



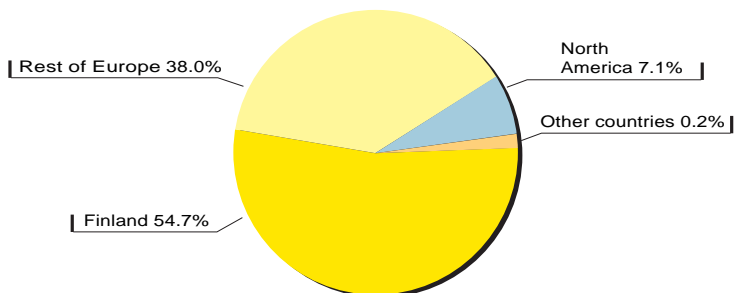
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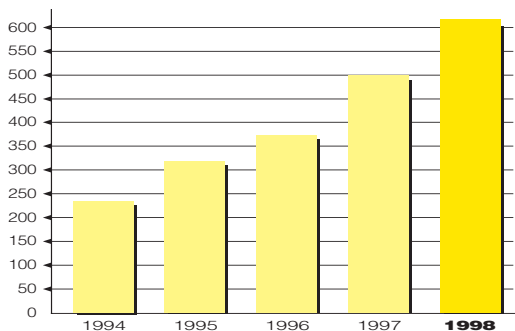
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1998 in Brief

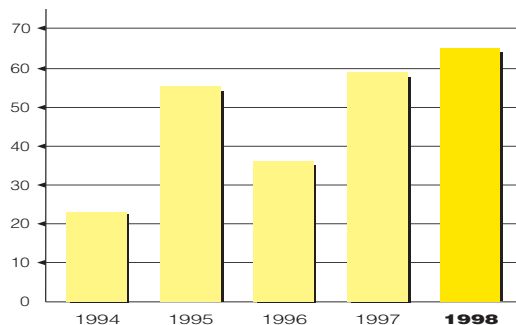
Turnover by Market Area



Turnover, FIM million



Profit Before Appropriations and Taxes, FIM million



Information for Shareholders

Annual General Meeting

Ponsse Oyj's Annual General Meeting will be held on 22 March 1999 at 10.00 a.m. at the Iisalmi Cultural Centre, address: Kirkkopuistonkatu 9, FIN-74100 Iisalmi, Finland.

All shareholders who are listed no later than 17 March 1999 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 18 March 1999 either in writing to Ponsse Oyj, 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 5.00 per share be paid for 1998. Dividends will be paid to shareholders who are listed on the matching day, 25 March 1999, 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 1999. Tax at source will be deducted from dividend recipients residing permanently abroad.

Share Register

Ponsse Oyj'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 Oyj'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 1999

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

- The first, covering the period 1 January to 30 April 1999, will be published on 8 June 1999.
- The second, covering the period 1 January to 31 August 1999, will be published on 5 October 1999.

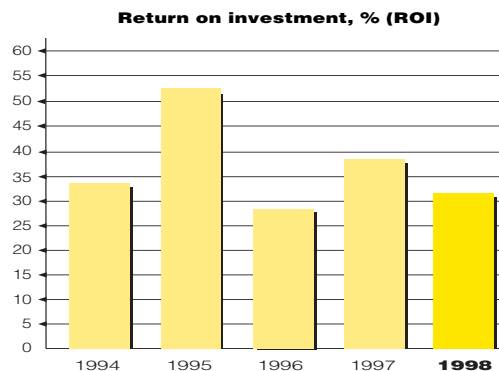
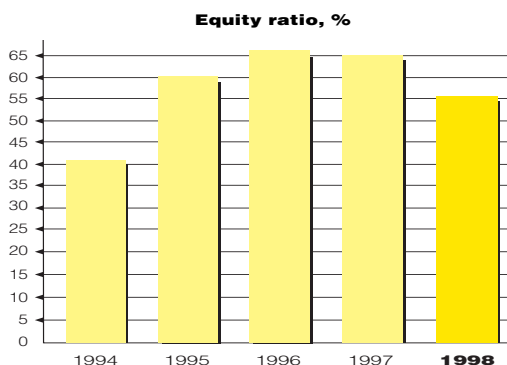
The Annual Report and Interim Reports will be published in Finnish and in English.

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

▶ Key Indicators ¹⁾	1998	1997
Turnover, FIM thousand	614,662	499,731
Operating profit, FIM thousand	65,267	59,131
Profit before appropriations and income taxes, FIM thousand	64,494	59,048
Earnings per share, FIM	12.68	11.79
Dividend per share, FIM	5.00 ²⁾	4.50
Shareholders' equity per share, FIM	49.40	41.26
Equity ratio, %	55.5	65.2
Return on investment, % (ROI)	31.9	38.4
Personnel, average for year	394	300

1) Calculation of key figures is shown on page 9

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



► ► ► Review by the Chairman of the Board

Ponsse's controlled growth also continued during 1998. I believe that Ponsse will continue to register growth even if overall forest machine markets decline slightly in 1999, domestically as well as abroad. Our strengths will continue to be our customers' confidence in the productivity and excellent trade-in value of our machines. This has enabled us to establish a genuinely strong foothold in domestic markets. Last year Ponsse registered its highest turnover ever, in domestic sales as well as export.

We have already been operating in international markets for several years. The creation of our own network of subsidiary companies has proved to be the right decision, particularly in practical after-sales activities. This has also enabled us to create customer-friendly modes of operation abroad. We will certainly also continue to succeed in increasingly competitive international markets because we have already established our position as productive and effective manufacturer of forest machines in a highly competitive domestic market.

Ponsse's stock exchange listing in May of last year was a deliberate step forward. The downward trend in global stock markets also depressed market prices in Finland. Ponsse has however succeeded fairly well compared to others in the metal industry. A Ponsse share will continue to be a solid long-term investment. In the future as well, we intend to maintain our reputation as a generous payer of dividends.

As a result of the extensive capital investments carried out last year in production, we can now be considered truly competitive. The network of subsidiary companies has begun to take shape, and best of all, new models have been broken in. Growth has been truly brisk and a great deal of energy has gone into, for example, the training of new staff. More than 100 new jobs came to the Group during the year. Investments have been made in developing all personnel, and with this staff, we are certainly way ahead of our competitors. We now have the conceptual framework in place. The company is in a profitable condition.



Einar Vidgrén

Chairman of the Board

The essential task of Ponsse Oyj's strategic leadership is to ensure that capital is used to maximise ownership value and dividends. Invested capital must generate a good profit and the cash flow must remain positive over the long term. We are targeting sufficient capital aimed at future product development products, effective production and marketing. Ponsse will continue to concentrate on its product segment: efficient forest machines offering a high degree of added value.

Our core expertise is the solution of mechanised logging problems: the design, manufacturing and marketing of the solutions for solving those problems. Our strength is an overall command of the entire wood procurement process. This means a total entity achieved with forest machines and information systems. In this way the customer's extent of value added for the work performed grows. The development of information systems projects in co-operation with leading wood procurement companies is one of our main competitive advantages. Here we have succeeded extremely well. The introduction of new technology to the market is not an end in itself, but in product development, it provides a clear indication of product dependability and effectiveness.

In Finland we have achieved a significant market share that appears to have exceeded one-third in 1998. Ponsse has established its position as a producer of premium products, particularly harvesters. During the year under review, foreign business operation developed well. Approximately 1,500 forest machines are sold each year in Europe. The quantity is likely to increase slightly during the next several years, so there is potential. North American markets are attractive. Cut-to-length harvesting method is gradually supplanting traditional full tree method. Geographically, this market area is incredibly vast and requires careful study when targeting. The most important export market however continues to be Scandinavia, a region in which Ponsse has solid marketing potential.

Increasingly stiff price competition is anticipated, and consequently we have invested significantly in engineering, manufacturing and materials management. I believe that the new plant is one of the most efficient in the field, and in the future, it will have to be the most efficient.

