

## INFORMATION FOR SHAREHOLDERS

### ANNUAL GENERAL MEETING

Ponsse Oy's Annual General Meeting will be held on 24 March 1998 at 18.00 p.m. at the Iisalmi Cultural Centre, address: Kirkkopuistonkatu 9, FIN-74100 Iisalmi, Finland.

All shareholders who are listed no later than 19 March 1998 as company shareholders in the shareholder register held by Finnish Central Securities Depository Ltd are entitled to participate in the Annual General Meeting.

Shareholders wishing to participate in the Annual General Meeting must notify the company about their participation no later than 4.00 p.m. on 23 March 1998 either in writing to Ponsse Oy, Share Register, FIN-74200 Vieremä, Finland, by telephone on +358 17 768 461 or by fax on +358 17 768 4690. Written notifications must arrive before the above-mentioned deadline. Any letters of attorney should also be received before the deadline.

### DIVIDEND DISTRIBUTION

The Board of Directors has decided to propose to the Annual General Meeting that a dividend of FIM 4.50 per share be paid for 1997. Dividends will be paid to shareholders who are listed on the matching day, 27 March 1997, as company shareholders in the shareholder register held by Finnish Central Securities Depository Ltd. The Board of Directors will propose to the Annual General Meeting that the dividends be paid after the matching period on 1 April 1998. Tax at source will be deducted from dividend recipients residing permanently abroad.

### SHARE REGISTER

Ponsse Oy's shares and shareholders are listed in the shareholder register held by Finnish Central Securities Depository Ltd. Shareholders are requested to report any change of address and other similar matters related to their shareholding to the book-entry securities register in which they have a book-entry securities account.

### INSIDER REGISTER

Ponsse Oy's insider register pursuant to Section 5, Chapter 5 of the Securities Market Act is open to public inspection at Finnish Central Securities Depository Ltd., located at Eteläesplanadi 20, FIN-00130 Helsinki, Finland (P.O. Box 1260, FIN-00101 Helsinki, Finland).

### FINANCIAL REPORTS IN 1998

In addition to the Annual Report, Ponsse Oy will issue two Interim Reports.

- The first, covering the period 1 January to 30 April 1998, will be published on 9 June 1998.
- The second, covering the period 1 January to 31 August 1998, will be published on 6 October 1998.

The Annual Report and Interim Reports will be published in Finnish and in English.

Annual Reports and Interim Reports may be ordered from Ponsse Oy, FIN-74200 Vieremä, Finland; telephone +358 17 768 461, fax +358 17 768 4690.

## 1997 IN BRIEF

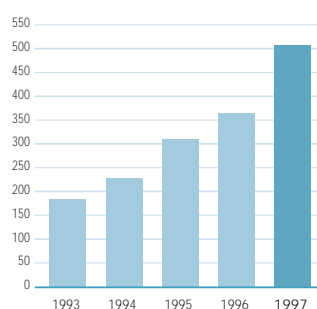
Key Indicators <sup>(1)</sup>	1997	1996
Turnover, FIM thousand	505,192	372,491
Operating profit, FIM thousand	59,158	36,858
Profit before voluntary provisions and income taxes, FIM thousand	59,033	36,809
Earnings per share, FIM	11.79 <sup>(2)</sup>	7.20
Dividend per share, FIM <sup>(3)</sup>	4.50	4.00
Shareholders' equity per share, FIM <sup>(3)</sup>	41.26	33.47
Equity ratio, %	65.2	65.4
Return on investment, % (ROI)	38.5	27.3
Personnel, average for year	300	251

1) Calculation of key figures is shown on page 7

2) Proposal of the Board of Directors to the Annual General Meeting

3) Deferred tax debt eliminated

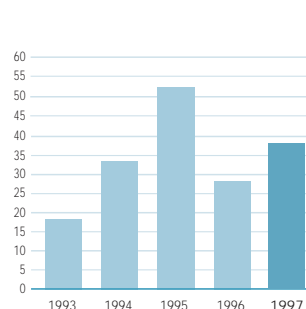
Turnover, FIM thousand



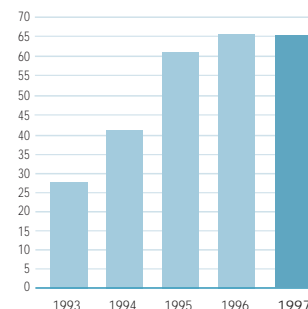
Profit before Voluntary Provisions and Income Taxes, FIM thousand



Return on investment, % (ROI)



Equity Ratio, %<sup>(3)</sup>



## REVIEW BY THE CHAIRMAN OF THE BOARD

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Ponsse Oy has grown to become a globally significant industrial company. We have believed in hard work, and above all, the uncompromising desire to do what we do well. Yet Ponsse has also welcomed client feedback; the resulting seamless cooperation between customers, vendors and employees has created what is undeniably the best range of forest machines on the market.

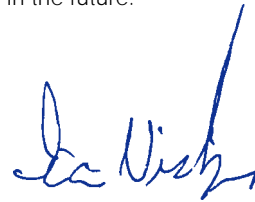
Ponsse's aim is controlled growth utilising its own resources. Our goal remains the same: to independently develop, manufacture and distribute the market's most efficient forest machines and services, the kind that make money for their owners. The overall objective is a steady increase in earnings. I believe that by raising production efficiency and precisely targeting our marketing efforts, we will be able to improve profit levels in the near future.

Ponsse's objective is to be a sound investment for its shareholders. To remain an attractive investment, the company must stay profitable and grow consistently without endangering its solid financial standing.

Shareholders are entitled to a fair share of profits, and Ponsse intends to uphold its reputation as a generous payer of dividends. The Board's profit-sharing proposal supports a policy by which the company would distribute approximately one-third of its annual profits to shareholders. The objective is an increased dividend resulting from a steady growth in company profitability.

During the past five years, Ponsse has achieved a solid financial position. Strong product development has rapidly improved our degree of self-sufficiency, and our strong balance sheet will enable productive investments to be made within the next few years. Invested capital earnings from operations have continued to remain high. We are paying special attention to the growth in current assets, ensuring that investment capital continues to be utilised effectively.

In business, it is essential that a company has the right people in the right places. Ponsse Oy's organisation has evolved dramatically during the year to meet increasingly strong demand. The distribution and servicing of forest machines in all our export countries is now successfully in place. Loyal customers, employees who know their business, and managers closely attuned to modern trends also provide a firm basis for faith in the future. I promise that our efforts will ensure that Ponsse remains the most outstanding manufacturer of forest machines as well as an attractive investment for shareholders. I believe that with this staff and these products, Ponsse's profits will also remain at an excellent level in the future.



Einari Vidgrén  
Chairman of the Board



## REVIEW BY THE MANAGING DIRECTOR

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The Ponsse Group continues its profitable growth by concentrating on premium products and services. Our commitment to developing and producing durable and effective forest machinery has been on target; the concluded financial year was a success. Demand for our products remained high and our order book grew steadily. At the same time we were able to increase our sales by approximately 36% and our profits by 59%. The growth of production efficiency was partly limited by delivery problems encountered by subcontractors and component suppliers. Demand for our products exceeded supply, and unfortunately we had to abandon several potential sales because of our delivery problems. Apologies are in order here, particularly for our long-term customers.

With systematic marketing and production refinements, we have been able to quadruple our company's turnover during the past five years. Along with growing efficiency and good profit development, our return on investment (ROI) has remained at an extremely high level. Simultaneously our equity ratio has increased from 19% to 65%. The high equity ratio will enable sizeable investments to be made in future business development projects. Our company is not planning any corporate acquisitions; we intend to continue the natural organic growth pattern based on our own points of departure.

During the year under review, we introduced two new harvester models on the market, and a third was replaced with a new model at the beginning of 1998, thereby concluding the renewal of our entire product line. The introduction of five new models on the market over a two-year period has required a massive effort by the company.

This year began with new product development programmes and a restructured production organisation. We have divided product development and production into five different product lines, each with its own product development and production team. Later this year, product development personnel will be transferred to the factory floor to be in direct contact with production. The aim is to concentrate skills into smaller units and achieve faster responsiveness to change through teamwork. At the same time, the staff will be more highly motivated and involved with their own tasks. I believe that dividing responsibility into more compact units is a prerequisite for improving efficiency and quality. This year our most important goals will be to increase volume and production

efficiency while improving quality.

Ponsse Oy is both a manufacturing and marketing company, and we will continue to invest in both these overall areas. Products are primarily manufactured by us in our own production units. Likewise, marketing is carried out largely through our own efforts. Ponsse is firmly committed to being in direct customer contact with the end users, forest machine entrepreneurs. For this reason we have established our own marketing companies in major export markets. During the year under review the volume of our foreign marketing companies grew by 57%, with a corresponding order book growth of 118%. We have succeeded very well in developing export.

