS 2015
Earnings per share (EPS), EUR	1.60	1.63	1.48
Equity per share, EUR	6.32	5.35	4.21
Nominal dividend per share, EUR	0.75 ¹	0.60	0.55
Dividend per share adjusted for share issues, EUR	0.75 ¹	0.60	0.55
Dividend per earnings, %	46.8 ¹	36.7	37.3
Effective dividend yield, %	2.8 ¹	2.5	3.0
Price/earnings ratio (P/E)	16.5	14.7	12.4
Share performance			
Lowest trading price	20.85	15.57	11.66
Highest trading price	27.80	28.40	19.77
Closing price	26.38	23.98	18.36
Average price	24.20	22.25	15.28
Market capitalisation, EUR million	738.6	671.4	514.1
Dividends paid, EUR million	21.0 ¹	16.8	15.4
Shares traded	2,513,292	2,764,765	4,190,494
Shares traded, %	9.0	9.9	15.0
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 0.75 per share shall be paid for the year 2017.

Formulae for financial indicators

Return on equity, % (ROE)	=	$\frac{\text{Net result for the period}}{\text{Shareholders' equity} + \text{minority interest (average during the year)}}$	x 100
Return on capital employed, % (ROCE)	=	$\frac{\text{Result before taxes} + \text{financial expenses}}{\text{Shareholders' equity} + \text{interest-bearing financial liabilities (average during the year)}}$	x 100
Equity ratio, %	=	$\frac{\text{Shareholders' equity} + \text{minority interest}}{\text{Balance sheet total} - \text{advance payments received}}$	x 100
Net gearing, %	=	$\frac{\text{Interest-bearing financial liabilities} - \text{cash and cash equivalents}}{\text{Shareholders' equity}}$	x 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, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$	x 100
Effective dividend yield, %	=	$\frac{\text{Dividend per share, adjusted for share issues}}{\text{Last trading price for the period, adjusted for share}}$	x 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, %	=	$\frac{\text{Shares traded during the financial period}}{\text{Average number of shares during the period}}$	x 100

Parent company's profit and loss account

(EUR 1,000)	Note ¹	2017	2016
Net sales	2	450,395	411,309
Increase (+)/decrease (-) in inventories of finished goods and work in progress		-870	-973
Other operating income	3	2,387	3,856
Raw materials and services	4	-312,012	-284,320
Staff costs	5, 6, 7	-50,488	-46,755
Depreciation, amortisation and impairment	8	-10,200	-9,579
Other operating expenses		-28,065	-26,430
Operating result		51,146	47,107
Financial income and expenses	10	-555	1,183
Result before extraordinary items		50,592	48,290
Extraordinary items		0	0
Result after extraordinary items		50,592	48,290
Appropriations	11	796	823
Direct taxes	12	-10,099	-8,933
Net result for the period		41,289	40,180

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

Parent company's balance sheet

(EUR 1,000)	Note ¹	2017	2016
ASSETS			
Non-current assets			
Intangible assets	13	21,491	18,380
Tangible assets	13	74,774	56,976
Financial assets	14	11,516	11,491
Total non-current assets		107,781	86,847
Current assets			
Inventories	15	57,702	58,796
Non-current receivables	16	11,482	13,501
Current receivables	16	99,038	82,377
Cash in hand and at banks		35,665	28,294
Total current assets		203,886	182,968
TOTAL ASSETS		311,668	269,815
LIABILITIES			
Shareholders' equity	17, 18		
Share capital		7,000	7,000
Revaluation reserve		841	841
Other reserves		2,423	2,423
Retained earnings		111,392	87,993
Net result for the period		41,289	40,180
Total shareholders' equity		162,945	138,436
Appropriations	19	1,058	1,854
Provisions for liabilities and charges	20	5,769	5,970
Creditors			
Non-current creditors	21	44,503	45,911
Current creditors	22	97,392	77,643
Total creditors		141,895	123,554
TOTAL LIABILITIES		311,668	269,815