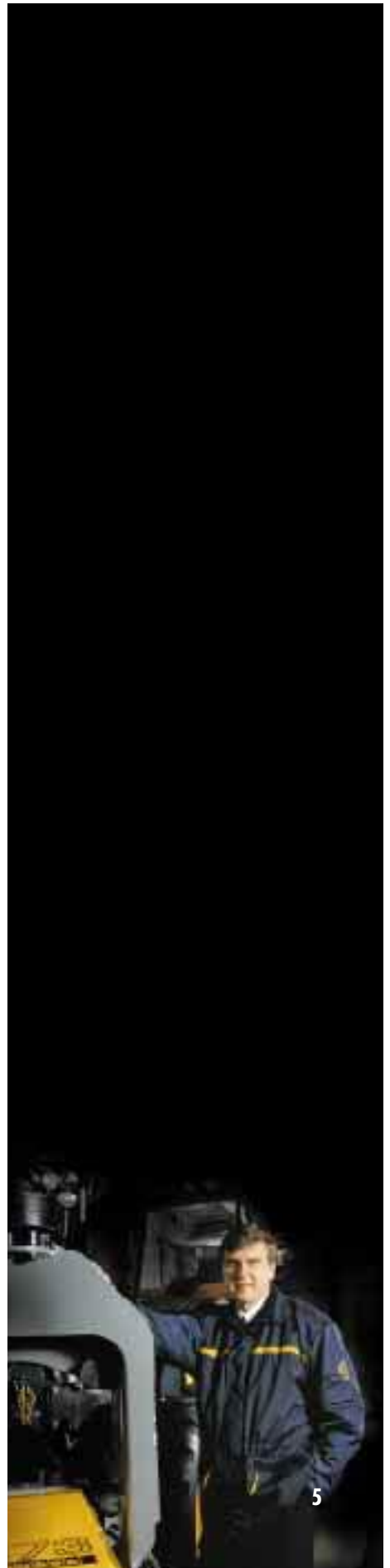
Investments in staff job skills, motivation and commitment are of particular importance. Improved working conditions and cleanliness at the renovated plant offer a framework for better quality and efficiency. The staff's commitment and job motivation has remained high.

We market products primarily through our own sales companies. Close contact with customers and cost effectiveness justify the use of our own organisation. In developing our own organisation, the aim is a natural and stable growth of expertise. During the year under review we opened several new sales, servicing and spare parts branches. This year will also witness a purposeful continued expansion of our marketing network.

During the past several years, the company's annual growth has been faster than the field's overall growth. Rapid growth has tied up a great deal of capital and it is impossible to grow only with cash-flow financing. For that reason growth must be slowed, but we will in any case aim to grow faster than the field.

I would like to thank our customers, partners and staff for their excellent work on Ponsse's behalf. The goals for the year under review were attained and new challenges lie ahead.

Harri Suutari
President, CEO





Report by the Board of Directors, 1 January – 31 December 1998

General

Operating Environment

The year was active in forest machine markets. Demand for harvesters weakened but demand of forwarders increased towards the end of the year. Particularly problems in pulp products market reduced the use of wood and diminished the motivation of contractors to undertake new investments at the end of the year.

Turnover

The year under review, 1998, was the Ponsse Group's 28th year of operation. Turnover totalled FIM 614.7 million, up by 23.0% on the previous year (FIM 499.7 million in 1997). Turnover increased due to an expanded marketing network and successful product development operations.

New products accounted for 72.2% (69.0% in 1997) of the financial year's turnover of FIM 614.7 million, and used forest machines accounted for 20.8% (21.9% in 1997) of turnover. After-sales activities accounted for 7.0% (9.1% in 1997) of turnover.

Operations outside Finland grew strongly and accounted for 45.3% (46.8% in 1997) of Group turnover.

The order book at the end of the financial year was FIM 104 million (FIM 160 million on 31.12.1997). The order book decrease was due to reduced overall demand at the end of the year and increased production capacity.

Profit

Despite the weakened market situation, the Group's profit development remained favourable. The Group's profit was FIM 65.3 million (FIM 59.1 million in 1997), accounting for 10.6% (11.8% in 1997) of turnover. Profit before taxes totalled FIM 64.5 million (FIM 59.0 million in 1997), accounting for 10.5% (11.8% in 1997) of turnover. The Group's profit for the financial year totalled FIM 44.4 million (FIM 41.3 million in 1997).

Balance Sheet

The consolidated balance sheet total on 31 December 1998 was FIM 311.5 million (FIM 224.8 million on 31 Dec. 1997). Interest-bearing debt totalled FIM 65.8 million (FIM 18.3 million on 31 Dec. 1997). The equity ratio adjusted for deferred tax liability was 55.5% (65.2% on 31 Dec. 1997) and liquidity was good. Cash assets totalled FIM 29.7 million (FIM 33.1 million on 31 Dec. 1997).

Liabilities not shown on the balance sheet were halved during the financial year. The total of pledges, guarantees and repurchase agreements given as collateral for forest machine finances amounted to FIM 14.2 million on 31 December 1998 (FIM 31.3 million on 31 Dec. 1997).

Changes in Company By-laws

The primary content of the alteration entered into the Trade Register 21 April 1998 was the changing of the corporate structure to that of a public joint stock company and the changing of the company's name to Ponsse Oyj. Other modifications were primarily technical. Changes in company by-laws resulted from changes in the Companies Act and

the decision made by the Annual General Meeting on 24 March 1998.

Capital Expenditure

The Group invested FIM 50.8 million in fixed assets. Investments were financed with external capital.

Key investments focused on the expansion of the Vieremä plant and new machinery and equipment designed to improve work quality and efficiency. Working methods for both component production and assembly have been modernised as a result of the new investments. The goal is to improve work productivity and quality. With the expansion, a new 3,000 square metres assembly hall was built at Vieremä. After these investments, as well as investments that will be carried out during the current year, it will be possible to double the plant's future production capacity without significant capital expenditure.

An important investment in progress is an operational control system, comprising all major marketing, manufacturing and financial administration functions, that will cover all Group companies. It is planned that the system will be taken into use by the end of the current year.

Group Relations

Ponsse Oyj is the parent company of the Ponsse Group. The Group includes Ponsse Oyj in Vieremä, Finland; Ponsse AB in Västerås, Sweden; Ponsse AS Kongsvinger in Norway, Ponsse S.A. in Gondreville, France; Ponsse UK Ltd. in Beattock, UK; and Ponsse USA, Inc. in Rhinelander, Wisconsin, USA.

Strengthening of Marketing

At the end of the financial year, Ponsse opened a new service branch in Rovaniemi that will be responsible for the area's forest machine repair and spare-parts services as well as for forest machinery sales. At the beginning of the year, the company also opened a similar new branch in Kouvola. The Rovaniemi branch significantly strengthens Ponsse's position in northern Finland, as does the Kouvola branch for south-east Finland.

During the year under review Ponsse Oyj established a new marketing company in Norway. Ponsse AS is responsible for the sales of Ponsse forest machinery in Norway. The company's headquarters is located in Kongsvinger, about 130 km north-east of Oslo. Ponsse AS, with a share capital of NOK 500,000, is completely owned by Ponsse Oyj. The company was entered into the local trade register on 13 March 1998. Agriculture and forestry technician Lyder Hove Ellevold (54) was named as President of Ponsse AS. Lyder Ellevold has varied experience in the forest machinery field, having served in such positions as Timberjack's Sales Manager and most recently as District Manager for Eik Maskin AS.

Effective 1 August 1998, MSc. (Eng.) Tommi Lindbom (29) was named the new President of Ponsse UK Ltd. Lindbom assumed his new position after having served as District Manager for southern Finland and the Baltic areas. In September Ponsse UK Ltd. concentrated its forest machinery sales and after sales services at Beattock in Scotland. In this connection, the company's branch at Neath in Wales was shut down.

In March, Ponsse S.A.'s new branch in southern France was opened in Sabre, and concurrently, Ponsse USA, Inc.'s

new office was opened in West Monroe, Louisiana in June. These branches will be responsible for sales, servicing and spare parts in their respective areas. In winter of 1999, Ponsse USA, Inc. will open a new branch in Grand Rapids, Minnesota.

Product Research and Development

A total of 48 staff (34 in 1997) were employed in the Group's product development work at the end of the financial year, accounting for 10.7% (10.4% in 1997) of the Group's personnel. The Group's product research and development expenses totalled FIM 11.2 million (FIM 9.1 million in 1997), accounting for 1.8% (1.8% in 1997) of Group turnover.

The 6-wheeled, 12-tonne Ergo S15 forwarder was improved during the current year and was renamed as the Bison S15. Numerous structural improvements were carried out with the remodelling. The Bison S15 was favourably received in markets.

Ponsse Opti, the harvester's measurement system, was also completely updated. The most significant changes affected the operating system, the optimum cutting of trunks, and telecommunications technology. MobileOpti computer equipment and the Load Optimizer scale used for transport control were completely upgraded at the same time.