For the financial year under review, the most important individual investment was the extension of the tooling works, welding shop, and painting line. During the current financial year additional investments will be made in planning and improving production efficiency. We will build a new assembly line and procure up-to-date production equipment for tooling, welding, and assembly operations. The production unit in Kajaani will concentrate on the manufacture of programmes and electronics. Investments this year will also be made in the Kajaani unit's production operations. Ponsse's aim is to motivate its staff, assisted by effective design and production methods, to produce better quality at lower cost. The operational management system taken into use by the parent company, together with a restructured organisation, has already improved efficiency. This development work will continue, and our marketing companies will also be linked to the same information system.

The value of Ponsse's shares almost doubled during the financial year under review. At the end of the financial year, the P/E ratio rose to 21, demonstrating that investors agree with us regarding Ponsse's profitable growth. The concluding financial year proved that this faith has been justified. I wish to thank the shareholders and customers for your confidence you have shown us, and our employees for their particularly skillful handling of controlled growth.



Harri Suutari  
President, CEO

GENERAL

OPERATING ENVIRONMENT

Demand for forest machines continued favourably in the Ponsse Group's market areas during the year under review. Sales were sustained by a strong demand for forest industry products and continued high harvesting levels. The demand for Ponsse's products encouraged wood harvesting companies to switch to the newly introduced harvesters in place of excavators and other similar basic machinery.

TURNOVER

The year under review, 1997, was the Ponsse Group's 27th year of operation. Turnover totalled FIM 505.2 million, up by 35.6% on the previous year (FIM 372.5 million in 1996). Turnover increased due to a favourable market situation and successful product development operations.

New products accounted for 69% (71% in 1996) of the financial year's turnover of FIM 505.2 million, and used forest machines accounted for 22% (19% in 1996) of turnover. After-sales activities accounted for 9% (10% in 1996) of turnover.

Operations outside Finland strongly increased their share of turnover both in absolute and relative terms. Foreign business operations accounted for 47.4% (39.0% in 1996) of Group turnover.

The order book had developed favourably at the end of the financial year at FIM 160 million (FIM 89 million in 1996), an 80% increase over the previous year.

PROFIT

As a result of an excellent market situation and intensified production, the Group's profit development was favourable. The Group's profit from operations before depreciation was FIM 66.2 million (FIM 42.9 million in 1996), accounting for 13.1% (11.5% in 1996) of turnover. Depreciation according to plan was FIM 7.0 million (FIM 6.1 million in 1996). Profit before voluntary provisions and income taxes totalled FIM 59.0 million (FIM 36.8 million in 1996), accounting for 11.7% (9.9% in 1996) of turnover. Ponsse Oy used FIM 2.0 million of its transitional provisions to cover procurement expenses resulting from the production hall expansion at Vieremä. The Group's profit for the financial year totalled FIM 40.8 million (FIM 25.6 million in 1996).

BALANCE SHEET

The consolidated balance sheet total on 31 December 1997 was FIM 224.8 million (FIM 180.8 million on 31 Dec. 1996). Interest-bearing debt totalled FIM 18.3 million (FIM 22.2 million on 31 Dec. 1996). The equity ratio adjusted for deferred tax debt was 65.2% (65.4% on 31 Dec. 1996) and liquidity was good. Cash assets totalled FIM 33.1 million (FIM 24.7 million on 31 Dec. 1996).

Liabilities not shown on the balance sheet were nearly halved during the financial year. The total of pledges, guarantees and repurchase agreements given as collateral for forest machine finances amounted to FIM 31.3 million on 31 December 1997 (FIM 57.1 million on 31 Dec. 1996).

CAPITAL EXPENDITURE

The Group invested FIM 19.5 million in fixed assets. Investments were financed with internally generated funds.

During the financial year, Ponsse Oy added new repair shop and spare-parts facilities to its forest machine sales outlet in Seinäjoki. The new branch significantly strengthens Ponsse's position in Western Finland.

Other key company investments focused primarily on production machinery. The largest individual investment was the expansion of production spaces at Vieremä, worth over FIM 10 million. A new painting line, as well as additional space for tooling and welding, were built. The area of the extension exceeds 2,500 m<sup>2</sup>, resulting in a 40% increase in production space. This enabled production to be increased by the same amount. Except for the painting line, expansion investments were complete by the end of the financial year. The purpose of investments is to meet the powerfully increasing demand for forest machinery.

PRODUCT RESEARCH AND DEVELOPMENT

A total of 34 staff (26 in 1996) were employed in the Group's product development work at the end of the financial year, accounting for 10.4% (9.9% in 1996) of the Group's personnel. The Group's product research and development expenses totalled FIM 9.1 million (FIM 8.5 million in 1996), accounting for 1.8% (2.3% in 1996) of Group turnover. Product research and development expenses accounted for 2.6% (3.2% in 1996) of new product sales.

During the year under review, Ponsse Oy introduced two new forwarder models. The Ponsse Caribou S10 is a new forwarder in the 10-tonne weight class. The new model takes advantage of the power transmission technology used in harvesters belonging to the same series. Ponsse Oys own extent of value added is greater than for preceding models because the new Ponsse K70 loader used on the forwarder in question has been developed and manufactured by the company. The product line's most robust forwarder is the completely new 14-tonne Ponsse Buffalo S16. Both eight-wheeled forwarders were well received on the market.

The most important product development projects for information systems were the development of automatic measuring and laying-off systems, as well as telecommunications technology, for harvesters. At the same time the company also introduced two vehicular computer models furnished with GPS satellite tracking devices. Product development has been carried out in close co-operation with customers and research organisations.

The six-wheeled 12-tonne Ponsse Ergo S15 forwarder was improved in early 1998 and was at the same time renamed the Ponsse Bison S15. Numerous structural improvements were made in connection with the renewal.

At the beginning of the current year, new product development ideas concentrated on the continued refinement of existing products. Of central importance is the development of manufacturing techniques that will enable higher quality to be produced at lower cost.

## MANAGEMENT AND AUDITORS

### BOARD OF DIRECTORS

During the financial year, the members of the Board of Directors were Einari Vidgrén (Chairman), Martti Huttunen, Curt Lindbom, Matti Luukkonen (since 2 April 1997), Harri Suutari and Mika Vidgrén.

### MANAGING DIRECTOR

Harri Suutari is the Managing Director of the company.

### ORGANISATIONAL RESTRUCTURING

On 1 January 1998, following the conclusion of the financial year, the company reorganised its product development and manufacturing operations. Traditional functional

divisions were eliminated and replaced by five product lines, each of which assumes overall responsibility for its products from development to production. As a result of the change, there is now closer collaboration between product development and manufacturing. The result is a tighter, more effective organisation and improved product quality.

In the same connection MSc (For.) Tommi Ruha (28) was named as Director, and the company management team member whose area of responsibility is information systems products.

### AUDITORS

The company's auditors are the authorised public accountants SVH Coopers & Lybrand Oy.

## GROUP RELATIONS

Ponsse Oy is the parent company of the Ponsse Group. The Group includes Ponsse Oy in Vieremä, Finland; Ponsse AB in Västerås, Sweden; Ponssé S.A. in Gondreville, France; Ponsse UK Ltd. in Neath, UK; and Ponsse USA, Inc. in Rhinelander, Wisconsin, USA.

MSc (For.) Gunnar Bäck (52) was named the new President of Ponsse AB beginning 10 March 1997, assuming the new position after serving as Timberjack's Regional Sales Manager. Bäck has solid experience with the marketing of forest machinery in Sweden as well as internationally. He has earlier been employed by such Swedish forest machinery companies as Kockums, Ösa, and Volvo BM.

Effective 1 August 1997, MSc (For.) Juhapekka Mutanen (41) was named the new President of Ponsse USA, Inc. Mutanen has had long experience in different tasks relating to industrial wood procurement, including positions as Planning Director for Enso Gutzeit Oy's forestry group, and most recently as President of Enso Forest Development. In the same connection, Ponsse USA Inc.'s office was transferred from Atlanta Georgia to Rhinelander, Wisconsin, where the company's service and spare parts branch is already located.

## OUTLOOK FOR THE CURRENT YEAR

Demand for forest machines is expected to remain stable at the beginning of the current year. The difficult economic situation in the Far East may weaken the demand for lumber. Pulp and paper prices, as well as supply quantities, are expected to remain fairly close to current levels. Harvesting in Ponsse's main market areas is expected to con-

tinue steadily, and the demand for forest machinery is expected to remain at the current high level. Sales is sustained by increasingly mechanised harvesting and the proliferation of cut-to-length harvesting as a wood harvesting technique. The current year's turnover is expected to exceed FIM 600 million, with profits improving accordingly.