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

Parent company's cash flow statement

(EUR 1,000)	2017	2016
Cash flows from operating activities:		
Operating result	51,146	47,107
Depreciation, amortisation and impairment	10,200	9,579
Change in provisions	-1,567	1,216
Other adjustments	788	776
Cash flow before changes in working capital	60,567	58,678
Change in working capital:		
Increase (-)/decrease (+) in current non-interest-bearing receivables	-18,749	-2,123
Increase (-)/decrease (+) in inventories	1,095	1,835
Increase (+)/decrease (-) in current non-interest-bearing liabilities	11,647	-2,283
Cash flow from operations before financial items and income taxes	54,561	56,108
Interest received	1,566	1,000
Interest paid	-780	-750
Dividends received	2,060	1,260
Other financial items	-1,972	-472
Income taxes paid	-11,178	-8,935
Net cash flows from operating activities (A)	44,256	48,210
Cash flows used in investing activities:		
Investments in tangible and intangible assets	-31,134	-19,284
Proceeds from sale of tangible and intangible assets	87	98
Net cash flows used in investing activities (B)	-31,048	-19,185
Cash flows from financing activities:		
Sales of treasury shares	0	0
Increase (+)/decrease (-) in current loans	10,550	-1,000
Increase (+)/decrease (-) in non-current loans	-1,408	-3,408
Increase (-)/decrease (+) in non-current receivables	1,801	-3,011
Dividends paid and other distribution of profit	-16,780	-15,382
Net cash flows from financing activities (C)	-5,837	-22,801
Increase (+)/decrease (-) in liquid assets (A+B+C)	7,371	6,224
Cash and cash equivalents on 1 Jan	28,294	22,071
Cash and cash equivalents on 31 Dec	35,665	28,294

Notes to the parent company's accounts

1. Accounting policies

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

Non-current assets

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

The depreciation and amortisation periods are:

R&D expenses	3 to 10 years
Intangible rights	5 years
Other 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

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

Income taxes

Income taxes have been recognised according to Finnish tax legislation.

Foreign currency items

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

Comparability with the previous year

The data for the financial year 1 January to 31 December 2017 is comparable with the previous year.

2. NET SALES BY MARKET AREA		
(EUR 1,000)	2017	2016
Northern Europe	182,318	173,116
Southern and Central Europe	83,827	82,341
Russia and Asia	94,864	62,618
North and South America	86,628	87,409
Other countries	2,757	5,825
Total	450,395	411,309
3. OTHER OPERATING INCOME		
(EUR 1,000)	2017	2016
Sales profits on tangible assets	87	98
Public subsidies	37	103
Other	2,263	3,654
Total	2,387	3,856
4. RAW MATERIALS AND SERVICES		
(EUR 1,000)	2017	2016
Raw materials and consumables		
Purchases during the financial period	302,146	272,033
Increase (-)/decrease (+) in inventories	-225	824
External services	10,091	11,462
Total	312,012	284,320
5. AVERAGE NUMBER OF STAFF		
persons	2017	2016
Employees	465	448
Clerical workers	341	325
Total	806	773
6. STAFF COSTS		
(EUR 1,000)	2017	2016
Salaries and bonuses	41,602	37,787
Pension costs	7,004	6,636
Other social security costs	1,882	2,331
Total	50,488	46,755
7. MANAGEMENT SALARIES AND REMUNERATIONS		
(EUR 1,000)	2017	2016
Managing director	513	541
Members of the Board of Directors	396	406
Total	908	947
8. DEPRECIATION AND VALUE ADJUSTMENTS		
(EUR 1,000)	2017	2016
Depreciation according to plan	10,200	9,579
Total	10,200	9,579

9. AUDITOR'S REMUNERATIONS

(EUR 1,000)	2017	2016
Authorised Public Accountants PricewaterhouseCoopers Oy		
Auditor's remunerations	45	63
Certificates and statements	3	1
Tax advice	1	10
Other remunerations	48	5
Total	97	78

10. FINANCIAL INCOME AND EXPENSES

(EUR 1,000)	2017	2016
Income from investments in non-current assets		
From Group companies	2,000	1,200
From associated companies	60	60
From others	595	0
Income from investments in non-current assets total	2,060	1,260
Interest income and other financial income		
From Group companies	1,536	968
Change in the fair value of derivative instruments	6,160	4,012
From others	7,627	10,147
Interest income and other financial income, total	15,323	15,126
Financial income, total	17,383	16,386
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	3,959	4,760
To others	13,979	10,443
Interest expenses and other financial expenses, total	17,937	15,203
Financial expenses, total	17,937	15,203
Financial income and expenses, total	-555	1,183
The item "Financial income and expenses" includes exchange rate profit/loss (net)	-1,464	518