New Quality Assurance System

From 1994, Ponsse Oyj has had a quality assurance system certified according to the ISO 9001 quality assurance system. The quality assurance system concentrated excessively on sporadic deviations in handling, and did not contribute to the development and quality assessment of overall processes. Accordingly, company's management concluded that the system in question was not able to support the company's leadership or genuinely improve product quality. During 1998 the system in question was not updated or utilised. For this reason Det Norske Veritas cancelled Ponsse Oyj's quality assurance system certification on 9 November 1998.

In autumn 1998, development work for a new processed-based quality assurance system began. The new system is now ready and in use. The intent will be to audit this quality assurance system during the current year.

Euro

The euro became the official currency of the European Union's Economic and Monetary Union, on 1 January 1999. Finland is a Member State of the Economic and Monetary Union. Consequently, Ponsse Oyj adopted the euro as its accounting currency as of 1 January 1999.

Year 2000

Ponsse products currently in production require no adjustments for the year 2000. Certain older vehicle-mounted computers will require upgrades to function during and after the year 2000. These product upgrades are underway will be completed by autumn of this year.

The achievement of Year 2000 compliance for the Ponsse Group's computer systems is important because the Group's business operations rely largely on information technology. Y2K assessments and plans of action began in the spring of 1997. Embedded systems in the Group's production plants are fully Year 2000 compliant. Properties' embedded systems will achieve Y2K readiness with upgrades carried out during the summer. The Group's operative data systems for prod-

uct development, production, marketing and financial administration are already fully Y2K compliant. The operating systems and databases used by the Group are not yet Y2K ready in all respects, but full compliance will be achieved with upgrades performed during the summer. All essential personal data processing applications are Y2K ready. Upgrades for achieving Y2K readiness for the remaining personal data processing applications are in progress. The Group's communications systems and network connections are over 90% Y2K ready. Upgrading work for the remaining part will begin in the summer at the latest. Computer equipment is millennium-ready. Studies regarding appropriate preparations for Y2K compliance by the Group's major co-operating partners' are in progress.

It is believed that full Y2K compliance for the Group will be achieved as planned by the summer of the current year at the latest. The project has no substantial cost effects.

Outlook for the current year

Overall demand for forest machines is expected to weaken during the current year due to the difficult marketing situation in the forest industry. The outlook for mechanised harvesting is however good and Ponsse's production and sales volumes are expected to rise slightly due to the strong competitiveness of products and the company's own efficient marketing organisation. Despite increasingly stiff price competition, the Group's profits are expected to remain at a good level.

Management and auditors

Board of Directors

During the financial year, the members of the Board of Directors were Einari Vidgrén (Chairman), Martti Huttunen, Veikko Lesonen (from 24 March 1998), Curt Lindbom (until 24 March 1998), Matti Luukkonen, Harri Suutari and Mika Vidgrén.

President, CEO

Harri Suutari is the President, CEO of the company.

Stand-in Vice President

Vice President in charge of marketing Tapio Nikkanen (40) was named as the company's Stand-in Vice President to comply with the new Companies Act, as of 16 February 1998.

Management Team Validation

On 1 January 1998, Forester Tommi Ruha (28) was named as Director, and the management team member with responsibility for Information systems. On 4 January 1998, MSc. (Admin.) Pia Viklund (31) was named as Personnel Manager and a member of the company's management team.

Auditors

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

Key financial indicators

	1998	1997	1996	1995	1994
Extent of operations					
Turnover, FIM thousand	614,662	499,731	372,491	313,746	235,871
Change, %	23.0	34.2	18.7	33.0	28.8
Foreign business operations and exports, %	45.3	46.8	39.0	31.3	23.3
Research and development expenditure, FIM thousand	11,156	9,072	8,483	5,928	3,773
% of turnover	1.8	1.8	2.3	1.9	1.6
Gross capital expenditure on fixed assets, FIM thousand	50,753	19,513	10,286	15,792	6,946
% of turnover	8.3	3.9	2.8	5.0	2.9
Average number of staff	394	300	251	196	152
Turnover per employee, FIM thousand	1,560	1,666	1,484	1,601	1,552
Order stock, FIM million	104	160	89	95	130
Profitability					
Operating profit, FIM thousand	65,267	59,131	36,858	56,841	26,712
% of turnover	10.6	11.8	9.9	18.1	11.3
Profit before extraordinary items, FIM thousand	64,494	59,048	36,809	55,915	23,661
% of turnover	10.5	11.8	9.9	17.8	10.0
Profit before appropriations and taxes, FIM thousand	64,494	59,048	36,809	55,915	23,654
% of turnover	10.5	11.8	9.9	17.8	10.0
Profit for the financial year, FIM thousand	44,375	41,278	25,565	40,849	16,937
% of turnover	7.2	8.3	6.9	13.0	7.2
Return on equity (ROE), %	28.0	31.6	22.6	52.7	45.9
Return on investment (ROI), %	31.9	38.4	27.3	52.5	33.7
Financial position					
Current ratio	2.8	2.7	3.2	2.9	2.4
Equity ratio, %	55.5	65.2	65.4	60.8	41.1
Interest-bearing liabilities, FIM thousand	65,813	18,287	22,174	24,154	35,407
Interest-free liabilities, FIM thousand	72,807	62,140	35,722	42,507	29,617

Key indicators for shares ⁽¹⁾

	1998	1997	1996	1995	1994
Earnings per share (EPS), FIM	12.68	11.79	7.20	12.05	5.58
Shareholders' equity per share, FIM	49.40	41.26	33.47	30.24	15.77
Nominal dividend per share, FIM	5.00 ⁽²⁾	4.50	4.00	4.00	1.50
Share-issue-adjusted dividend per share, FIM	5.00 ⁽²⁾	4.50	4.00	4.00	1.43
Dividend per earnings, %	39.4	38.2	55.5	33.2	25.6
Effective dividend yield, %	3.0	3.1	4.5	7.7	-
Price-earnings ratio (P/E)	13.0	12.4	12.2	4.3	-
Share prices					
Lowest of the year	150.00	86.50	51.00	50.00	-
Highest of the year	276.00	150.00	90.00	58.00	-
Closing price of the year	169.00	150.00	89.00	52.00	-
Average of the year	205.07	114.42	68.45	52.10	-
Average of the last trading day of the financial year	169.00	146.43	88.09	52.00	-
Market capitalisation, FIM million	591.5	512.5	308.3	182.0	-
Total dividends paid, FIM million	17.5 ⁽²⁾	15.8	14.0	14.0	4.4
Share turnover, number of shares	558,175	493,658	1,246,660	360,360	-
Share turnover, %	15.9	14.1	35.6	10.6	-
Weighted average share-issue-adjusted					
number of shares during the financial year	3,500,000	3,500,000	3,500,000	3,390,455	3,108,000
Share-issue-adjusted number of shares on the closing day.	3,500,000	3,500,000	3,500,000	3,500,000	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), %

$$\frac{\text{Result before extraordinary items - income taxes (incl. change in deferred tax liability)}}{\text{Shareholders' equity + minority interest (average)}} \times 100$$

2. Return on investment (ROI), %

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

3. Equity ratio, %

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

4. Average number of staff during financial year

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

5. Earnings per share (EPS)

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

6. Shareholders' equity per share

$$\frac{\text{Shareholders' equity}}{\text{Share-issue-adjusted number of shares on closing day}}$$

7. Share-issue-adjusted dividend per share

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

8. Dividend per earnings, %

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

9. Effective dividend yield, %

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

10. Price per earnings (P/E)

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

11. Market value of share capital

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.

12. Share turnover, %

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

The general instructions issued on 12 April 1996 by the Finnish Accounting Board for the preparation of financial statements, financial statements bulletins and interim reports referred to in resolution (879 / 14 June 1995) of the Finnish Ministry of Finance have been followed when calculating key indicators.

Share capital and shares

According to the valid Articles of Association of Ponsse Oyj, 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 the company's shares are included in the book-entry securities system.

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

Increases in share capital 1994 - 1998

Subscription date	Method of increase	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

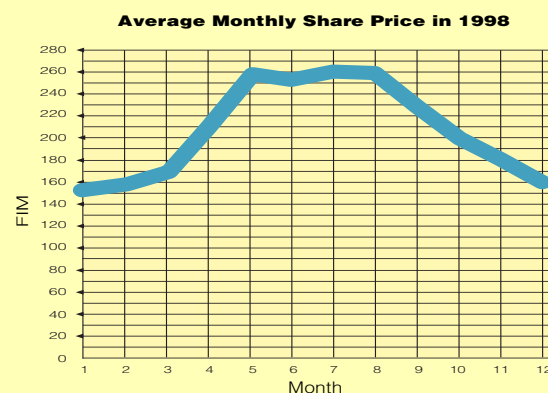
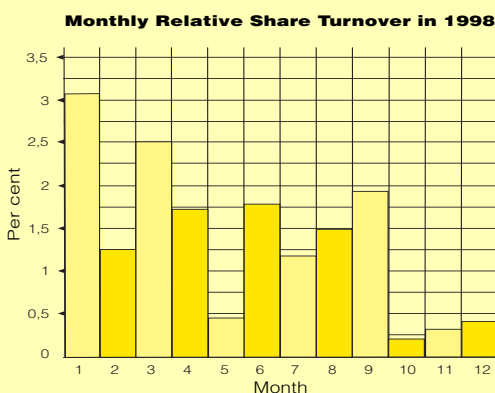
For the 1998 tax year in Finland, the confirmed taxation value of Ponsse Oyj's shares was FIM 115.00 per share.