## FINANCIAL KEY INDICATORS

	1997	1996	1995	1994	1993
<b>Extent of operations</b>					
Turnover, FIM thousand	505,192	372,491	313,746	235,871	183,190
Change, %	35.6	18.7	33.0	28.8	57.2
Foreign business operations and exports, %	47.4	39.0	31.3	23.3	15.3
Research and development expenditure, FIM thousand	9,072	8,483	5,928	3,773	3,227
% of turnover	1.8	2.3	1.9	1.6	1.8
Gross capital expenditure on fixed assets, FIM thousand	19,457	10,286	15,792	6,946	10,320
% of turnover	3.9	2.8	5.0	2.9	5.6
Average number of staff	300	251	196	152	127
Turnover per employee, FIM thousand	1,684	1,484	1,601	1,552	1,442
Order stock, FIM million	160	89	95	130	55
<b>Profitability</b>					
Profit from operations before depreciation, FIM thousand	66,151	42,930	61,399	30,394	15,361
% of turnover	13.1	11.5	19.6	12.9	8.4
Operating profit, FIM thousand	59,158	36,858	56,841	26,712	11,974
% of turnover	11.7	9.9	18.1	11.3	6.5
Profit before extraordinary items, voluntary provisions and income taxes, FIM thousand	59,033	36,809	55,915	23,661	3,866
% of turnover	11.7	9.9	17.8	10.0	2.1
Profit before voluntary provisions and income taxes, FIM thousand	59,033	36,809	55,915	23,654	3,686
% of turnover	11.7	9.9	17.8	10.0	2.0
Profit for the financial year	40,803	25,565	40,849	16,937	1,987
% of turnover	8.1	6.9	13.0	7.2	1.1
Return on equity (ROE), %	31.6	22.6	52.7	45.9	12.9
Return on investment (ROI), %	38.5	27.3	52.5	33.7	18.0
<b>Financial position</b>					
Current ratio	2.7	3.2	2.9	2.4	2.3
Equity ratio, % (deferred tax debt eliminated)	65.2	65.4	60.8	41.1	27.4
Equity ratio, %	67.8	68.6	64.1	45.4	32.4
Interest-bearing liabilities, FIM thousand	18,287	22,174	24,154	35,407	42,890
Interest-free liabilities, FIM thousand	56,199	35,722	42,507	29,617	22,705

## KEY INDICATORS FOR SHARES <sup>(1)</sup>

	1997	1996	1995	1994	1993
Earnings per share (EPS), FIM	11.79	7.20	12.05	5.58	1.05
Shareholders' equity per share, FIM (deferred tax debt eliminated)	41.26	33.47	30.24	15.77	8.55
Shareholders' equity per share, FIM	42.95 <sup>(2)</sup>	35.12	31.93	17.39	10.13
Nominal dividend per share, FIM	4.50 <sup>(2)</sup>	4.00	4.00	1.50	0.00
Share-issue-adjusted dividend per share, FIM	4.50	4.00	4.00	1.43	0.00
Dividend per earnings, %	38.2	55.5	33.2	25.6	0.0
Effective dividend yield, %	3.1	4.5	7.7	-	-
Price-earnings ratio (P/E)	12.4	12.2	4.3	-	-
<b>Share prices</b>					
Lowest of the year	86.50	51.00	50.00	-	-
Highest of the year	150.00	90.00	58.00	-	-
Closing price of the year	150.00	89.00	52.00	-	-
Average of the year	114.42	68.45	52.10	-	-
Average of the last trading day of the financial year	146.43	88.09	52.00	-	-
Market capitalisation, FIM million	512.5	308.3	182.0	-	-
Total dividends paid, FIM million	15.8 <sup>(2)</sup>	14.0	14.0	4.4	0.0
Share turnover, number of shares	493,658	1,246,660	360,360	-	-
Share turnover, %	14,1	35,6	10,6	-	-
Weighted average share-issued-adjusted number of shares during the financial year	3,500,000	3,500,000	3,390,455	3,108,000	2,555,849
Share-issue-adjusted number of shares on the closing day.	3,500,000	3,500,000	3,500,000	3,108,000	3,108,000

1) It is not possible to calculate all share-specific key ratios for the comparison years, since the company shares have been publicly listed since 4 May 1995.

2) The proposal of the Board of Directors to the Annual General Meeting.

## CALCULATION OF KEY INDICATORS

### 1. Return on equity (ROE), %

$$\frac{\text{Result before extraordinary items, voluntary provisions and income taxes} - \text{income taxes (incl. change in deferred tax debt)}}{\text{Shareholders' equity} + \text{minority interest} + \text{voluntary provisions and accelerated depreciation, deferred tax debt eliminated (average)}} \times 100$$

### 2. Return on investment (ROI), %

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

### 3. Equity ratio, % (deferred tax debt eliminated)

$$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{voluntary provisions and accelerated depreciation, deferred tax debt eliminated}}{\text{Balance sheet total} - \text{advance payments received}} \times 100$$

### 4. Equity ratio, %

$$\frac{\text{Shareholders' equity} + \text{minority interest} + \text{voluntary provisions and accelerated depreciation}}{\text{Balance sheet total} - \text{advance payments received}} \times 100$$

### 5. Average number of staff during financial year

The average of the month-end staff numbers. The calculation is adjusted for part-time employees.

### 6. Earnings per share (EPS)

$$\frac{\text{Result before extraordinary items, voluntary provisions and income taxes} - \text{income taxes (incl. change in deferred tax debt)} -/+ \text{minority interest}}{\text{Average share-issue-adjusted number of shares during financial year}}$$

### 7. Shareholders' equity per share (deferred tax debt eliminated)

$$\frac{\text{Shareholders' equity} + \text{voluntary provisions and accelerated depreciation, deferred tax debt eliminated}}{\text{Share-issue-adjusted number of shares on closing day}}$$

### 8. Shareholders' equity per share

$$\frac{\text{Shareholders' equity} + \text{voluntary provisions and accelerated depreciation}}{\text{Share-issue-adjusted number of shares on closing day}}$$

### 9. Share-issue-adjusted dividend per share

$$\frac{\text{Dividend per share}}{\text{Adjustment coefficients for share issues after financial year}}$$

### 10. Dividend per earnings, %

$$\frac{\text{Dividend per share}}{\text{Earnings per share}} \times 100$$

### 11. Effective dividend yield, %

$$\frac{\text{Dividend per share}}{\text{Share-issue-adjusted average price weighted by numbers of shares traded on last trading day of financial year}} \times 100$$

### 12. Price per earnings (P/E)

$$\frac{\text{Share-issue-adjusted average price weighted by numbers of shares traded on last trading day of financial year}}{\text{Earnings per share}}$$

### 13. Market capitalisation

Number of shares on closing day x Share-issue-adjusted average price weighted by numbers of shares traded on last trading day of financial year.

### 14. Share turnover, %

$$\frac{\text{Shares traded during financial year}}{\text{Average number of shares during financial year}} \times 100$$

The general instructions issued by the Finnish Accounting Board for the preparation of financial statements, financial statements bulletins and interim reports referred to in the resolution (879 / 14 June 1995) of the Finnish Ministry of Finance have been followed in the calculation of the key indicators.

## SHARE CAPITAL AND SHARES

According to the valid Articles of Association of Ponsse Oy, the minimum share capital is FIM 14,000,000 and the maximum share capital is FIM 56,000,000, within which limits the share capital may be raised or decreased without amending the Articles of Association.

The company's share capital entered in the trade register totals FIM 17,500,000 and is divided into 3,500,000 shares, each having a par value of FIM 5.00. All shares are

of the same series and each share entitles its holder to one vote in the shareholders' meeting and gives an equal right to dividends. All of the company's shares are included in the book-entry securities system.

Ponsse Oy has issued neither convertible bonds nor bonds with warrants.

## INCREASES IN SHARE CAPITAL 1994 - 1997

Subscription date	Type of issue	Par value (FIM)	Number of new shares	Increase in share capital (FIM)	New share capital (FIM)
31 Aug. 1994	Bonus issue	5	1,300,000	6,500,000	14,800,000
9-22 March 1995	Bonus issue	5	148,000	740,000	15,540,000
9-22 March 1995	New issue targeted at general public	5	392,000	1,960,000	17,500,000

## AUTHORISATION TO RAISE SHARE CAPITAL

The company's Board of Directors is not currently authorised to raise share capital or to issue convertible bonds or bonds with warrants.

## TAXATION OF SHARES

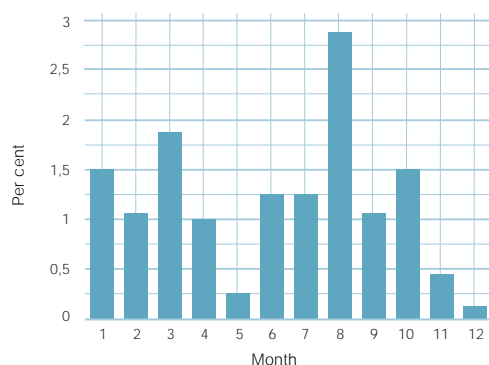
For the 1997 tax year in Finland, the confirmed taxation value of Ponsse Oy's shares was FIM 95.00 per share.