11. APPROPRIATIONS

(EUR 1,000)	2017	2016
Difference between depreciations according to plan and depreciations in taxation	796	823

12. INCOME TAX

(EUR 1,000)	2017	2016
Income tax on extraordinary items	0	0
Income taxes from actual operation	10,099	8,933
Change in deferred tax asset	0	0
Total	10,099	8,933

13. INTANGIBLE AND TANGIBLE ASSETS

(EUR 1,000)	Development costs	Patent costs	Intangible rights	Other intangible assets	Pre-payments and unfinished acquisitions	Total
Intangible assets 2017						
Acquisition cost 1 Jan 2017	14,314	825	1,581	7,316	10,602	35,544
Increase	7,815	52	229	1,021	5,942	15,059
Decrease	-6	0	0	0	-8,824	-8,830
Transfers between items	0	0	0	0	0	0
Acquisition cost 31 Dec 2017	22,123	876	1,810	8,338	7,720	40,868
Accumulated depreciation on 1 Jan 2017	-8,959	-692	-1,184	-5,424	0	-17,164
Accumulated depreciation on decrease and transfers	0	0	0	0	0	0
Depreciation for the accounting period	-2,309	-51	-157	-602	0	-3,119
Accumulated depreciation on 31 Dec 2017	-11,268	-743	-1,340	-6,026	0	-19,378
Book value 31 Dec 2017	10,855	134	469	2,312	7,720	21,491
Book value 31 Dec 2016	5,356	132	397	1,892	10,602	18,380

(EUR 1,000)	Land and water	Buildings and structures	Machinery and equipment	Other tangible assets	Pre-payments and unfinished acquisitions	Total
Tangible assets 2017						
Acquisition cost 1 Jan 2017	1,065	45,858	48,483	69	11,298	106,773
Increase	269	7,022	4,066	0	25,809	37,167
Decrease	0	-25	-3	0	-11,990	-12,018
Transfers between items	0	-445	0	0	0	-445
Acquisition cost 31 Dec 2017	1,335	52,410	52,546	70	25,117	131,478
Accumulated depreciation on 1 Jan 2017	0	-19,406	-31,233	0	0	-50,638
Accumulated depreciation on decrease and transfers	0	176	0	0	0	176
Depreciation for the accounting period	0	-2,634	-4,447	0	0	-7,081
Accumulated depreciation on 31 Dec 2017	0	-21,864	-35,680	0	0	-57,544
Revaluations	0	841	0	0	0	841
Book value 31 Dec 2017	1,335	31,387	16,867	70	25,117	74,774
Book value 31 Dec 2016	1,065	27,293	17,250	69	11,298	56,976
Book value of operating machinery and equipment						
31 Dec 2017			13,986			
31 Dec 2016			15,784			

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 2017						
Acquisition cost 1 Jan 2017	17,277	335	90	0	0	17,708
Increase	25	0	0	0	0	25
Decrease	0	0	0	0	0	0
Acquisition cost 31 Dec 2017	17,302	335	90	0	0	17,726
Accumulated write-downs 1 Jan 2017	-6,210	0	0	0	0	-6,210
Decrease	0	0	0	0	0	0
Write-downs	0	0	0	0	0	0
Revaluations	0	0	0	0	0	0
Book value 31 Dec 2017	11,092	335	90	0	0	11,516

Group companies

Name and domicile	Company's share of ownership %
Ponsse AB, Västerås, Sweden	100.00
Ponsse AS, Kongsvinger, Norway	100.00
Ponssé S.A.S., Gondreville, France	100.00
Ponsse UK Ltd., Lockerbie, United Kingdom	100.00
Ponsse Machines Ireland Ltd., Ireland	100.00
Ponsse North America, Inc., Rhinelander, United States	100.00
Ponsse Latin America Indústria de Máquinas Florestais Ltda, Mogi das Cruzes, Brazil	100.00
OOO Ponsse, St. Petersburg, Russia	100.00
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

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.