Share Prices and Turnover

Ponsse Oyj has been quoted on the main list of the Helsinki Exchanges since 25 May 1998. The company's shares were

quoted on the OTC list maintained by the Helsinki Exchanges from 4 May 1995 to 22 May 1998. The aim of the listing change is to make the shares better known as an investment opportunity and to increase investor interest in the shares. In the Helsinki Exchanges' transactions, the company's share code is PON1V.

Share turnover from 1 January to 31 December 1998 totalled 558,175 shares, accounting for 15.95% of the total number of shares. The value of share turnover amounted to FIM 114.5 million. The lowest price of the year was FIM 150.00 and the highest was FIM 276.00. The average share price on the last trading day of the financial year was FIM 169.00. The market value of the shares was FIM 591.5 million on 31 December 1998.



Shareholders

At the end of 1998, Ponsse Oyj had 839 shareholders. The number of nominee-registered and foreign-owned shares totalled 780,823, accounting for 22.31% of the shares and votes.

Distribution of Share Ownership by Owner Category on 31 December 1998

	Number of shares	Percentage of shares and votes
Private enterprises	33,396	0.95
Financial institutions and insurance	33,390	0.95
Public enterprises	85,000	2.43
Non-profit organisations	11,375	0.33
Households	2,556,016	73.03
Abroad	780,823	22.31
Total	3,500,000	100.00

► **Distribution of Shareholders by Size of Shareholding on 31 December 1998**

Shares per shareholder	Number of shareholders	Percentage of shareholders	Number of shares	Percentage of shares and votes
1 - 100	414	49.34	28,744	0.82
101 - 1,000	372	44.34	145,547	4.16
1,001 - 10,000	42	5.01	105,308	3.01
10,001 - 100,000	7	0.83	241,124	6.89
100,001 or more	4	0.48	2,979,277	85.12
Total	839	100.00	3,500,000	100.00

► **Shareholders of Ponsse Oyj on 31 December 1998**

	Number of shares	Percentage of shares and votes
Einari Vidgrén	1,688,172	
Holdings comparable to ownership		
Jukka Vidgrén	18,400	
Total	1,706,572	48.76
Harri Suutari	315,000	
Holdings comparable to ownership		
Antti Suutari	100	
Elina Suutari	100	
Sari Suutari	100	
Total	315,300	9.01
Esa Vidgrén, death estate	198,902	5.68
Kuntien Eläkevakuutus	78,000	2.23
Curt Lindbom	73,340	2.10
Juha Vidgrén	18,784	0.54
Jarmo Vidgrén	18,300	0.52
Janne Vidgrén	18,300	0.52
Merita Foresta Investment Fund	16,000	0.46
Apotrade Consulting Oy	7,000	0.20
Nominee-registered shares	778,423	22.24
Other shareholders	271,079	7.74
Total	3,500,000	100.00

Management's shareholding

As of 31 December 1998, the members of the Board of Directors, the President and the Vice President owned a total of 2,034,572 shares of Ponsse Oyj, representing 58.13% 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 one report pertaining to Section 9 of Chapter 2 of the Securities Market Act. The proportion of Ponsse Oyj's votes and share capital in the combined ownership of President, CEO 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 according to 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 Oyj. | 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. |
| 2 | Date on which the percentage of the company's votes and share capital has fallen under 10%: 15 January 1998. | 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). |
| 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). | 7 | Essential content of other agreement or arrangement: - |
| 4 | Full name of shareholder: Harri Yrjö Kalevi Suutari. | | |

Redemption Obligation Clauses

According to Ponsse Oyj's company by-laws, Section 14, 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 14.

Shareholder Agreements

Ponsse Oyj 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

	Appendix ⁽¹⁾	1998 FIM thousand	1997 FIM thousand
Turnover	2, 3	614,662	499,731
Increase or decrease in stocks of finished goods and in work in progress		5,016	-686
Other operating income		2,540	1,723
Raw materials and services	4	-399,627	-323,798
Staff expenses	5, 6	-94,257	-70,730
Depreciation	11	-9,629	-6,967
Other operating charges		-53,438	-40,142
Operating profit		65,267	59,131
Financial income and expenses	8	-773	-83
Profit before taxes		64,494	59,048
Direct taxes	10	-20,119	-17,770
Profit for the financial year		44,375	41,278

Consolidated Balance Sheet

ASSETS	Appendix	1998 FIM thousand	1997 FIM thousand
Non-current assets			
Intangible assets	11.1	10,314	8,952
Tangible assets	11.2	88,906	50,228
Investments	11.3	128	128
		99,348	59,308
Current assets			
Stocks	14	133,626	83,856
Non-current receivables	15.1	614	585
Current receivables	15.2	48,225	48,006
Cash in hand and at banks		29,690	33,067
		212,155	165,514
Assets total		311,503	224,822
LIABILITIES	Appendix	1998 FIM thousand	1997 FIM thousand
Capital and reserves	16		
Share capital		17,500	17,500
Reserve fund		18,498	18,485
Translation difference		100	231
Retained earnings		92,410	66,901
Profit for the financial year		44,375	41,278
		172,883	144,395
Creditors			
Non-current	18	61,604	20,029
Current	19	77,016	60,398
		138,620	80,427
Liabilities total		311,503	224,822

1) The Appendix refers to the Notes to the Accounts on pages 16 - 25.

Consolidated Funds Statement

	1998 FIM thousand	1997 FIM thousand
Business operations		
Operating profit	65,267	59,131
Depreciation	9,629	6,967
Change in working capital		
Stocks, increase	-49,770	-14,369
Current receivables, increase	-219	-11,627
Interest-free current liabilities, increase	9,171	20,477
	-40,818	-5,519
Interest income	848	973
Interest expenses	-1,205	-1,094
Other financial items	-416	38
Income taxes	-18,623	-17,588
Net cash flow from operations	14,682	42,908
Capital expenditure		
Purchases of other fixed assets	-50,753	-19,513
Sales of other shares	0	70
Sales of other fixed assets	947	822
Cash outflow for investments, total	-49,806	-18,621
Cash flow before financing	-35,124	24,287
Financing		
Drawing of long-term loans	51,862	1,630
Amortisation of long-term loans	-11,783	-3,794
Increase (-)/ decrease (+) in non-current receivables	-29	1,981
Increase (-)/ decrease (+) in short-term financing	7,447	-1,723
Dividend distribution	-15,750	-14,000
Financing total	31,747	-15,906
Increase (+) / decrease (-) in liquid assets	-3,377	8,381
Liquid assets 1 January	33,067	24,686
Liquid assets 31 December	29,690	33,067

Ponsse Oyj Profit and Loss Account

	Appendix ⁽¹⁾	1998 FIM thousand	1997 FIM thousand
Turnover	2, 3	538,338	435,970
Increase or decrease in stocks of finished goods and in work in progress		1,094	-315
Other operating income		1,969	1,547
Raw materials and services	4	-353,650	-284,865
Staff expenses	5, 6	-78,074	-59,209
Depreciation	11	-7,128	-4,960
Other operating charges		-35,027	-26,754
Operating profit		67,522	61,414
Financial income and expenses	8	1,779	1,167
Profit before appropriations and taxes		69,301	62,581
Appropriations	9	-5,471	-302
Direct taxes	10	-18,599	-17,568
Profit for the financial year		45,231	44,711

Ponsse Oyj Balance Sheet

ASSETS	Appendix	1998 FIM thousand	1997 FIM thousand
Non-current assets			
Intangible assets	11.1	5,080	2,276
Tangible assets	11.2	84,938	47,227
Investments	11.3	2,153	1,789
		92,171	51,292
Current assetss			
Stocks	14	93,964	58,894
Non-current receivables	15.1	2,367	2,207
Current receivables	15.2	99,158	75,933
Cash in hand and at banks		18,551	22,876
		214,040	159,910
Assets total		306,211	211,202

LIABILITIES	Appendix	1998 FIM thousand	1997 FIM thousand
Capital and reserves	16		
Share capital		17,500	17,500
Reserve fund		18,441	18,441
Retained earnings		76,461	47,500
Profit for the financial year		45,231	44,711
		157,633	128,152
Appropriations	17	26,527	21,056
Creditors			
Non-current	18	53,869	13,485
Current	19	68,182	48,509
		122,051	61,994
Liabilities total		306,211	211,202

1) The Appendix refers to the Notes to the Accounts on pages 16 - 25.