## SHARE PRICES AND TURNOVER

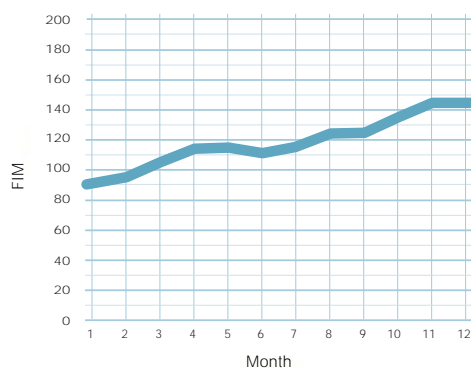
Ponsse Oy's shares are listed on the Helsinki Exchange's OTC list.

The trend in share prices and turnover has been upwards in the financial year under review. Share turnover from 1 January to 31 December 1997 totalled 493,658 shares, accounting for 14.1% of the total number of shares. The value of share turnover amounted to FIM 56.5 million. The lowest price of the year was FIM 86.50 and the highest was FIM 150.00. The average share price on the last trading day of the financial year was FIM 146.43. The market value of the shares was FIM 512.5 million on 31 December 1997.

Monthly Relative Share Turnover in 1997



Average Monthly Share Price in 1997





## SHAREHOLDERS

At the end of 1997, Ponsse Oy had 731 shareholders. The number of nominee-registered and foreign-owned shares

totalled 515,400, accounting for 14.73% of the shares and votes.

### DISTRIBUTION OF SHARE OWNERSHIP BY OWNER CATEGORY ON 31 DECEMBER 1997

	Number of shares	Percentage of shares and votes
Private enterprises	43,946	1.26
Public enterprises	0	0.00
Financial institutions and insurance companies	119,100	3.40
Public sector entities	98,700	2.82
Nonprofit organisations	11,518	0.33
Households	2,711,336	77.46
Abroad	515,400	14.73
<b>Total</b>	<b>3,500,000</b>	<b>100.00</b>

### DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDING ON 31 DECEMBER 1997

Shares per shareholder	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares and votes
1 - 100	301	41.18	22,471	0.64
101 - 1 000	363	49.66	147,855	4.22
1 001 - 10 000	48	6.57	115,860	3.31
10 001 - 100 000	14	1.91	368,200	10.52
100 001 or more	5	0.68	2,845,614	81.31
<b>Total</b>	<b>731</b>	<b>100.00</b>	<b>3,500,000</b>	<b>100.00</b>

### SHAREHOLDERS OF PONSSE OY ON 31 DECEMBER 1997

Shareholder	Number of shares	Percentage of shares and votes
Einari Vidgrén	1,688,172	
Holdings comparable to ownership		
Jukka Vidgrén	18,300	
<b>Total</b>	<b>1,706,472</b>	<b>48.76</b>
Harri Suutari	350,000	
Holdings comparable to ownership		
Antti Suutari	100	
Elina Suutari	100	
Sari Suutari	100	
<b>Total</b>	<b>350,300</b>	<b>10.01</b>
Esa Vidgrén, death estate	198,902	5.68
Curt Lindbom	123,340	3.52
The Local Government Pensions Institute	70,000	2.00
Jaakko Karo	39,100	1.12
Esa Rannila	29,600	0.85
Leijona-Osake Investment Fund	27,200	0.78
Merita Foresta Investment Fund	26,000	0.74
Lars Janocha	25,800	0.74
Nominee-registered shares	488,800	13.97
Other shareholders	414,486	11.83
<b>Total</b>	<b>3,500,000</b>	<b>100.00</b>

## MANAGEMENT'S SHAREHOLDING

At the end of 1997, the members of the Board of Directors, the President and the Vice President owned a total

of 2,186,812 shares of Ponsse Oy, representing 62.48% of the share capital and votes.

## REPORTS PERTAINING TO SECTION 9 OF CHAPTER 2 OF THE SECURITIES MARKET ACT

During the year under review, the company filed no reports pertaining to Section 9 of Chapter 2 of the Securities Market Act that requires notification to be made for transactions in which the percentage of ownership or voting right exceeds, or falls below, 1/10, 1/5, 1/3, 1/2 or 2/3 of total ownership or voting rights.

Following the conclusion of the year under review, the proportion of Ponsse Oy's votes and share capital in the combined ownership of Managing Director Harri Suutari and his children dropped by one percentage point from 10.009% to 9.009% as a result of a transaction made on the OTC list on 15 January 1998. The following information has therefore been disclosed in accordance with items 1 to 7 of Subparagraph 1, Section 2 of Resolution 904/94 of the Finnish Ministry of Finance:

- 1 Full name of company: Ponsse Oy.
- 2 Date on which the percentage of the company's votes and share capital has fallen under 10%: 15 January 1997.
- 3 Share of company's votes and share capital: 315,300 shares, representing 9.009% of the company's votes and share capital (single share type).
- 4 Full name of shareholder: Harri Yrjö Kalevi Suutari.
- 5 Full names of shareholders owning a proportion of shareholder's votes and share capital: Juha Antti Suutari, Elina Annika Suutari, Sari Susanna Suutari, all of them minor children under guardianship.
- 6 Distribution of share ownership: Harri Suutari, 9.000%; Antti, Elina, and Sari Suutari, total 0.009% of the company's votes and share capital (single share type) Antti, Elina and Sari Suutari, total 0.009% of the company's votes and share capital.
- 7 Essential content of other agreement or arrangement: -

## REDEMPTION OBLIGATION CLAUSES

According to Ponsse Oy's company by-laws, Section 15, a shareowner whose proportion of the company's entire share capital, or votes created by share capital, either alone or together with other shareholders, achieves or exceeds an ownership share of 33 1/3% or 50%, shall be

obligated, according to requirements set by shareholders, to redeem their shares as well as other securities entitled by the Companies Act, according to the more detailed instructions contained in company by-laws, Section 15.

## SHAREHOLDER AGREEMENTS

Ponsse Oy is not aware of any shareholder agreements related to the ownership of the company shares or to the

use of the right to vote that would essentially affect the share price.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

	1 Jan. - 31 Dec. 1997		1 Jan. - 31 Dec. 1996	
	FIM thousand	%	FIM thousand	%
Turnover	505,192	100.0	372,491	100.0
Decrease in stocks of finished goods	-612		-3,332	
Other operating income	1,734		3,208	
Variable costs:				
Raw materials and consumables				
Purchases during the financial year	340,874		262,111	
Increase in stocks	-13,633		-18,651	
Staff costs	40,658		31,482	
Other variable costs	13,650	381,549	7,897	282,839
<b>Gross margin</b>	<b>124,765</b>	<b>24.7</b>	<b>89,528</b>	<b>24.0</b>
Fixed costs:				
Staff costs	28,987		19,816	
Rents	1,706		1,103	
Other fixed costs	27,921	58,614	25,679	46,598
<b>Profit from operations before depreciation</b>	<b>66,151</b>	<b>13.1</b>	<b>42,930</b>	<b>11.5</b>
Depreciation:				
On fixed assets and other capitalised expenditure	5,623		4,739	
On goodwill	1,370	6,993	1,333	6,072
<b>Operating profit</b>	<b>59,158</b>	<b>11.7</b>	<b>36,858</b>	<b>9.9</b>
Financial income and expenses:				
Other financial income	1,201		1,560	
Interest expenses	1,085		1,325	
Other financial expenses	241	-125	284	-49
<b>Profit before extraordinary items, voluntary provisions and income taxes</b>	<b>59,033</b>	<b>11.7</b>	<b>36,809</b>	<b>9.9</b>
Increase in accelerated depreciation	-2,385		-2,056	
Decrease in voluntary provisions	1,740		2,546	
Income taxes	-17,585		-11,738	
Minority interest in profit for the financial year	40,803		25,561	
	0		4	
<b>Profit for the financial year</b>	<b>40,803</b>	<b>8.1</b>	<b>25,565</b>	<b>6.9</b>

## CONSOLIDATED BALANCE SHEET

### ASSETS

	31 Dec. 1997	31 Dec. 1996
	FIM thousand	FIM thousand
<b>Fixed assets and other non-current investments</b>		
Intangible assets		
Formation expenses	22	28
Intangible rights	188	28
Goodwill	6,440	7,810
Other capitalised expenditure	2,302	1,891
	8,952	9,757
Tangible assets		
Land and water	1,191	758
Buildings	29,600	23,056
Machinery and equipment	18,064	13,913
Advance payments	1,373	0
	50,228	37,727
Financial assets		
Bonds and shares	128	198
Current assets		
Stocks		
Raw materials and consumables	49,980	42,687
Work in progress	2,237	1,921
Finished products	2,516	3,226
Other stocks	29,123	21,653
	83,856	69,487
Receivables		
Trade receivables	43,687	32,855
Loan receivables	56	200
Prepaid expenses and accrued income	1,569	1,428
Delivery credit receivables	2,579	3,327
Other receivables	700	1,135
	48,591	38,945
Cash in hand and at banks	33,067	24,686
	224,822	180,800
<b>Assets</b>		