15. INVENTORIES		
(EUR 1,000)	2017	2016
Raw materials and consumables	40,815	39,196
Work in progress	8,211	9,155
Finished products/goods	2,426	2,352
Other inventories	6,250	8,094
Prepayments	0	0
Total	57,702	58,796

16. RECEIVABLES		
(EUR 1,000)	2017	2016
Non-current receivables		
Receivables from Group companies		
Loan receivables	11,482	13,282
Loan receivables	0	0
Other receivables	0	219
Non-current receivables, total	11,482	13,501
Current receivables		
Trade receivables	15,216	11,160
Receivables from Group companies		
Trade receivables	76,206	68,408
Other receivables	6,711	2,086
Accrued income		
Grants receivable	38	76
Income tax receivables	0	0
Derivative contracts	442	108
Other accrued income	424	539
Other accrued income, total	904	723
Current receivables, total	99,038	82,377
Receivables, total	110,519	95,878

17. SHAREHOLDERS' EQUITY		
(EUR 1,000)	2017	2016
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	2,423
Matching Share Plan, change	0	0
Other reserves 31 Dec	2,423	2,423
Retained earnings on 1 Jan	128,172	103,374
Purchase of treasury shares	0	0
Dividend distribution	-16,780	-15,382
Retained earnings on 31 Dec	111,392	87,993
Result for the period	41,289	40,180
Shareholders' surplus, total	155,104	130,595
Total shareholders' equity	162,945	138,436
18. DISTRIBUTABLE FUNDS		
(EUR 1,000)	2017	2016
Retained earnings	111,392	87,993
Result for the period	41,289	40,180
Capitalised R&D expenses	-16,368	-14,285
Total	136,313	113,888

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 2017 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 parent company's accounts

19. ACCUMULATED APPROPRIATIONS		
(EUR 1,000)	2017	2016
Depreciation difference	1,058	1,854
20. PROVISIONS FOR LIABILITIES AND CHARGES		
(EUR 1,000)	2017	2016
Guarantee provision	5,769	7,336
Other compulsory provisions	0	0
Total	5,769	7,336
21. NON-CURRENT CREDITORS		
(EUR 1,000)	2017	2016
Loans from financial institutions	39,000	39,000
Pension loans	0	450
Other loans	5,503	6,461
Non-current creditors, total	44,503	45,911
Debts falling due in more than five years		
Loans from financial institutions	0	0
Pension loans	0	0
Other loans	0	0
Total	0	0
22. CURRENT CREDITORS		
(EUR 1,000)	2017	2016
Loans from financial institutions	0	9,000
Pension loans	450	900
Other loans	20,958	958
Advances received	540	21
Trade creditors	59,710	52,273
Liabilities to Group companies		
Advances received	0	0
Intra-Group trade creditors	2,385	1,250
Other intra-Group liabilities	0	0
Accruals and deferred income	0	0
Liabilities to Group companies, total	2,385	1,250
Advance invoicing	0	0
Other liabilities	1,302	1,274
Accruals and deferred income		
Accrued staff expenses	9,466	7,285
Interest accruals	32	35
Income tax liability	343	1,421
Accruals and deferred income in respect of inventories	0	0
Other accruals and deferred income	2,207	1,859
Accruals and deferred income, total	12,047	10,601
Current creditors, total	97,392	76,277

23. PLEDGES GIVEN, CONTINGENT AND OTHER LIABILITIES(EUR 1,000) **2017** **2016****23.1 Pledges given for own debt**

Company has not issued any written security for the external liabilities.

23.2 Leasing commitments**Leasing payments payable under leasing agreements**

Leasing payments payable during the next financial period	430	248
Leasing payments payable thereafter	414	161
Leasing payments payable under leasing agreements, total	844	409

23.3 Contingent liabilities on behalf of Group companies

Guarantees given on behalf of companies within the Group	277	298
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The parent company has issued a written security for the external liabilities of its six subsidiaries.

23.4 Pension liabilities

Pension cover for the personnel of the company is arranged with external pension insurance company.