Ponsse Oyj Funds Statement

	1998 FIM thousand	1997 FIM thousand
Business operations		
Operating profit	67,522	61,414
Depreciation	7,128	4,960
Change in working capital		
Stocks, increase	-35,070	-3,819
Current receivables, increase	-23,226	-24,534
Interest-free current liabilities, increase	12,097	14,565
	-46,199	-13,788
Interest income	3,442	2,147
Interest expenses	-1,127	-935
Other financial items	-535	-45
Income taxes	-18,599	-17,568
Net cash flow from operations	11,632	36,185
Capital expenditure		
Group companies formed	-364	0
Purchases of other fixed assets	-48,210	-17,059
Sales of other shares	0	69
Sales of other fixed assets	568	354
Cash outflow for investments, total	-48,006	-16,636
Cash flow before financing	-36,374	19,549
Financing		
Drawing of long-term loans	51,862	1,500
Amortisation of long term loans	-11,478	-3,720
Increase (-)/ decrease (+) in non-current receivables	-160	-126
Increase (-)/ decrease (+) in short-term financing	7,575	-1,916
Dividend distribution	-15,750	-14,000
Financing total	32,049	-18,262
Increase (+) / decrease (-) in liquid assets	-4,325	1,287
Liquid assets 1 January	22,876	21,589
Liquid assets 31 December	18,551	22,876

Notes to the Accounts

1. Accounting Principles

1.1 Change in accounting principles

The accounts have been prepared in accordance with the provisions of the new Finnish Accounting Act (30 Dec. 1997/1336) and Accounting Ordinance (30 Dec. 1997/1339). The accounts are presented in compliance with the new layout of the profit and loss account and balance sheet (vertical layout). The calculation principles and presentation of the comparative information for 1997 have been amended accordingly. These changes have no significant impact on the Group result. The changes have no impact on the result of the parent company.

1.2 Determination of Value

1.2.1 Determination of fixed assets

Fixed assets are shown in the Balance Sheet as acquisition costs from which have been deducted depreciations according to plan. Depreciations according to plan have been calculated by the straight-line method based on the economic life of the fixed assets.

Depreciation periods are:

Intangible assets

Intangible rights	5 years
Goodwill	10 years
Other capitalised long-term expenses	5 years

Tangible assets

Buildings	20 years
Machinery and equipment	3 - 10 years.

1.2.2 Determination of stocks

Inventories are shown, in accordance with the lowest value principle, as the direct manufacturing or acquisition cost or likely selling price, whichever is the lower.

1.2.3 Research and development expenses

Research and development expenses have been recorded as annual costs.

1.2.4 Guarantee expenses

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

1.2.5 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.

1.2.6 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.

1.3 Foreign currency items

Foreign currency items have been translated in Finnish marks at the rates quoted on the closing date, except for EMU currencies, which have been translated into Finnish marks at the official exchange rates confirmed on 31 December 1998. The income statements of consolidated foreign companies have been translated into Finnish marks at the average exchange rate during the financial year and the balance sheets at the rate quoted on the closing date.

1.4 Accounting principles for consolidated accounts

1.4.1 Extent of consolidated accounts

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

1.4.2 Calculation principles for consolidated accounts

Internal Shareholding

The consolidated financial statements have been prepared in accordance with the purchase 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.

Internal business transactions and balances

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

Depreciation difference

The depreciation difference is recorded in the Consolidated Balance Sheet for the first time itemised by capital and reserves and deferred tax liability.

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Finland	336,372	265,838	338,254	263,082
Other countries	278,290	233,893	200,084	172,888
Total	614,662	499,731	538,338	435,970

	Group	
	1998	1997
	%	%
Finland	54.7	53.2
Rest of Europe	38.0	39.4
United States of America	7.1	7.1
Other countries	0.2	0.3
Total	100.0	100.0

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Raw materials and consumables				
Purchases during the period	446,943	337,115	387,626	288,999
Increase in stocks	-47,316	-13,317	-33,976	-4,134
Raw materials and services total	399,627	323,798	353,650	284,865

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Wages and salaries	73,408	54,929	60,846	45,950
Pension expenses	9,212	7,775	8,636	7,247
Other staff expenses	11,637	8,026	8,592	6,012
Total	94,257	70,730	78,074	59,209

Staff expenses include both compulsory and voluntary staff costs on accrual basis.

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Presidents	4,483	3,972	1,330	611
Board members	437	436	437	437
Pension expenses	581	500	361	274
Other staff expenses	792	714	250	137
Total	6,293	5,622	2,378	1,459

Management wages and salaries for the year 1998 include both compulsory and voluntary staff costs on accrual basis.

Presidents wages and salaries for the year 1998 include for the first time wages and salaries for the Stand-in President, appointed at the beginning of the year in review.

▶ 7. Staff	Group		Parent Company	
	1998	1997	1998	1997
7.1. Average number of staff	persons	persons	persons	persons
Employees	245	185	215	167
Clerical personnel	149	115	127	101
Total	394	300	342	268
▶ 7.2. At end of financial year	Group		Parent Company	
	1998	1997	1998	1997
	persons	persons	persons	persons
Employees	287	201	250	176
Clerical personnel	162	125	139	109
Total	449	326	389	285
▶ 8. Financial Income and Expenses	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Other interest and financial income				
From group companies				
Interest income	-	-	2,667	1,333
From others				
Interest income	848	973	775	814
Other financial income	127	87	12	4
Total	975	1,060	3,454	2,151
Interest and other financial expenses				
For others				
Interest expenses	1,205	1,094	1,127	935
Other financial expenses	543	49	548	49
Total	1,748	1,143	1,675	984
Financial income and expenses total	-773	-83	1,779	1,167
▶ 9. Appropriations	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Increase in depreciation reserve	-	-	-5,471	-2,348
Decrease in untaxed reserves	-	-	0	2,046
Total	-	-	-5,471	-302
▶ 10. Direct Taxes	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Income taxes	18,623	17,588	18,599	17,568
Increase in deferred tax liability	1,496	182	-	-
Total	20,119	17,770	18,599	17,568

▶ **11. Fixed assets and other non-current investments**

	1998	Group 1997	Parent Company 1998	Parent Company 1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
11.1 Intangible Assets:				
Formation expenses				
Acquisition cost 1 Jan.	36	34	0	0
Foreign Exchange Profits and Losses	-1	2	0	0
Acquisition cost 31 Dec.	35	36	0	0
Accumulated depreciation 1 Jan.	-14	-7	0	0
Foreign Exchange Profits and Losses	1	2	0	0
Depreciation for the financial year	-22	-9	0	0
Accumulated depreciation 31 Dec.	-35	-14	0	0
Book value 31 Dec.	0	22	0	0
Intangible rights				
Acquisition cost 1 Jan.	228	28	228	28
Increases	75	200	75	200
Acquisition cost 31 Dec.	303	228	303	228
Accumulated depreciation 1 Jan.	-40	0	-40	0
Depreciation for the financial year	-48	-40	-48	-40
Accumulated depreciation 31 Dec.	-88	-40	-88	-40
Book value 31 Dec.	215	188	215	188
Goodwill				
Acquisition cost 1 Jan. and 31 Dec.	13,196	13,196		
Accumulated depreciation 1 Jan.	-6,756	-5,386		
Depreciation for the financial year	-1,370	-1,370		
Accumulated depreciation 31 Dec.	-8,126	-6,756		
Book value 31 Dec.	5,070	6,440		
Other capitalised long-term expenses				
Acquisition cost 1 Jan.	4,274	3,326	6,031	5,296
Foreign Exchange Profits and Losses	-10	13	0	0
Increases	3,506	935	3,418	735
Acquisition cost 31 Dec.	7,770	4,274	9,449	6,031
Accumulated depreciation 1 Jan.	-1,972	-1,448	-3,943	-3,463
Foreign Exchange Profits and Losses	-78	-25	0	0
Depreciation for the financial year	-691	-499	-641	-480
Accumulated depreciation 31 Dec.	-2,741	-1,972	-4,584	-3,943
Book value 31 Dec.	5,029	2,302	4,865	2,088