## CONSOLIDATED BALANCE SHEET

### LIABILITIES

	31 Dec. 1997	31 Dec. 1996
	FIM thousand	FIM thousand
<b>Capital and reserves</b>		
Restricted equity		
Share capital	17,500	17,500
Reserve fund	18,485	18,484
	35,985	35,984
Translation difference	231	79
Nonrestricted equity		
Retained earnings	52,098	40,707
Profit for the financial year	40,803	25,565
	92,901	66,272
<b>Provisions</b>		
Accelerated depreciation	21,092	18,707
Voluntary provisions		
Other provisions	127	1,862
	21,219	20,569
<b>Creditors</b>		
Non-current		
Loans from credit institutions	11,427	13,247
Pension loans	2,661	3,005
	14,088	16,252
Current		
Loans from credit institutions	3,992	5,696
Pension loans	207	226
Advances receivedt	3,194	1,630
Trade payables	22,968	13,475
Accrued liabilities and deferred income	14,534	11,051
Other current liabilities	15,503	9,566
	60,398	41,644
<b>Liabilities</b>	224,822	180,800

## CONSOLIDATED FUNDS STATEMENT

	1997	1996
	FIM thousand	FIM thousand
<b>Business operations</b>		
<b>Internal financing</b>		
Profit from operations before depreciation	66,151	42,930
Financial income and expenses	-125	-49
Taxed	-17,585	-11,738
Total internal financing	48,441	31,143
<b>Change in working capital</b>		
Stocks, increase	-14,369	-15,443
Current receivables, increase	-11,615	-8,421
Interest-free current liabilities, increase (+) / decrease (-)	20,477	-6,785
	-5,507	-30,649
Cash flow from operations	42,934	494
<b>Capital expenditure</b>		
Capital expenditure on fixed assets	-19,457	-10,286
Sales proceeds from fixed assets	822	1,078
	-18,635	-9,208
Cash flow before financing	24,299	-8,714
<b>Financing</b>		
Increase (-) / decrease (+) in non-current receivables	1,969	-695
Increase in non-current loans	1,630	6,530
Decrease in non-current loans	-3,794	-10,645
Increase (+) / decrease (-) in current loans	-1,723	2,135
Dividend distribution	-14,000	-14,000
	-15,918	-16,675
Increase (+) / decrease (-) in liquid assets according to calculation	8,381	-25,389
Increase (+) / decrease (-) in liquid assets according to Balance Sheet	8,381	-25,389

## PONSSÉ OY PROFIT AND LOSS ACCOUNT

	1 Jan. - 31 Dec. 1997		1 Jan. - 31 Dec. 1996	
	FIM thousand		FIM thousand	
Turnover	435,970		337,343	
Decrease in stocks of finished goods	-315		-3,035	
Other operating income	1,547		4,573	
Variable costs:				
Raw materials and consumables				
Purchases during the financial year	288,999			243,596
Increase in stocks	-4,134		-11,771	
Staff costs	36,717		25,422	
Other variable costs	8,560	330,142	5,889	263,136
<b>Gross margin</b>	<b>107,060</b>		<b>75,745</b>	
Fixed costs:				
Staff costs	21,359		13,611	
Rents	738		564	
Other fixed costs	18,589	40,686	17,731	31,906
<b>Profit from operations before depreciation</b>	<b>66,374</b>		<b>43,839</b>	
Depreciation on fixed assets and other capitalised expenditure	4,960		4,839	
<b>Operating profit</b>	<b>61,414</b>		<b>39,000</b>	
Financial income and expenses:				
Other financial income	2,283		1,367	
Interest expenses	935		1,211	
Other financial expenses	180	1,168	268	-112
<b>Profit before extraordinary items, voluntary provisions and income taxes</b>	<b>62,582</b>		<b>38,888</b>	
Increase in accelerated depreciation	-2,349		-2,549	
Decrease in voluntary provisions	2,046		2,275	
Income taxes	-17,568		-10,502	
<b>Profit for the financial year</b>	<b>44,711</b>		<b>28,112</b>	

## PONSSE OY BALANCE SHEET

### ASSETS

	31 Dec. 1997	31 Dec. 1996
	FIM thousand	FIM thousand
<b>Fixed assets and other non-current investments</b>		
Intangible assets		
Intangible rights	188	28
Other capitalised expenditure	2,088	1,833
	2,276	1,861
Tangible assets		
Land and water	1,191	758
Buildings	29,600	23,056
Machinery and equipment	15,063	12,083
Advance payments	1,373	0
	47,227	35,897
Financial assets		
Bonds and shares	1,789	1,858
Current assets		
Stocks		
Raw materials and consumables	42,913	39,695
Work in progress	2,237	1,921
Finished products	1,116	1,746
Other stocks	12,628	11,713
	58,894	55,075
Receivables		
Trade receivables	72,578	47,249
Loan receivables	1,678	712
Prepaid expenses and accrued income	1,149	1,148
Delivery credit receivables	2,178	3,327
Other receivables	557	1,043
	78,140	53,479
Cash in hand and at banks	22,876	21,589
	211,202	169,759



## PONSSE OY BALANCE SHEET

### LIABILITIES

	31 Dec. 1997	31 Dec. 1996
	FIM thousand	FIM thousand
<b>Capital and reserves</b>		
Restricted equity		
Share fund	17,500	17,500
Reserve fund	18,441	18,441
	35,941	35,941
Nonrestricted equity		
Retained earnings	47,500	33,388
Profit for the financial year	44,711	28,112
	92,211	61,500
Provisions		
Accelerated depreciation	21,056	18,707
Voluntary provisions		
Transition reserve	0	2,046
	21,056	20,753
Creditors		
Non-current		
Loans from credit institutions	10,824	12,700
Pension loans	2,661	3,005
	13,485	15,705
Current		
Loans from credit institutions	3,556	5,453
Pension loans	207	226
Advances received	3,086	1,519
Trade payables	17,873	11,011
Accrued liabilities and deferred income	13,868	9,673
Other current liabilities	9,919	7,978
	48,509	35,860
	211,202	169,759

## PONSSE OY FUNDS STATEMENT

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	1997	1996
	FIM thousand	FIM thousand
<b>Business operations</b>		
Internal financing		
Profit from operations before depreciation	66,374	46,244
Financial income and expenses	1,167	-131
Taxes	-17,568	-11,628
Total internal financing	49,973	34,485
Change in working capital		
Stocks, increase (-)	-3,819	-4,689
Current receivables, increase	-26,206	-21,847
Interest-free current liabilities, increase (+) / decrease (-)	14,565	-7,838
	-15,460	-34,374
Cash flow from operations	34,513	111
Capital expenditure		
Capital expenditure on fixed assets	-16,990	-9,249
Sales proceeds from fixed assets	354	1,078
	-16,636	-8,171
Cash flow before financing	17,877	-8,060
Financing		
Increase (-) / decrease (+) in non-current receivables	1,546	-209
Increase (+) in non-current loans	1,500	6,530
Decrease (-) in non-current loans	-3,720	-11,192
Increase (+) / decrease (-) in current loans	-1,916	1,892
Dividend distribution	-14,000	-14,000
	-16,590	-16,979
Increase (+) / decrease (-) in liquid assets according to calculation	1,287	-25,039
Increase (+) / decrease (-) in liquid assets according to Balance Sheet	1,287	-25,039

# NOTES TO THE ACCOUNTS

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## ACCOUNTING PRINCIPLES APPLIED

### 1. EXTENT OF CONSOLIDATED FINANCIAL STATEMENTS

Besides Ponsse Oy, the consolidated accounts comprise all the companies in which Ponsse Oy holds more than half of the company's votes.



### 2. CALCULATION PRINCIPLES FOR CONSOLIDATED ACCOUNTS

The consolidated financial statements have been prepared in accordance with the past equity method. The acquisition cost in excess of the shareholders' equity of each subsidiary at the date of acquisition is presented in the balance sheet under goodwill, which will be depreciated over 10 years according to plan.

The Group's internal business transactions, internal receivables and debt, unrealised margins of internal deliveries and internal profit distribution have been eliminated.

The financial statements of foreign-based Group companies have been converted into Finnish currency using the Bank of Finland's average rates on the closing day. The translation difference arising from the elimination of the shareholders' equity is presented as a separate item in the shareholders' equity.



### 3. DETERMINATION OF VALUE

All receivables and liabilities in foreign currency are valued using the Bank of Finland's average rates on the closing date. According to the lower-of-cost-or-market principle, stocks are valued either at their direct production or acquisition cost or at their lower replacement or selling value.

