PONSSE OYJ
ANNUAL REPORT 2007

www.ponsse.com

PONSSE Ergo – economics and ergomics for harvesting.

PONSSE IN BRIEF

As an industrial company, Ponsse Oyj is a sales, maintenance and technology venture committed to creating success for its customers, and determined to secure its position as a global leader in the field of environmentally friendly cut-to-length forest machines.

The company was established by forest machine entrepreneur Einari Vidgrén in 1970, and it has been a pioneer of timber harvesting solutions based on the cut-to-length method ever since. Ponsse is headquartered in Vieremä, Finland. The company's shares are quoted on the OMX Nordic List. The Group employs over 900 people and operates in approximately 40 countries.

PONSSE'S MISSION, VALUES AND VISION

MISSION

We provide our customers with the best forest machines in the market. We promote sustainable wood consumption by producing high-quality wood-harvesting solutions and services in order to ensure the success of our customers, increase shareholder value and secure our own future.

PONSSE VALUES

CLOSENESS TO THE CUSTOMER
- Understanding the customer's business
- Taking a genuine interest in the customer, getting to know customers' needs
- Maintaining a lean organisation - decision-makers close
- Being reachable
- Pursuing customer-driven production

RELIABILITY
- Always being there for the customer
- Keeping our promises
- Acting honestly and ethically

PONSSE SPIRIT
- Attending to staff welfare
- Having the will to succeed, being entrepreneurial
- Displaying constructive humility, but confronting one's work courageously
- Refusing to compromise in achieving goals
- Assuming common responsibility for the success of our business
- Maintaining friendliness and fair play

WILLINGNESS TO SERVE
- Serving the customer as you would like to be served
- Not 'passing the buck' when the customer calls with a problem
- Helping colleagues in order to ensure successful customer care

INNOVATION
- Continuous improvement of products and services
- Showing initiative and open-mindedness
- Regarding change as an opportunity
- Taking the initiative to ensure our competitiveness

VISION

We are the preferred partner in our industry and the most valued brand in selected market areas. We operate internationally while taking local circumstances into account and supply the best cut-to-length harvesting technology. Our products are based on the special needs of each market area. Differentiated across a range of markets through the quality of our products and our efficiency and reliability, we make major investments in continuous skills development within the Ponsse Academy's learning environment. Our operations are cost-efficient and profitable, ensuring our future competitiveness.

PONSSE Bear – powerful harvester for tough challenges.

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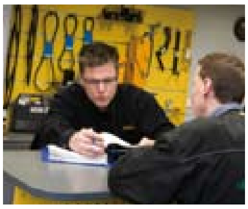