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
11.2 Tangible Assets:				
Land and waters				
Acquisition cost 1 Jan.	1,191	758	1,191	758
Increases	786	433	786	433
Acquisition cost and book value 31 Dec.	1,977	1,191	1,977	1,191
Buildings				
Acquisition cost 1 Jan.	33,230	25,353	33,229	25,352
Increases	19,679	7,895	19,679	7,895
Decreases	0	-18	0	-18
Acquisition cost 31 Dec.	52,909	33,230	52,908	33,229
Accumulated depreciation 1 Jan.	-8,630	-7,297	-8,629	-7,296
Depreciation on decreases	0	2	0	2
Depreciation for the financial year	-1,964	-1,335	-1,964	-1,335
Accumulated depreciation 31 Dec.	-10,594	-8,630	-10,593	-8,629
Revaluation	5,000	5,000	5,000	5,000
Book value 31 Dec.	47,315	29,600	47,315	29,600

A revaluation in the amount of FIM 5,000,000 was made 31 August 1998 to the Parent Company's business premises located at Vieremä. Depreciation has not been made for the revaluation. The revaluation includes an deferred tax liability of FIM 1,400,000. The revaluation has been made on the basis of legislation then in effect, because the premises' likely sales price is permanently and substantially larger than the acquisition cost.

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 in 1996 and 1997. 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 and Parent Company's additional depreciation is FIM 156,000 (FIM 222,000 in 1997).

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Machinery and equipment				
Acquisition cost 1 Jan.	34,460	26,847	30,645	24,727
Foreign Exchange Profits and Losses	-223	215	0	0
Increases	24,759	8,220	22,468	6,272
Decreases	-947	-822	-568	-354
Acquisition cost 31 Dec.	58,049	34,460	52,545	30,645
Accumulated depreciation 1 Jan.	-16,396	-12,934	-15,582	-12,644
Foreign Exchange Profits and Losses	177	59	0	0
Depreciation on decreases	500	193	340	167
Depreciation for the financial year	-5,534	-3,714	-4,475	-3,105
Accumulated depreciation 31 Dec.	-21,253	-16,396	-19,717	-15,582
Book value 31 Dec.	36,796	18,064	32,828	15,063

The book value of production machinery and equipment included in the Group's and Parent Company's machinery and equipment on 31 December 1998 was FIM 24,153,000 (FIM 7,420,000 on 31 December 1997).

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 in 1996 and 1997. 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 and Parent Company's additional depreciation is FIM 264,000 (FIM 585,000 in 1997).

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Advance payments and construction in progress				
Acquisition cost 1 Jan.	1,373	0	1,373	0
Increases	2,818	1,373	2,818	1,373
Decreases	-1,373	0	-1,373	0
Acquisition cost and book value 31 Dec.	2,818	1,373	2,818	1,373
11.3 Investments				
Holdings in group companies				
Acquisition cost 1 Jan.	-	-	1,660	1,660
Increases	-	-	365	0
Acquisition cost and book value 31 Dec.			2,025	1,660
Other shares and similar rights of ownership				
Acquisition cost 1 Jan.	128	197	128	197
Increases	0	-69	0	-69
Acquisition cost and book value 31 Dec.	128	128	128	128

▶ 12. Taxation values of fixed assets	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Land and waters	1,205	841	1,245	841
Buildings	29,032	7,552	29,032	7,552
Shares and similar rights of ownership	451	456	2,476	2,117

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

▶ 13. Shares and similar rights of ownership					
Group companies					
Name and location	Group's percentage of shares %	Number of shares	Bonds and shares owned by Parent Company		
			Par value	Book value (FIM)	
Ponsse AB, Västerås, Sweden	100.00	5,000	500,000.00 SEK	432,522.00	
Ponsse AS, Kongsvinger, Norway	100.00	500	500,000.00 NOK	364,100.00	
Ponssé S.A., Gondreville, France	99.20	992	496,000.00 FRF	426,411.20	
Ponsse UK Ltd., Glasgow, United Kingdom	100.00	50,000	50,000.00 GBP	364,200.00	
Ponsse USA, Inc., Georgia, U.S.A.	100.00	50,000	100,000.00 USD	437,860.00	
Group companies total				2,025,093.20	
Other shares and similar rights of ownership owned by parent company				127,656.00	
Shares and similar rights of ownership owned by parent company, total				2,152,749.20	
Shares and similar rights of ownership owned by group				127,656.00	

▶ 14. Stocks	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Raw materials and consumables	76,483	49,980	65,812	42,913
Work in progress	3,026	2,237	3,026	2,237
Finished products/Goods	6,192	2,516	1,421	1,116
Other stocks	47,925	29,123	23,705	12,628
Stocks total	133,626	83,856	93,964	58,894

▶ 15. Receivables	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
15.1 Non-current				
Trade receivables	0	138	0	138
Receivables from group companies				
Loan receivables	-	-	1,923	1,622
Delivery credit receivables	564	397	394	397
Loan receivables	50	50	50	50
Non-current total	614	585	2,367	2,207
15.2 Current				
Trade receivables	44,575	43,551	21,611	15,743
Receivables from group companies				
Trade receivables	-	-	76,120	56,698
Delivery credit receivables	1,060	2,182	724	1,781
Loan receivables	77	5	0	5
Other receivables	1,413	661	547	518
Prepayments and accrued income				
Tax receivables	295	732	0	647
Contributions receivable	36	497	36	497
Other prepayments and accrued income	769	378	120	44
Total	1,100	1,607	156	1,188
Current total	48,225	48,006	99,158	75,933

▶ **16. Capital and Reserves**

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Restricted equity				
Share capital 1 Jan and 31 Dec.	17,500	17,500	17,500	17,500
Reserve fund 1 Jan.	18,485	18,484	18,441	18,441
Transfer from nonrestricted equity	16	0	0	0
Foreign Exchange Profits and Losses	-3	1	0	0
Reserve fund 31 Dec.	18,498	18,485	18,441	18,441
Total restricted equity	35,998	35,985	35,941	35,941
Translation difference	100	231	0	0
Nonrestricted equity 1 Jan.				
Retained earnings 1 Jan.	108,179	81,082	92,211	61,500
Dividend distribution	-15,750	-14,000	-15,750	-14,000
Transfer to Reserve fund	-16	0	0	0
Foreign Exchange Profits and losses	-3	-181	0	0
Retained earnings 31 Dec.	92,410	66,901	76,461	47,500
Profit for the period	44,375	41,278	45,231	44,711
Nonrestricted equity total	136,785	108,179	121,692	92,211
Capital and reserves total	172,883	144,395	157,633	128,152
Portion of deprecation reserve and untaxed reserves booked under shareholders' equity.	19,123	15,278	-	-
Distributable funds from nonrestricted equity	117,662	92,901	121,692	92,211

Ponsse Oyj's share capital 31 December 1998 was FIM 17,500,000 and was 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.

▶ **17. Appropriations**

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
Depreciation reserve	-	-	26,527	21,056

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
18. Non-current Creditors				
Loans from credit institutions	51,692	11,427	51,394	10,824
Pension loans	2,475	2,661	2,475	2,661
Deferred tax liability	7,437	5,941	-	-
Non-current total	61,604	20,029	53,869	13,485

Debts payable after five years or longer.

Loans from credit institutions	12,587	1,250	12,587	1,250
Pension loans	1,851	1,991	1,851	1,991
Total	14,438	3,241	14,438	3,241

	Group		Parent Company	
	1998	1997	1998	1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
19. Current Creditors				
Loans from credit institutions	11,460	3,992	11,153	3,556
Pension loans	186	207	186	207
Advances received	0	3,194	0	3,086
Trade creditors	30,079	22,968	25,390	17,873
Creditors for group companies				
Accruals and deferred income	-	-	1,244	290
Other creditors	8,715	7,094	5,365	2,067
Accruals and deferred income				
Staff cost creditors	15,384	11,428	14,412	10,754
Interest creditors	481	201	481	200
Income tax liability	1,154	7,235	1,143	7,046
Accruals and deferred income in respect of stocks	2,300	0	2,300	0
Other accruals and deferred income	7,257	4,079	6,508	3,430
Total	26,576	22,943	24,844	21,430
Current total	77,016	60,398	68,182	48,509

▶ **20. Given Pledges, Contingent Liabilities and other Liabilities**

	1998	Group 1997	Parent Company 1998	Parent Company 1997
	FIM thousand	FIM thousand	FIM thousand	FIM thousand
20.1 For own debt				
Debts for which mortgages have been pledged as collateral				
Loans from credit institutions	17,872	10,649	17,872	10,649
Given mortgages on land and buildings	13,270	17,020	13,270	17,020
Given chattel mortgages	7,200	12,500	7,200	12,500
Mortgages given as pledges total	20,470	29,520	20,470	29,520
20.2 Leasing commitments				
Nominal amount of leasing payments falling due next year.	955	875	211	192
Nominal amount of leasing payments falling due in subsequent years.	1,315	1,385	412	564
Total	2,270	2,260	623	756
20.3 Contingent liabilities on Behalf of Group Companies				
Guarantees given on behalf of group companies	-	-	509	0
20.4 Other Contingent Liabilities				
Guarantees given on behalf of others	3,625	4,444	3,625	4,444
Repurchase commitments	10,582	26,818	6,933	20,982
Total	14,207	31,262	10,558	25,426

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 39 forest machines on 31 December 1998 (111 forest machines on 31 December 1997).