Fixed assets have been activated at direct acquisition cost, excluding the revaluation of the parent company's buildings. Since the 1994 financial year, depreciations according to plan have been calculated by the straight-line method from the original acquisition price based on the economic life.

### 4. PENSION EXPENSES

The statutory pension security for the Group's personnel has been arranged through pension insurance companies and there are no uncovered pension liabilities.



### 5. GUARANTEE EXPENSES

The probable guarantee expenses concerning surrendered forest machines have been recorded in current loans.



### 6. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses have been recorded as annual costs.



### 7. TAXES

Within the Group, taxes determined on the basis of the parent company's and subsidiaries' dividend distribution have been recorded on an accrual basis.



## TURNOVER BY MARKET AREA

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Finland	265,838	227,254	263,082	215,698
Other countries	239,354	145,237	172,888	121,645
<b>Total</b>	<b>505,192</b>	<b>372,491</b>	<b>435,970</b>	<b>337,343</b>

## MARKET AREAS' SHARE OF TURNOVER

	Group	
	1997	1996
	%	%
Finland	52.62	61.01
Sweden	16.53	13.02
Norway	2.31	3.53
France and Belgium	6.44	3.84
Germany	4.39	4.04
United Kingdom and Ireland	8.57	8.14
United States of America	7.33	4.12
Other countries	1.81	2.30
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

## OTHER OPERATING INCOME

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Other operating income	1,734	3,208	1,547	4,573

Other operating income includes income from business operations other than those from the actual production of goods or services, such as rent income, income from the sales of fixed assets and other corresponding income. The parent company's other operating income for 1996 includes merger profit of FIM 2,115,000, generated in the merger of Kajaani Automatiikka Oy into Ponsse Oy on 31 December 1996. The merger profit is eliminated in the consolidated financial statements.

Kajaani Automatiikka Oy's Profit and Loss Account 1 January - 31 December 1996 is not included in the parent company's profit and loss account for the equivalent period.

## STAFF

	Group		Parent Company	
	1997	1996	1997	1996
	persons	persons	persons	persons
Average number of staff	300	251	268	196
At end of financial year	326	263	285	241

## STAFF COSTS AND FRINGE BENEFITS

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Wages and salaries				
Presidents and Board members	4,156	2,700	706	552
Employees and clerical personnel	51,048	38,468	45,244	30,176
Fringe benefits	529	261	119	113
Pension costs	7,476	5,773	7,138	4,607
Other staff costs	6,965	4,358	4,988	3,698
<b>Total</b>	<b>70,174</b>	<b>51,559</b>	<b>58,195</b>	<b>39,146</b>

## DEPRECIATION ACCORDING TO PLAN

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Formation expenses	7	7	0	0
Intangible rights	40	0	40	0
Other capitalised expenditure	498	490	480	1,714
Buildings	1,335	1,245	1,335	1,088
Machinery and equipment	3,743	2,997	3,105	2,037
<b>Total</b>	<b>5,623</b>	<b>4,739</b>	<b>4,960</b>	<b>4,839</b>
Depreciation on goodwill	1,370	1,333		
<b>Total</b>	<b>6,993</b>	<b>6,072</b>		
Change in accelerated depreciation:				
Other capitalised expenditure	-106	-11	-106	-13
Buildings	-1,737	754	-1,737	612
Machinery and equipment	-542	-2,799	-506	-3,148
<b>Total</b>	<b>-2,385</b>	<b>-2,056</b>	<b>-2,349</b>	<b>-2,549</b>
Change in accelerated depreciation from merger:				
Other capitalised expenditure	0	0	0	-21
Buildings	0	0	0	-2,047
Machinery and equipment	0	0	0	-634
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>-2,702</b>
Change in accelerated depreciation total:	-2,385	-2,056	-2,349	-5,251

Depreciation according to plan has been calculated according to the Group's standard principles by the straight-line method from the original acquisition cost based on the economic life of the fixed assets.

Depreciations according to plan cover the useful lives of the assets:

Other capitalised expenditure	3 - 5 years
Buildings	20 years
Machinery and equipment	3 - 10 years
Goodwill	10 years.

## FINANCIAL INCOME FROM GROUP COMPANIES

	Parent Company	
	1997	1996
	FIM thousand	FIM thousand
Other financial income	1,333	0

## BONDS AND SHARES OWNED BY PARENT COMPANY

Group companies	Bonds and shares owned by Parent Company			
	Group's percentage of shares %	Number of shares	Par value	Book value (FIM)
Ponsse AB	100.00	5,000	500,000.00 SEK	432,522.00
Ponssé S.A.	99.20	992	496,000.00 FRF	426,411.20
Ponsse USA, Inc.	100.00	50,000	100,000.00 USD	437,860.00
Ponsse UK Ltd.	100.00	50,000	50,000.00 GBP	364,200.00
<b>Group companies total</b>				<b>1,660,993.20</b>
Other bonds and shares owned by parent company				127,656.00
<b>Shares and bonds owned by parent company, total</b>				<b>1,788,649.20</b>

## INTANGIBLE AND TANGIBLE ASSETS

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
<b>Goodwill</b>				
Acquisition cost 1 Jan.	13,196	13,196		
Accelerated depreciation according to plan 31 Dec.	-6,756	-5,386		
Book value 31 Dec.	6,440	7,810		
<b>Formation expenses</b>				
Acquisition cost 1 Jan.	35	0	0	0
Increases	0	35	0	0
Acquisition cost 31 Dec.	35	35	0	0
Accelerated depreciation according to plan 31 Dec.	-13	-7	0	0
Book value 31 Dec.	22	28	0	0
<b>Intangible rights</b>				
Acquisition cost 1 Jan.	28	28	28	28
Increases	200	0	200	0
Acquisition cost 31 Dec.	228	28	228	28
Accelerated depreciation according to plan 31 Dec.	-40	0	-40	0
Book value 31 Dec.	188	28	188	28
<b>Other capitalised expenditure</b>				
Acquisition cost 1 Jan.	3,339	2,796	5,296	4,540
Increases (merger)	0	0	0	300
Increases	935	700	735	613
Decreases	0	-157	0	-157
Acquisition cost 31 Dec.	4,274	3,339	6,031	5,296
Accelerated depreciation according to plan 31 Dec.	-1,972	-1,448	-3,943	-3,463
Book value 31 Dec.	2,302	1,891	2,088	1,833
<b>Buildings</b>				
Acquisition cost 1 Jan.	25,353	24,347	25,352	21,214
Increases (merger)	0	0	0	3,133
Increases	7,895	1,006	7,895	1,005
Decreases	-18	0	-18	0
Acquisition cost 31 Dec.	33,230	25,353	33,229	25,352
Accelerated depreciation according to plan 31 Dec.	-8,632	-7,297	-8,631	-7,296
Accelerated depreciation on decreases 31 Dec.	2	0	2	0
Book value 31 Dec.	24,600	18,056	24,600	18,056
Revaluation included in balance sheet value of buildings				
Revaluation 31 Dec.	5,000	5,000	5,000	5,000

According to the Finnish Act concerning increased depreciation on investments in development areas (17 December 1993/1262), increased depreciation has been made on production facility investments. The amount of this depreciation is the maximum amount of the depreciation prescribed in the Finnish Act concerning business income taxation plus a further 50 per cent. The Group's additional depreciation is FIM 222,000 (FIM 62,000 in 1996). The amount of the additional depreciation made in the taxation of the parent company's business income in Finland is FIM 222,000 (FIM 62,000 in 1996).

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
<b>Machinery and equipment</b>				
Acquisition cost 1 Jan.	26,847	19,394	24,727	14,901
Increases (merger)	0	0	0	4,796
Increases	8,435	8,293	6,272	5,870
Decreases	-822	-840	-354	-840
Acquisition cost 31 Dec.	34,460	26,847	30,645	24,727
Accelerated depreciation according to plan 31 Dec.	-16,589	-12,934	-15,749	-12,644
Accelerated depreciation on decreases 31 Dec.	193	0	167	0
Book value 31 Dec.	18,064	13,913	15,063	12,083

The book value of production machinery and equipment included in the Group's machinery and equipment on 31 December 1997 was FIM 7,420,000 (FIM 6,518,000 on 31 December 1996). The parent company's corresponding book value on 31 December 1997 was FIM 7,420,000 (FIM 6,518,000 on 31 December 1996).

According to the Finnish Act concerning increased depreciation on investments in development areas (17 December 1993/1262), increased depreciation has been made on productional machine and equipment investments. The amount of this depreciation is the maximum amount of the depreciation prescribed in the Finnish Act concerning business income taxation plus a further 50 per cent. The Group's additional depreciation is FIM 585,000 (FIM 453,000 in 1996). The amount of additional depreciation made in the taxation of the parent company's business income in Finland is FIM 585,000 (FIM 453,000 in 1996).

## TAXATION VALUES OF FIXED ASSETS

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Land	841	407	841	407
Buildings	7,552	6,684	7,552	6,684
Bonds and shares	2,117	2,117	2,117	2,117

Where the taxation value has not been available, the book value is presented.