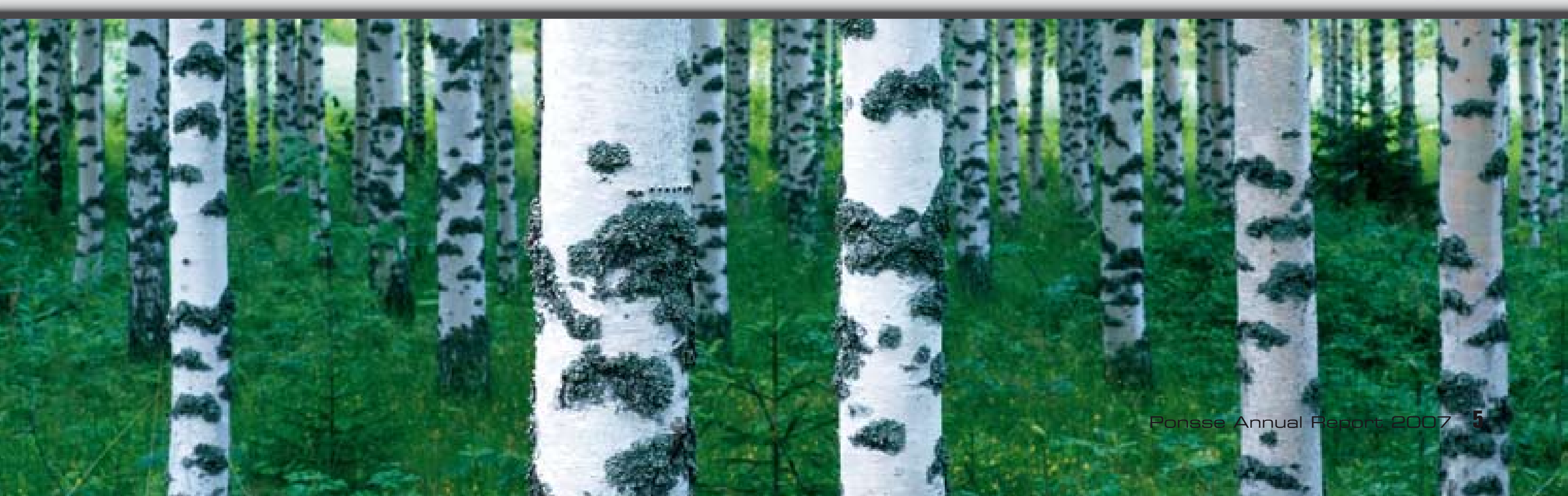

REVIEW BY THE CHAIRMAN OF THE BOARD AND THE PRESIDENT AND CEO

Our businesses developed as planned in 2007. The heavy influx of orders continued and, at year's end, our order books were at their highest level ever. The Group's turnover exceeded EUR 300 million, and operating profit improved, exceeding EUR 37 million. Ponsse grew faster than the industry in general. Approximately 70% of sales were generated in international operations.

We continued our globalisation process. During the period under review, three new subsidiaries started operations: in China, Hong Kong and Uruguay. At the moment, we are operating in approximately 40 countries. Our new operating model, focusing on six strategic areas, has proven to be effective. We are able to quickly meet customers' changing needs and better observe the changes in the demand for machines. The areas engage in direct and daily communication with the factory.

The role of our technology company, Epec, will increase further. The market value is at approximately EUR 2 billion. During the period under review, Epec Oy launched new products and won new customers. High quality products that are designed for challenging environments, application expertise in mobile machines and development of the project service business have made the company a supplier of complete system packages that our customers have received favourably. During the period under review, the company grew through further globalisation and gained a significant position in the growing Chinese market. The company will focus on continuing to build its international network and market coverage in control systems for mobile work machines in Europe, America and the Far East.

Changes in the operating environment, both in Finland and the international market, provide Ponsse's operations with new opportunities. In Finland, the effect of Russian timber export duties can be seen clearly, and they will increase the need for logging in Finland by 10 to 15 million cubic metres. Forest industry investments are concentrated in Russia, Asia and Latin America, and the role of rapidly growing cultivated forests as a source of wood will be further emphasised. Harvesting will pay increasing attention to environmental issues, and changing climate conditions set new requirements for tree felling machinery as well.

The cut-to-length method has become one of the standard methods in harvesting. Yet approximately a half of the world's timber is harvested manually. Of the rest, 60% is harvested using the whole-tree method and 40% using the cut-to-length method. In 1991, the cut-to-length method accounted for 20% of all harvesting.

The cut-to-length method will increase its share of global harvesting due to three different factors. There is a shift taking place from manual harvesting to mechanised harvesting. There are now 22 million hectares of rapidly growing cultivated forest, equal to the total Finnish forest area today. The area covered by cultivated forests will increase to 31 million hectares over the next 12 years. Mechanisation of harvesting in cultivated forests increases the demand for cut-to-length machines. Increasing harvesting volumes in Russia and the ageing of Russian harvesting equipment also contribute to increased demand.

During 2007, we continued with the investment programme for the Vieremä factory, e.g. with the development of heavy welding and the painting shop. Major attention has been paid to the development of automation and processes. We have invested heavily in procedures for constant improvement, and the results are clearly visible.