23.5 Other contingent liabilities

Guarantees given on behalf of others	693	200
Repurchase commitments	391	1,010
Other commitments	963	1,177
Other contingent liabilities, total	2,047	2,387

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 904,327, and the last auditing year is 2024.

23.6 Derivative liabilities**Forward exchange agreements**

Fair value	373	-622
Value of underlying asset	33,401	27,392

Interest rate derivatives

Fair value	-710	-1,013
Value of underlying asset	31,000	31,000

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

Share capital and shares

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

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

Treasury shares

The parent company holds 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 cur-

rent 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 2018.

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 2018.

INCREASES IN SHARE CAPITAL 1994–2017

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

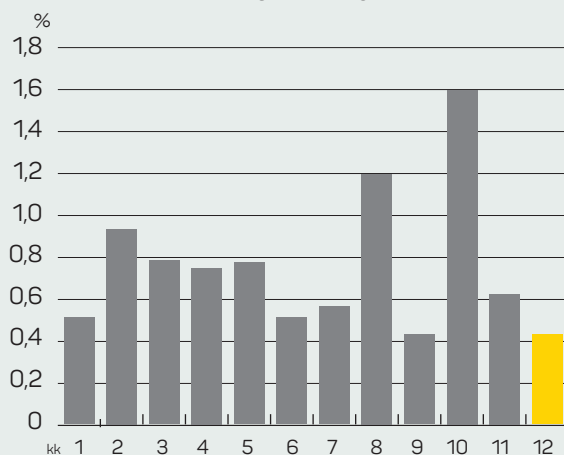
Authorisation to increase share capital

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.

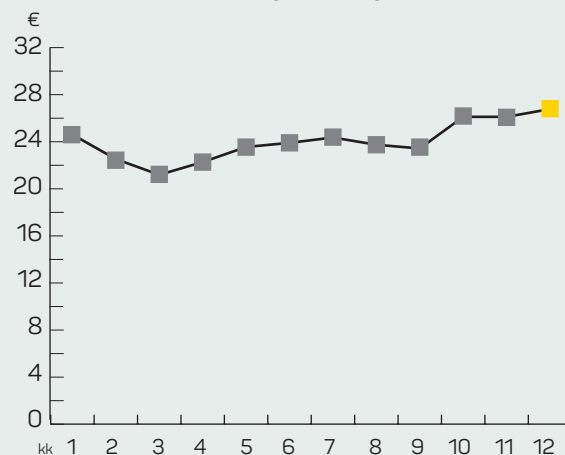
SHARE TURNOVER 1 JANUARY – 31 DECEMBER 2017

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 turn-over, %
1	3,697,392	149,893	23.44	25.42	24.67	23.80	666,400,000	28,000,000	0.54
2	5,747,654	256,062	21.15	24.09	22.45	21.15	592,200,000	28,000,000	0.91
3	4,562,803	213,302	20.85	21.90	21.39	21.90	613,200,000	28,000,000	0.76
4	4,473,974	199,973	21.56	23.67	22.37	23.22	650,160,000	28,000,000	0.71
5	5,024,276	212,637	22.51	23.96	23.62	23.83	667,240,000	28,000,000	0.76
6	3,262,352	136,074	23.50	24.80	23.98	23.75	665,000,000	28,000,000	0.49
7	3,792,539	155,050	23.50	25.73	24.47	24.49	685,720,000	28,000,000	0.55
8	7,857,021	329,417	22.91	25.48	23.85	23.53	658,840,000	28,000,000	1.18
9	2,970,297	126,029	22.97	24.44	23.57	23.85	667,800,000	28,000,000	0.45
10	11,676,458	442,545	23.80	27.80	26.39	26.94	754,320,000	28,000,000	1.58
11	4,453,688	170,040	25.00	26.98	26.19	26.79	750,120,000	28,000,000	0.61
12	3,284,751	122,270	26.16	27.35	26.86	26.38	738,640,000	28,000,000	0.44
2017	60,803,204	2,513,292	20.85	27.80	24.20	26.38	738,640,000	28,000,000	8.98