## CURRENT ASSETS

Receivables due after one year or longer.

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Trade receivables	200	1,289	138	990
Loan receivables	0	190	0	4
Delivery credit receivables	397	1,087	397	1,087
Total	597	2,566	535	2,081

Receivables and liabilities / Group companies

	Parent Company	
	1997	1996
	FIM thousand	FIM thousand
Trade receivables	56,699	28,059
Loan receivables	1,622	697
Other receivables	0	27
Accrued liabilities and deferred income	290	0

## CAPITAL AND RESERVES

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Share capital 1 Jan and 31 Dec.	17,500	17,500	17,500	17,500
Reserve fund 1 Jan.	18,484	18,441	18,441	18,441
Transfer from nonrestricted equity	0	43	0	0
Foreign Exchange Profits and Losses	1	0	0	0
Reserve fund 31 Dec.	18,485	18,484	18,441	18,441
Total restricted equity	35,985	35,984	35,941	35,941
Translation difference	231	79	0	0
Nonrestricted equity 1 Jan.	66,272	54,737	61,500	47,388
Dividend distribution	-14,000	-14,000	-14,000	-14,000
Transfer to Reserve fund	0	-43	0	0
Foreign Exchange Profits and Losses	-174	13	0	0
Profit for the financial year	40,803	25,565	44,711	28,112
Nonrestricted equity 31 Dec.	92,901	66,272	92,211	61,500
Capital and reserves total	129,117	102,335	128,152	97,441
Distributable funds from nonrestricted equity	92,901	66,272	92,211	61,500

Ponsse Oy's share capital totals FIM 17,500,000 and is divided into 3,500,000 shares, each having a par value of FIM 5.00. All shares are of the same series and each share entitles its holder to one vote in the shareholders' meeting and gives an equal right to dividends.

The company's Board of Directors is not currently authorised to raise share capital or to issue convertible bonds or bonds with warrants.

## PROVISIONS

The Group's tax debt equivalent to voluntary provisions and accelerated depreciation totalled FIM 5,941,000 on 31 December 1997 (FIM 5,759,000 on 31 December 1996).

## CREDITORS

Debt payable after five years or longer.

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Loans from credit institutions	1,250	4,367	1,250	4,367
Pension loans	1,991	2,248	1,991	2,248
Total	3,241	6,615	3,241	6,615



## LEASING CONTRACTS

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Nominal amount of leasing payments falling due next year	875	525	192	86
Nominal amount of leasing payments falling due in subsequent years	1,385	963	564	243
<b>Total</b>	<b>2,260</b>	<b>1,488</b>	<b>756</b>	<b>329</b>

## CONTINGENT LIABILITIES

	Group		Parent Company	
	1997	1996	1997	1996
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
<b>For own debt</b>				
Mortgages on land and buildings	17,020	20,020	17,020	20,020
Chattel mortgages	12,500	12,500	12,500	12,500
<b>Total</b>	<b>29,520</b>	<b>32,520</b>	<b>29,520</b>	<b>32,520</b>
<b>For consolidated debt</b>				
Guarantees	-	-	0	1,833
<b>On behalf of others</b>				
Pledges	0	202	0	0
Guarantees	4,444	6,371	4,444	6,371
Repurchase commitments	26,818	50,564	20,982	48,877
<b>Total</b>	<b>31,262</b>	<b>57,137</b>	<b>25,426</b>	<b>55,248</b>
<b>Total contingent liabilities</b>	<b>60,782</b>	<b>89,657</b>	<b>54,946</b>	<b>89,601</b>

The guarantees and repurchase commitments given on behalf of others are related to machines sold to contractors. The security for the above-mentioned liabilities consisted of 111 forest machines on 31 December 1997 (186 forest machines on 31 December 1996).

There is no liability caused by derivative contracts.

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

The Consolidated Balance Sheet shows nonrestricted shareholders' equity of FIM 92,901,000.00. The parent company's nonrestricted shareholders' equity totals FIM 92,210,713.64.

The Board of Directors proposes that the profit be disposed as follows:

- dividend of FIM 4.50 per share be paid to shareholders, totalling	FIM 15,750,000.00
- to be left in the profit account	FIM 76,460,713.64
	<u>FIM 92,210,713.64.</u>

The matching date for dividend payments is 27 March 1998. The dividend will be paid 1 April 1998.

Vieremä, 16 February 1998



Einari Vidgrén



Harri Suutari  
Managing Director



Martti Huttunen



Curt Lindbom



Matti Luukkonen



Mika Vidgrén

## REPORT OF THE AUDITORS

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### TO THE SHAREHOLDERS OF PONSSE CORPORATION

We have audited the accounts, the financial statements and the corporate governance of Ponsse Corporation for the financial year 1997. The financial statements prepared by the Board of Directors and the Managing Director include, both for the group and the parent company, a report on operations, an income statement, a balance sheet and notes to the accounts. Based on our audit we express an opinion on these financial statements and on corporate governance.

We have conducted the audit in accordance with the Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used as well as evaluating the overall financial statement presentation. The purpose of our audit of corporate governance is to examine that the members of the Board of Directors and the Managing Director have legally complied with the rules of the Companies Act.

In our opinion the financial statements have been prepared in accordance with the Accounting Act and other rules and regulations relevant to the preparation of financial statements, and give a true and fair view of Ponsse Corporation's and the Group of Companies' results and financial position. The financial statements can be approved and the members of the Board of Directors and the Managing Director of the parent company can be discharged from the liability for the financial year audited by us. The proposal of the Board of Directors concerning the disposal of the profit for the year is in compliance with the Companies' Act.

We have reviewed the interim reports published during the financial year. In our opinion they have been properly prepared.

Helsinki, 17 February 1998

SVH Coopers & Lybrand Oy  
Authorised Public Accountants



Liisa Mononen  
Authorised Public Accountant

BOARD OF DIRECTORS

CHAIRMAN

Einari Vidgrén (55)  
*Founder and Director of Ponsse Oy*

*Chairman of the Board since 1993.*

MEMBERS :

Martti Huttunen (63)  
*MSc (Econ.)*

- *Authorised Public Accountant, President of Iisalmen Teollisuuskylä Oy*
- *Rector of Iisalmi Commercial College 1971 - 1977, President of IS-Yhtymä 1977 - 1992.*
- *Member of Ponsse Oy Board since 1995.*

Curt Lindbom (55)  
*BSc (Eng.)*

- *Consul General, Board Member of CapMan Capital Oy*
- *Oy Hackman Ab President 1983 - 1996, Chairman of the Central Chamber of Commerce 1991 - 1995.*
- *Member of Ponsse Oy Board since 1993.*

Matti Luukkonen (52)  
*MSc (For.)*

- *President of IS-Yhtymä Oy, Board Member of Taimi-Tapio.*
- *Export marketing and sales duties, as well as President and Board Member duties in Jaakko Pöyry companies 1982 - 1996*
- *Member of Ponsse Oy Board since 1997.*

Harri Suutari (38)  
*BSc (Eng.)*

- *President, CEO, Ponsse Oy*
- *Founder and President of Kajaani Automaatiikka Oy 1984 - 1994*
- *Member of Ponsse Oy Board since 1995.*

Mika Vidgrén (37)  
*Doctor of Pharmacology, Docent*

- *Assistant Professor at University of Kuopio*
- *Activities at Orion medicine plant 1983 - 1995 and Astra Draco AB from 1996 in tasks relating to research, product development, and commercial product applications.*
- *Member of Ponsse Oy Board since 1996.*

*The Board of Directors was elected in the General Meeting held 2 April 1997.*

*In front (from the left) Harri Suutari, Einari Vidgrén, Curt Lindbom, and at the back (from the left) Mika Vidgrén, Matti Luukkonen and Martti Huttunen.*



## PRESIDENT, CEO

Harri Suutari (38)  
*BSc (Eng.)*

- President, CEO since 1994

*The Managing Director was elected in the Board meeting held  
5 December 1994.*

## VICE PRESIDENT

Tapio Nikkanen (39)  
*MSc (For.)*

- Vice President since 1996

*Stand-in President, CEO*

## MANAGEMENT TEAM

Einari Vidgrén (55)  
*Founder of Ponsse Oy and  
Chairman of the Board*

- Employed by Ponsse  
since 1970

Harri Suutari (38)  
*BSc (Eng.)  
President, CEO*

- Employed by Ponsse  
since 1984

Tapio Nikkanen (39)  
*MSc (For.)  
Vice President*

- Employed by Ponsse  
since 1996

Heikki Ojala (40)  
*BSc (Eng.)  
Technical Director*

- Employed by Ponsse  
since 1992

Marko Karppinen (26)  
*Msc (Econ.)  
Financial Director*

- Employed by Ponsse  
since 1994

Tommi Ruha (28)  
*MSc (For.)  
Director of Information Systems*

- Employed by Ponsse  
since 1995

## PRESIDENTS OF SUBSIDIARIES

*Ponsse AB*  
Gunnar Bäck (52)  
*MSc (For.)*

- President  
since 1997

*Ponssé S.A.*  
Heikki Tallgren (32)  
*Msc (Eng.)*

- President  
since 1995

*Ponsse UK Ltd.*  
Howard Marr (48)  
*Technician*

- President  
since 1996

*Ponsse USA, Inc.*  
Juhapekka Mutanen (41)  
*MSc (For.)*

- President  
since 1997



Forwarder Caribou S10



Dedicated to Excellence



Forwarder Buffalo S16 and crane K75

### BUSINESS MISSION

Ponsse Oy's business mission is to develop and market the most efficient and durable forest machinery possible for mechanised logging. Ponsse respects the biodiversity of nature, the key role of human activities, social freedom and equality, and economic well-being. Entrepreneurship is highly valued at Ponsse Oy. Through its business practices, the Group seeks to provide its employees with challenging and full-time work. The goal is to enhance the financial standing of shareholders, customers and employees.