20.5 Other liabilities

There is no liability caused by derivative contracts.

Proposal of the Board of Directors for the Disposal of Profit

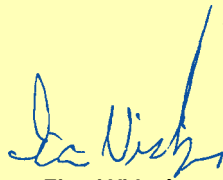
The Parent Company's Balance Sheet shows nonrestricted shareholders' equity of FIM 121,692,174.38. The Consolidated Balance Sheet shows distributable nonrestricted shareholders' equity of FIM 117,662,000.00.

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

- dividend of FIM 5.00 per share be paid to shareholders, totalling	FIM	17,500,000.00
- nonrestricted shareholders' equity to be left	FIM	104,192,174.38
	FIM	121,692,174.38

The matching date for dividend payments is 25 March 1999. The dividend will be paid 1 April 1999.

Vieremä, 14 February 1999



Einari Vidgrén



Harri Suutari
President, CEO



Martti Huttunen



Veikko Lesonen



Matti Luukkonen



Mika Vidgrén

Auditor's Report

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 1998. 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 view, they have been properly prepared.

Helsinki, 16 February 1999

SVH Pricewaterhouse Coopers Oy
Authorised Public Accountants


Liisa Mononen
Authorised Public Accountant

Ponsse in euros

Consolidated Profit and Loss Account

	Appendix ⁽¹⁾	1998 thousand €	1997 thousand €
Turnover	2, 3	103,379	84,049
Increase or decrease in stocks of finished goods and in work in progress		843	-115
Other operating income		427	289
Raw materials and services	4	-67,212	-54,459
Staff expenses	5, 6	-15,853	-11,896
Depreciation	11	-1,619	-1,172
Other operating charges		-8,988	-6,751
Operating profit		10,977	9,945
Financial income and expenses	8	-130	-14
Profit before taxes		10,847	9,931
Direct taxes	10	-3,384	-2,989
Profit for the financial year		7,463	6,942

Consolidated Balance Sheet

ASSETS	Appendix	1998 thousand €	1997 thousand €
Non-current assets			
Intangible assets	11.1	1,735	1,505
Tangible assets	11.2	14,953	8,448
Investments	11.3	22	22
		16,710	9,975
Current assetss			
Stocks	14	22,474	14,104
Non-current receivables	15.1	103	98
Current receivables	15.2	8,111	8,074
Cash in hand and at banks		4,993	5,561
		35,681	27,837
Assets total		52,391	37,812
LIABILITIES			
Capital and reserves	16		
Share capital		2,943	2,943
Reserve fund		3,111	3,109
Translation difference		17	39
Retained earnings		15,543	11,252
Profit for the financial year		7,463	6,942
		29,077	24,285
Creditors			
Non-current	18	10,361	3,369
Current	19	12,953	10,158
		23,314	13,527
Liabilities total		52,391	37,812

1) The Appendix refers to the Notes to the Accounts on pages 16 - 25.

Key financial indicators ⁽¹⁾

	1998	1997	1996	1995	1994
Extent of operations					
Turnover, thousand €	103,379	84,049	62,648	52,768	39,671
Change %	23.0	34.2	18.7	33.0	28.8
Foreign business operations and exports, %	45.3	46.8	39.0	31.3	23.3
Research and development expenditure, thousand €	1,876	1,526	1,427	9,977	635
% of turnover	1.8	1.8	2.3	1.9	1.6
Gross capital expenditure on fixed assets, thousand €	8,536	3,282	1,730	2,656	1,168
% of turnover	8.3	3.9	2.8	5.0	2.9
Average number of staff	394	300	251	196	152
Turnover per employee, thousand€	262	280	250	269	261
Order stock, miljoona €	17	27	15	16	22
Profitability					
Operating profit, thousand €	10,977	9,945	6,199	9,560	4,493
% of turnover	10.6	11.8	9.9	18.1	11.3
Profit before extraordinary items, thousand €	10,847	9,931	6,191	9,404	3,979
% of turnover	10.5	11.8	9.9	17.8	10.0
Profit before appropriations and taxes, thousand €	10,847	9,931	6,191	9,404	3,978
% of turnover	10.5	11.8	9.9	17.8	10.0
Profit for the financial year, thousand €	7,463	6,942	4,300	6,870	2,849
% of turnover	7.2	8.3	6.9	13.0	7.2
Return on equity (ROE), %	28.0	31.6	22.6	52.7	45.9
Return on investment (ROI), %	31.9	38.4	27.3	52.5	33.7
Financial position					
Current ratio	2.8	2.7	3.2	2.9	2.4
Equity ratio, %	55.5	65.2	65.4	60.8	41.1
Interest-bearing liabilities, thousand €	11,069	3,076	3,729	4,062	5,955
Interest-free liabilities, thousand €	12,245	10,451	6,008	7,149	4,981

Key indicators for shares ^(1, 2)

	1998	1997	1996	1995	1994
Earnings per share (EPS), €	2.13	1.98	1.21	2.03	0.94
Shareholders' equity per share, €	8.31	6.94	5.63	5.09	2.65
Nominal dividend per share, €	0.84 ⁽³⁾	0.76	0.67	0.67	0.25
Share-issue-adjusted dividend per share, €	0.84 ⁽³⁾	0.76	0.67	0.67	0.24
Dividend per earnings, %	39.4	38.2	55.5	33.2	25.6
Effective dividend yield, %	3.0	3.1	4.5	7.7	-
Price-earnings ratio (P/E)	13.3	12.4	12.2	4.3	-
Share prices					
Lowest of the year, €	25.23	14.55	8.58	8.41	-
Highest of the year, €	46.42	25.23	15.14	9.75	-
Closing price of the year, €	28.42	25.23	14.97	8.75	-
Average of the year, €	34.49	19.24	11.51	8.76	-
Average of the last trading day of the financial year, €	28.42	24.63	14.82	8.75	-
Market capitalisation, million €	99.48	86.20	51.85	30.61	-
Total dividends paid, million €	2.94 ⁽³⁾	2.65	2.35	2.35	0.75
Share turnover, number of shares	558,175	493,658	1,246,660	360,360	-
Share turnover, %	15.9	14.1	35.6	10.6	-
Weighted average share-issue-adjusted					
number of shares during the financial year	3,500,000	3,500,000	3,500,000	3,390,455	3,108,000
Share-issue-adjusted number of shares on the closing day.	3,500,000	3,500,000	3,500,000	3,500,000	3,108,000

1) Calculation of key figures is shown on page 9.

2) 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.

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

Board of Directors

Chairman

Einari Vidgrén (56)

Founder and Director of Ponsse Oyj
Chairman of the Board since 1993.

Export marketing and sales duties, as well as
President and Board Member duties in Jaakko Pöyry
companies 1982 - 1996
Member of Ponsse Oyj Board since 1997.

Members:

Martti Huttunen (64)

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 Oyj Board since 1995.

Harri Suutari (39)

BSc. (Eng.)
President, CEO, Ponsse Oyj
Founder and President, CEO of Kajaani Automatiikka Oy
1984 - 1994
Member of Ponsse Oyj Board since 1995.

Veikko Lesonen (41)

Mechanical Technician
JOT Automation Group Oyj, Chairman of the Board
Founder of JOT Automation Oyj
Member of Ponsse Oyj Board since 1998.

Mika Vidgrén (38)

Doctor of Pharmacology, Docent
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 Oyj Board since 1996.

Matti Luukkonen (53)

MSc. (For.)
President of IS-Vet Oy
President of IS-Yhtymä Oy 1997 - 1998

The Board of Directors was elected in the General Meeting held 24 March 1998.