**RELATIVE SHARE TURNOVER
BY MONTH IN 2017**



**WEIGHTED AVERAGE SHARE PRICE
BY MONTH IN 2017**



SHAREHOLDER PROFILE ON 31 DECEMBER 2017

	Shares, pcs	Percentage of shares and votes, %	Shares of nominee-registered, pcs	Shares of nominee-registered, %	Votes, pcs	Percentage of votes, %
Enterprises	791,258	2.826	0	0	791,258	2.826
Financial institutions and insurance companies	1,703,551	6.084	1,161,106	4.147	2,864,657	10.231
Public sector entities	799,762	2.856	0	0	799,762	2.856
Households	22,805,098	81.447	0	0	22,805,098	81.447
Non-profit organisations	577,926	2.064	0	0	577,926	2.064
Foreign holding	126,875	0.453	34,424	0.123	161,299	0.576
Total	26,804,470	95.730	1,195,530	4.270	28,000,000	100.000

ANALYSIS OF SHAREHOLDERS ON 31 DECEMBER 2017

Shares per shareholder	Number of shareholders	Percentage of shareholders, %	Shares, total, pcs	Percentage of shares and votes, %
1-100	6,291	49.924	293,497	1.048
101-500	4,170	33.093	1,103,613	3.941
501-1,000	1,037	8.230	818,174	2.922
1,001-5,000	918	7.285	2,003,747	7.156
5,001-10,000	86	0.682	620,493	2.216
10,001-50,000	78	0.619	1,590,557	5.681
50,001-100,000	9	0.071	654,914	2.339
100,001-500,000	5	0.040	1,617,932	5.778
over 500,000	7	0.056	19,297,073	68.919
Total	12,601	100.000	28,000,000	100.000

SHAREHOLDERS ON 31 DEC 2017				
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	817,576	2.92	2.92
6	Nordea Bank AB (publ), Finnish Branch	608,566	2.17	2.17
7	Skandinaviska Enskilda Banken Ab (nom. reg.), Helsinki	523,148	1.87	1.87
8	Ilmarinen Mutual Pension Insurance Company	392,666	1.40	1.40
9	Varma Mutual Pension Insurance Company	389,000	1.39	1.39
10	Einari Vidgrén Foundation	388,000	1.39	1.39
11	Evli Suomi Pienyhtiöt mutual fund	230,266	0.82	0.82
12	Aktia Capital mutual fund	218,000	0.78	0.78
13	Danske Invest Suomen Pienyhtiöt mutual fund	93,000	0.33	0.33
14	Nordea Pro Suomi mutual fund	88,261	0.32	0.32
15	EQ Pohjoismaat Pienyhtiöt	82,232	0.29	0.29
16	Laakkonen Mikko	80,000	0.29	0.29
17	Säästöpankki Kotimaa mutual fund	79,392	0.28	0.28
18	Nordea Suomi Small Cap mutual fund	71,773	0.26	0.26
19	SEB Finland Small Cap	59,000	0.21	0.21
20	Randelin Mari	51,141	0.18	0.18
21	Nummela Juho	50,115	0.18	0.18
22	Rinta-Jouppi Jarmo	50,000	0.18	0.18
23	Tiitinen Arto	50,000	0.18	0.18
24	Relander Pär-Gustaf	48,000	0.17	0.17
25	KPY Sijoitus Oy	41,727	0.15	0.15
26	Vidgrén Kalle Samuel	40,800	0.15	0.15
27	Vidgrén Henri Eemil	38,084	0.14	0.14
28	Apotrade Consulting Oy	35,000	0.13	0.13
29	Outokummun Metalli Oy	33,183	0.12	0.12
30	Ponsse Oyj	33,092	0.12	0.12
	Other shareholders	6,060,195	21.64	21.64
Total		28,000,000	100.00	100.00

At year-end 2017, Ponsse Plc had 12,601 shareholders (on 31 December 2016: 11,037).

Management holdings

Members of the Board of Directors, President and CEO, companies under their control and their underage children held a total of 13,723,410 Ponsse Plc shares on 31 December 2017, 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 136,312,873.86, of which the net result for the period amounted to EUR 41,288,888.34.

The company's Board of Directors proposes that the Annual General Meeting authorise a dividend of EUR 0.75 per share for 2017 totalling to EUR 20,975,181.00. No dividend shall be paid on treasury shares.

EUR 115,337,692.86 shall be retained in the parent company's non-restricted equity.