### DEVELOPMENT OF THE PONSSE GROUP

Ponsse's development begins with the personal history of Einari Vidgrén, a forest machine entrepreneur from Vieremä. In 1967, he built his first forwarder for his own use. The machine was named Ponsse, after a cross-bred dog that lived in Vieremä at the time. Einari's Ponsse was more durable than the other forest machines of that time, and there arose a considerable demand for it. Einari founded Ponsse Oy, a forest machine plant, in Vieremä in 1970.

The company's early years were characterised by quiet growth. Machines were built to order and there was little expansion during the first decade. During the 1980s, however, the pace of growth began to speed up rapidly as new models were introduced and production expanded. The prototype of the present-day medium-weight forwarder, the Ponsse S15, was launched in 1983. The machine was aluminium-framed and proved to be overwhelmingly superior to its heavier competitors.

The manufacture of harvesters and the H60 harvester heads, which began in the mid-1980s, significantly increased the scope of Ponsse Oy's business operations. Even during the initial stages of harvester production, Ponsse had understood the critical importance of measuring devices in wood sorting. Kajaani Automatiikka Oy, a technology company located in Kajaani, manufactured the best measuring devices for Ponsse's markets.

In several share transactions between 1987 to 1993, Ponsse Oy gradually increased its ownership share in Kajaani Automatiikka Oy, founded in 1982, until it merged into its parent company in 1996. Today, the plant in Kajaani functions as a production unit for information systems. Ponsse Oy's current President, CEO Harri Suutari founded Kajaani Automatiikka Oy and served as its President at from 1984 to 1994. Computer systems equipment manufactured by the company maximises the harvesting result by sorting tree species, measuring the logs for delivery and processing logistics-related data. The Kajaani plant also manufactures vehicle-mounted computers for various transport management and mapping systems, as well as weight indicator systems for special applications.

Ponsse's development accelerated in the late 1980s with the introduction of new models, expanded operations, and the start of international activities. Ponsse Oy and Einari Vidgrén received numerous awards for their innovative work, including the Finnish National Entrepreneurial Award in 1985, the Finnish National Productive Idea Award in 1987, the Pro Finnish Design 1992 and the Finnish National Inventor Prize.

This pattern of development and growth continued into the 1990s when the new Ten series of forwarders was introduced to the market. The Opti measuring device was unveiled in 1994; subsequent refinements have made it the most exact and versatile measuring device of its kind available.

Public quotation of Ponsse Oy shares on the Helsinki Exchange's OTC list began in 1995, and the company's price development has thereafter remained consistently favourable.

Success brought with it additional recognition: the Ponsse Group was awarded a Certificate of Honour for its key contributions to Finnish business. Einari Vidgrén was also awarded a European Entrepreneur prize by the EFER and he was made a member of the Europe's 500 Dynamic Entrepreneurs association. In 1997 Einari Vidgrén was granted the honorary title of Industrial Counsellor in recognition of his contributions to Finnish industry.

## PRODUCTION

Ponsse's production facilities are located in Finland. Forest machines and harvester heads are manufactured in Vieremä, while the machines' electrical systems and information system products are manufactured in Kajaani. The degree of production self-sufficiency is extremely high; Ponsse Oy itself manufactures all essential components such as frames, control cabins, cranes, harvester heads and information systems.

The company has 9,000 m<sup>2</sup> of production space at its own plant in Vieremä. At the end of the previous year, over 2,500 m<sup>2</sup> of new hall space was added for a new automated painting line, machine tooling centres, and welding shop. These expansions will enable production to be increased significantly. Machine tooling production operates in three shifts while other units operate in two shifts. The area of the company's premises in Kajaani is 1,450 m<sup>2</sup>. Additional land areas were acquired during the previous year to safeguard expansion.

The company's 1,400 m<sup>2</sup> repair-shop and spare-parts centre in Iisalmi operates in company-owned premises. In Fin-

land Ponsse also has five regional branches serving customers' sales, spare parts, servicing and training needs.

## PRODUCTS

The Ponsse Group designs, manufactures and markets forest machines and their principal components. Products perform mechanical timber harvesting in forests. The product range includes two sizes of harvesters, three sizes of harvester heads, and two sizes of forwarders. Ponsse forest machines are well-suited for both thinning and final felling. Besides information system devices for forest machines, the company also manufactures devices for vehicular transport control. This product group also includes vehicle-mounted computers and weight indicator systems.

Ponsse's customers include machine entrepreneurs practising timber harvesting and the wood procurement departments of forest industry companies. Ponsse's approach is extremely customer-oriented. The continuous development of products is based largely on feedback received from customers. Additionally, Ponsse's direct contact with end users sets the company apart from other machine manufacturers, a policy particularly appreciated by clients abroad.

## MARKETS

Nearly 30% of the world's mechanical logging is carried out as cut-to-length harvesting, a process in which trunks are cut into logs in the forest and transported in separate cut-to-length batches to production plants. Cut-to-length harvesting has been developed in Scandinavia and it is being used with increasing frequency in the coniferous forest zones of other northern countries.

The cut-to-length harvesting method's popularity is also increasing elsewhere, forming an excellent foundation for Ponsse Oy's growth. The cut-to-length method allows cutting from small stands, thereby avoiding the clear felling of large areas. Machines performing cut-to-length harvesting move across the terrain on a carpet made from branches and the tops of trimmed trunks, thus significantly reducing the burden on the land.

The high productivity and economy per machine unit significantly reduces manpower needs compared to the competing whole-tree technology, that normally requires twice the amount of manpower and machinery to carry out the same task.



Harvester Ergo HS 16



Harvester Cobra HS 10

Ponsse is particularly strong as a harvester manufacturer. Demand for the improved forwarders have also significantly increased. Ponsse is highly respected by its customers, and its products are perceived as being the best in the field: for that reason, customers are willing to wait, even though competing products might be more readily available.

Favourable demand in domestic markets has continued, and orders for machines in Finland have been placed years in advance. Industry's increased use of wood has also increased the need for wood harvesting, and the marketing situation is also expected to remain favourable in the future. The innovative information systems used by Ponsse's machines are used extensively by the Finnish forest industry in wood procurement, and their laying-off and data transmission properties significantly improve operational prerequisites for industry.

The Ponsse Group's exports and international operations registered strong growth, accounting for 47% of the Group's turnover. Ponsse's customer-oriented marketing strategy also produced excellent results abroad. Working directly with customers through our subsidiary companies has provided us with prompt customer feedback and a good feel for market needs. Additionally, marketing areas have now been grouped to form larger overall entities, creating the most favourable operating conditions possible for our subsidiary companies.

During the year under review, Ponsse AB in Sweden and Ponsse USA, Inc. in the United States of America underwent restructuring. Operations in our future main market areas were extremely profitable. In Sweden, the newest harvesters were well received on the market, and the information systems developed for Ponsse's machines were widely praised. In the USA, the influx of resources led to rapid growth in the later part of the year, and customers as well as forestry companies responded favourably to Ponsse's professional approach. Development prospects are excellent in both countries.

Ponsse S.A.'s sales in French-speaking Europe grew more rapidly, and the company's prerequisites for continued growth appeared to be excellent. During the year emphasis in Ponsse S.A. was placed on developing after-sales operations and improved servicing procedures.

Ponsse UK Ltd. in the United Kingdom was our second most important export country, and the company's position in the UK's forest machinery business is solid. UK markets declined at the end of the year as forest industry products entered the country from abroad and the country's own industry suffered.

In Germany, markets picked up at the end of the year and the outlook at the beginning of the current year is excellent for our distributors. During the year under review Ponsse products were exported to 16 different countries. For the time being, there will be no attempt to penetrate new markets; the aim, by increasing production, will be to satisfy the growing demand in existing markets.



Harvester head H60



Forwarder Buffalo S16