President, CEO

Harri Suutari (39)

BSc. (Eng.)
President, CEO since 1994

The President, CEO was elected in the Board meeting held 5 December 1994.

Vice President

Tapio Nikkanen (40)

MSc. (For.)
Vice President since 1996
Stand-in President from 16 February 1998

Management Team

Einari Vidgrén (56)

Founder of Ponsse Oyj and Chairman of the Board
Employed by Ponsse since 1970

Harri Suutari (39)

BSc. (Eng.)
President, CEO
Employed by Ponsse since 1984

Tapio Nikkanen (40)

MSc. (For.)
Vice President
Employed by Ponsse since 1996

Marko Karppinen (27)

MSc. (Econ.)
Chief Financial Officer
Employed by Ponsse since 1994

Heikki Ojala (41)

BSc. (Eng.)
Chief Technical Officer
Employed by Ponsse since 1992

Tommi Ruha (29)

MSc. (For.)
Director of Information Systems
Employed by Ponsse since 1995

Pia Viklund (31)

MSc. (Admin.)
Personnel Manager
Employed by Ponsse since 1999



Veikko Lesonen

Ponsse AB
Gunnar Bäck (53)
MSc. (For.)
President since 1997

Ponsse AS
Lyder Hove Ellevoid (54)
Agriculture and
Forestry Technician
President since 1998

Ponssé S.A.
Heikki Tallgren (33)
MSc. (Eng.)
President since 1995

Ponsse UK Ltd.
Tommi Lindbom (29)
MSc. (Eng.)
President since 1996

Ponsse USA, Inc.
Juhapekka Mutanen (42)
MSc. (For.)
President since 1997

Presidents of Subsidiaries



Business Mission

Ponsse Oyj'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 Oyj. 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.

Branch of Business

The Ponsse Group manufactures forest machines for cut-to-length harvesting. The product range includes two sizes of harvesters and three sizes of forwarders.

The harvester fells, delimits and cuts the trunks into logs. The forwarder performs the short distance transport of the logs to forest lorries for further transport. This two-machine wood harvesting system is called the cut-to-length (CTL) method, to distinguish it from the full-tree harvesting method.

The full-tree method is a mechanical harvesting method in which trunks are felled, delimited, and cut into logs. The full-tree method requires more machine units: felling or feller-buncher machine, skidder, delimitter, loader unit and cross-cutting unit. In this system the logs are not transported ready-cut to the production plant; instead, the trunk is cut only at the sawmill.

Nearly 30% of the world's mechanical logging is carried out as cut-to-length harvesting. Cut-to-length harvesting has been developed in Scandinavia and it is being used with increasing frequency in the coniferous forest zones of other countries. The full-tree method is the prevailing method used in North America and Russia.

The cut-to-length method also allows wood from small stands to be rationally marked for cutting, thereby avoiding the clear felling of large areas. Machines 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 cut-to-length method's environmental advantages are considerable compared to other harvesting methods.

The CTL method offers important economic advantages, which partly explains the method's increasing popularity. Wood can be utilised more precisely, and small-diameter commercial timber can also be economically harvested. The measurement devices developed for use in Ponsse's machines enable wood measurement and the optimal felling of trunks to be carried out to customer orders. Wood handling is reduced and different assortments can be transported directly to the appropriate production plants. The high productivity and economy per machine unit significantly reduces manpower needs compared to the competing full-tree harvesting method, which normally requires twice the amount of manpower and machinery to carry out the same tasks.

Ponsse is also involved in logistics operations through the products of the company's Kajaani plant. Increasing transport optimisation requires that transport companies have more efficient systems for the administration and management of material flows. Ponsse's expertise in measurement devices has created vehicle-mounted computer operations as well as scale operations applied to optimum loading.

Ponsse's Products

Ponsse has concentrated its production specifically on more demanding harvester technology, as well as the design and production of its related information technology.

The Ponsse Ergo HS 16 is a 6-wheeled, 16-tonne harvester meant for stems with diameters up to 75 cm. Over 200 of these have been manufactured over the past two years. The Ponsse Cobra HS 10 is an 8-wheeled, 13-tonne harvester meant for trees with diameters of around 60 cm. Both harvesters, with their 10-metre crane reach and light harvester heads, are well suited to thinning or clear felling.

The Ponsse Caribou S 10, Ponsse Bison S 15 and Ponsse Buffalo S 16, with load classes of 10-, 12- and 14-tonnes respectively, are forwarders. The Caribou and Buffalo were introduced to the market in 1997 and the Bison in 1998.

Ponsse's production has concentrated on a premium product strategy and the qualities of the products it manufactures are high productivity and dependability, as well as a high utilisation of information technology providing added value.

Besides information system products for forest machines, the company also produces Ponsse Mobile Opti vehicle-mounted computers and Ponsse Load Optimizer scales for transport.

Mobile Opti computers, through which vehicles are linked to a transport control system by a data network, are used to optimise transport. In several applications, map bases and positioning systems are increasing the productivity of the transport system. The Mobile Opti product was upgraded during the year under review and the new model was very favourably received in markets. The product's prospects are favourable and export operations began in 1998.

The Ponsse Load Optimizer scale was also renewed during the year under review. The new Load Optimizer is more precise and its operating system is clearly more advanced than that of its predecessor. Scales are used when loading to optimise the loading efficiency of the forwarder or lorry. Measurements are also needed to avoid overloading. Export operations for scales were initiated with the new model and the product's market prospects are very favourable.



Markets

Ponsse has concentrated its strategy on marketing areas in which developed wood harvesting requires an effective and smoothly functioning after-sales organisation. Ponsse has developed its marketing organisation based primarily on its own corporate resources, an exception being certain retail distributors with whom the company has long-standing business relationships and with whom operations are developed jointly.

Sales for 1998 reached a record high and machine sales increased in all main market areas. Individual sales for new machines exceeded 30%. Ponsse is particularly strong in harvester manufacturing and their share of production again exceeded 60%. Demand for the improved forwarder also increased, and the prospects for 1999 are good.

Favourable demand continued in domestic markets, and the year became the best ever for Ponsse. Harvester sales were particularly strong, clearly exceeding market share objectives. At the end of the year, a new branch was opened



in Rovaniemi to handle marketing in northern Finland, and an equivalent branch was opened in Kouvola at the beginning of 1999. Ponsse now has its own nation-wide branch network that is suitably complemented by contract service personnel.

Current modes of operation aim to further strengthen Ponsse's position in Finland, and the goal is to increase sales growth in Finland compared to present levels. Ponsse's innovative information systems 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 demand for information system products grew during the year under review, and particularly at the end of the year, sales picked up with the introduction of the new Mobile Opti and Load Optimizer models as well as intensified marketing.

The Ponsse Group's exports and international operations continued to register strong growth, accounting for 45.3% 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.

During the year in review a Norwegian subsidiary, Ponsse AS, was established at Kongsvinger, located in Norway's main wood procurement area. The subsidiary began its operations in early autumn and its activities continue to develop favourably in 1999.

The American subsidiary opened a new branch in Louisiana in October and in Minnesota in early 1999. American markets developed favourably and the goals set for it were achieved. Ponsse USA Inc. developed strongly and we believe that Ponsse's growth there will continue.

In Sweden, our main export country, aggressive pricing by competitors tightened the market situation considerably. Ponsse AB however registered strong growth and the company's development continued. In Sweden the transfer will be made to a completely independent sales organisation, except for Norrbotten. Additionally, control over significant after-sales operations will be assumed by the company, enabling us to better serve our customers. During the current year it is anticipated that the market situation will regain its equilibrium and that Ponsse's market share will increase.

Ponsse S.A.'s sales in French-speaking Europe continued to grow favourably, and a new branch in southern France was opened in a plantation area near Bordeaux at the end of the year. Prospects in France are excellent. In German-speaking areas, the company has a long-term co-operation agreement with Wahlers Forsttechnik GmbH. Wahlers is currently building a new branch in southern Germany, where forest machine markets are concentrated. German sales developed and continues to develop favourably.

Ponsse UK Ltd. in the United Kingdom was restructured during the summer and the company's main operations were relocated in southern Scotland. Ponsse UK Ltd. also took over marketing for Ireland. Marketing results for Ponsse UK Ltd. were extremely positive in later part of the year and expectations for 1999 are good.

In February 1999 the Board of Directors of Ponsse Oyj decided to establish a subsidiary in Canada. We believe that the new subsidiary will begin its operations during 1999 and that Canadian markets will create a valuable addition to Ponsse's operations in North America.





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PONSSE