The development programme for the Vieremä factory also includes the development of the supplier network. The development of the supplier network has had a positive impact on production despite the general material availability problems. Two new companies started operations in the business park for partner companies. Indeed, there appears to be a subcontracting cluster in forest machines emerging in Vieremä.

We invested considerably in R&D and in extending our product offering during the period under review. Our R&D expenditure grew by 39%. During the latter half of 2007, we introduced a new forwarder solution for soil with poor load-bearing capacity. The usability and productivity of Ponsse's best-selling harvester, the Ergo, was improved through a development programme covering over 30 points. The new C4 harvester crane and H7 harvester head were also introduced during the year. Ponsse continued developing eucalyptus and acacia harvesting technology during the period under review, and the efficiency of debarking harvesting heads was increased with various product technical improvements. Much of the debarking technology is being developed in Brazil.

In terms of maintenance service operations, we are developing into a one-stop service solution provider, and we are investing in the R&D, quality and competence of services. Our service operations are global, our customer solutions local. Growth in service operations is due to increased demand with the growth in the machine fleet, the successful launch of new service products and the considerable expansion of the service infrastructure to new geographic areas. Our maintenance service business grew by 34%.

Our brand gives us a strong competitive edge, and in the future it will be even more important. We are a truly strong forest machine brand. Both the Maine (reputation) study and our customer satisfaction surveys bear testimony to this. The Maine study, carried out by the Finnish Arvopaperilehti magazine, shows that Ponsse has stabilised its reputation at the top of Finnish listed companies.

The customer satisfaction survey showed improved grades for our service. The share of returning customers is growing. A loyal customer base is one of our strengths.

We want to be active in developing education in forest machines in all of our market areas. During the autumn of 2007, for instance, we initiated cooperation with the Moscow State Forest University. The purpose of the training programme, which will be carried out through cooperation, is to provide extensive training in the cut-to-length method.

Ponsse's outlook for 2008 is positive. The order books are strong, showing an increase of 86% on the previous year's end. The company's growth expectations are supported by its good position in all of the main market areas and its deliberate efforts to strengthen its market position. In the new markets, Russia, Asia and Latin America, growth is based on forest industry investments and the production of harvesting solutions for these markets. A great 2007 will provide us with a solid foundation for meeting the objectives set for 2008.

We would like to thank our customers and other partners for their cooperation and our shareholders for their trust in us. Warm thanks to everyone at Ponsse for a successful year in 2007.

Einari Vidgrén Chairman of the Board	Arto Tiitinen President and CEO

INFORMATION FOR SHAREHOLDERS

Ponsse Oyj's Annual General Meeting for 2007 will be held on Tuesday, 29 April 2008 at the company's registered office at Ponssentie 22, 74200 Vieremä, Finland, commencing at 10:00 a.m.

ELIGIBILITY TO ATTEND

To be eligible to attend the Annual General Meeting, shareholders should be registered in the share register kept by the Finnish Central Securities Depository Ltd by 18 April 2008. Shareholders who hold shares under their own names are automatically registered in the company's share register. A shareholder with nominee registration can be temporarily added to the company's share register. This must be done on 18 April 2008 at the latest for the purpose of attending the General Meeting. For a temporary registration, shareholders should contact their account operator organisation.

REGISTRATION

Shareholders wishing to attend the Annual General Meeting should notify the company of their intention to do so by 4 pm Finnish time on Wednesday 23 April 2008, either by writing to Ponsse Oyj, Share Register, FI-74200 Vieremä, Finland, by telephone on +358 20 768 800, by fax on +358 20 768 8690, or online at www.ponsse.com/agm. If the shareholder notifies through writing, the letter must reach the recipient before the end of the notification period. Please submit any proxies accompanying the advance registration.

DIVIDEND

Ponsse Oyj's Board of Directors will propose to the Annual General Meeting that a dividend of EUR 0.50 per share be paid for 2007. The dividend shall be paid to all shareholders who are listed in the share register kept by the Finnish Central Securities Depository Ltd as a company shareholder on the record date, 5 May 2008. The dividend shall be paid on 12 May 2008.