Vieremä, 12 February 2018

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

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

What we have audited

We have audited the financial statements of Ponsse Oyj (business identity code 0934209-0) for the year ended 31 December 2017. 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.

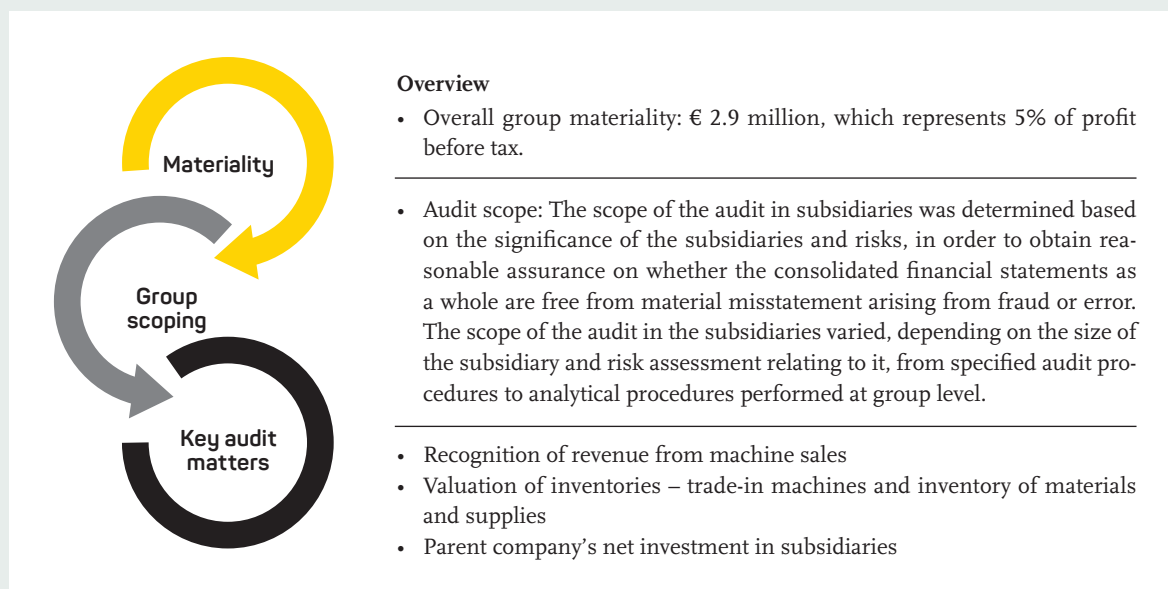
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in note 6.1. to the Financial Statements.

Our Audit Approach



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: € 2.9 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 of component financial information or specified audit procedures was performed in those group companies that we regarded as significant because of their economic significance or special nature. These audits covered most of the group's net sales, assets and liabilities. For other group companies, certain specified procedures or analytical procedures were performed.

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 the sales transactions recognized during the year
- 3rd party confirmations of revenue transactions
- testing of credit notes issued during the period and after the period end
- 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. € 122 million), approximately € 93 million consist of materials and supplies as well as other inventories. Our audit was focused around the risk that the inventories of trade-in machines and materials and supplies would not be measured at the lower of cost or net realizable value. The valuation of trade-in machines, in particular, is subject to management's estimates regarding net realizable value, as described in the notes on management judgment. Due to the significance of the inventories of trade-in machines and materials and supplies as individual balance sheet items, as well as management judgment involved in the measurement of those items, the valuation of these balance sheet items is regarded as a key audit matter.

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

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

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

KEY AUDIT MATTER IN THE AUDIT OF THE PARENT COMPANY

The parent company's net investment in subsidiaries

See parent company notes 14 ("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. € 88 million, and its current liabilities owed to subsidiaries are ca. € 2 million. Accordingly, the amount of net investment is approximately € 97 million.

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

HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER

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

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

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 a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Other Reporting Requirements

Appointment

We were first appointed as auditors by the annual general meeting on 31 March 2010. Our appointment represents a total period of uninterrupted engagement of 8 years.

Other Information

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

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

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

In our opinion

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

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

Vieremä 13 March 2018

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Toppinen
Authorised Public Accountant (KHT)

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