SHARE REGISTER

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

FINANCIAL REPORTS IN 2008

In addition to financial statements and annual report for 2007, Ponsse Oyj will issue three interim reports. Interim reports for the financial period 2008 will be published as follows:

- January–March	21.4.2008
- January–June	12.8.2008
- January–September	28.10.2008

The interim reports will be published in Finnish and English on Ponsse's website at www.ponsse.com.

ORDERING FINANCIAL PUBLICATIONS

This Annual Report is available in Finnish and English. A printed Annual Report will be sent to all shareholders. You may order Annual Reports from the following address:

Ponsse Oyj
Ponssentie 22
FI-74200 VIEREMÄ
Tel. +358 20 768 800
Fax +358 20 768 8690
E-mail:
corporate.communications@ponsse.com

The Annual Report will also be available on the internet at www.ponsse.com.

INVESTOR RELATIONS

Ponsse maintains a two-week silent period prior to the publication of financial results, during which time company representatives will not comment on the earnings. At other times, questions and enquiries from analysts and investors will be answered via phone or e-mail, and at organised investor meetings.

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

Arto Tiitinen
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Tel. +358 20 768 8621
Fax +358 20 768 8690
E-mail: arto.tiitinen@ponsse.com

As of 20 March 2008:
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CFO
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Fax +358 20 768 8690
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INVESTMENT ANALYSES

These companies, among others, are following Ponsse as an investment target:

eQ Bank Ltd
Evli Bank Plc
FIM Securities Ltd
Glitnir Oyj
Nordea Bank Finland Plc
Pohjola Bank Plc

2007 IN BRIEF

In 2007, Ponsse's businesses developed as planned, and the company grew faster than the industry in general. Turnover grew by 29.9 per cent. The number of new orders was up by 49 per cent from the previous year. At year end, the company's order books were valued at their highest in the company's history.

In 2007, Ponsse received 70.6 per cent of its turnover from international business. New subsidiaries were established in China, Hong Kong and Uruguay during the year under review. The first major deals in Brazil and Uruguay and the first machine deliveries to China were agreed during the year. Ponsse's technology company Epec Oy launched new products and received new customers, achieving a major position on several markets.

Service business operations grew by 34 per cent during the year under review. Such favourable development is attributable to increased machine stock, new service products, a growing number of service agreements and the expansion of our service network to new areas.

During the year the company invested in product development and in broadening its product offering. At the end of the year, Ponsse introduced a new forwarder solution for soil with poor load-bearing capacity. The usability and productivity of Ponsse's best-selling harvester, the PONSSE Ergo, was improved through a development programme covering over 30 points.

Key figures	IFRS 2007	IFRS 2006
Order intake M€	361.2	242.9
Order stock M€	110.1	59.2
Turnover M€	310.1	238.6
Operating profit M€	37.1	29.6
Operating profit %	12.0	12.4
Cash flow from business operations M€	19.0	6.8
Profit for the accounting period M€	26.5	21.0
Interest-bearing net liabilities M€	19.5	21.9
Equity ratio, %	50.3	49.1

The investment programme for the Vieremä factory continued, with the main emphasis on developing automation and processes and procedures for constant improvement.

The supplier network was developed further. The development of the supplier network had a positive impact on production despite general material availability problems. Two new companies were established in the business park for partner companies during the year.

Ponsse adopted a more intensive policy to develop forest machine education in all market areas, launching cooperation with the Moscow State Forest University, for instance.

The International Road Show 2007 brought novelty products close to the customers.

The renewed PONSSE Ergo was launched at the SkogsElmia fair in June.

QUALITY POLICY, ISO 9001:2000

We develop, produce and market reliable and high-quality cut-to-length forest machines and information technology related to timber harvesting, as well as supplying services to ensure their effective use. We constantly fulfil the requirements of our customers with our high-quality products, services and operations. According to our customer-oriented approach, we listen to and understand our customers and respect their views.

The quality of our products and operations is our common objective. All Ponsse personnel participate in promoting and developing quality through their actions. We only deliver products and services that fulfil our quality criteria. Each Ponsse employee has a process customer whose quality requirements must be met to achieve flawless operation, and to ensure the satisfaction of our customers. We set goals, measure and audit our operations and react effectively to possible deviations. In this way we also ensure our competitiveness for the future.

The guarantee of our quality is skilful and motivated personnel and profitable business.

The management of Ponsse is committed to realising the company's quality policy and communicating it to the personnel. By sufficient training we ensure that the quality policy is understood throughout the whole group.

The guarantee of our quality is skilful and motivated personnel.

EVENTS IN 2007

JANUARY

15.1.
Prime Minister Matti Vanhanen inaugurated Ponsse's new component factory. The extension is part of Ponsse's investment programme, which makes it possible to double the production capacity.

15.1.
The International Ponsse Road Show 2007 tour started at the home farm of Einari Vidgrén in Vieremä, stopping at 30 locations throughout 13 countries, in all of Ponsse's main market areas in Europe during spring 2007. The tour introduced visitors to the latest products, the robust PONSSE Bear harvester and the PONSSE Elephant forwarder.

19.1.
Mr. Mikko Laurila (36), forestry engineer, was appointed Vice-President of Ponsse's New Markets business area. Mr. Laurila is responsible for opening and expanding new markets and the business operations for harvester heads sold for track-based and wheel-based forest machines.

Mr. Marko Mattila (33), forest engineer, was appointed President and CEO of Ponsse North America, Inc and Vice-President of Ponsse's North American area.

FEBRUARY

13.2.
Ponsse published its financial statements for 2006. The turnover for 2006 amounted to EUR 238.6 million. Ponsse succeeded in increasing its market share both domestically and globally.

14 .2.
Ponsse agreed on maintenance service co-operation with Transbonum Oy from Hyvinkää. The agreement covers Ponsse's maintenance services in southern Finland.

MARCH

15.3.
Lako Oy, wholly owned by Ponsse, merged with its parent company.

21.3.
Juhani Mäkynen (36), Master of Science in Technology, was appointed as Ponsse's new Service Director. He is responsible for Ponsse's service operations and their global development.

APRIL

A sales and service company was established in Uruguay in the Latin American network.

12.4.
A decision was made in Ponsse Oyj's Annual General Meeting to distribute a dividend of EUR 0.40 per share. Maarit Aarni-Sirviö was elected as a new Board member. Nils Hagman, Ilkka Kylävainio, Seppo Remes, Juha Vidgrén and Einari Vidgrén continued as other Board members.

12.4.
Kesko Machinery Baltic, Ponsse's retailer for Estonia, Latvia and Lithuania, opened a new service centre in Riga, Latvia.

20.4.
Wahlers Forsttechnick GmbH, Ponsse's retailer in Germany, opened a new service centre in Stemmen.

24.4.
Ponsse's Interim Report for 1 January – 31 March 2007. Turnover for the period under review stood at EUR 78.4 million. The demand for forest machines developed positively in almost all of the main market areas: our turnover grew by 50 per cent compared to the previous year.

The Finnish Prime Minister Matti Vanhanen inaugurated the new Ponsse component factory on 15 January.

Ponsse's co-operation partners Mikko Hirvonen and Jarmo Lehtinen came in third in the World Rally Championship of 2007.

Ponsse Road Show 2007 presented to the European customers e.g. the new PONSSE Bear harvester.

MAY

25.5.
Ponsse opened a new service centre in Pitkäranta.

31.5.-2.6.
International Ponsse Road Show ended at the Skogselmia 2007 Fair in Jönköping, Sweden. Ponsse introduced the PONSSE Ergo harvester, which had gone through an extensive development programme, and bioenergy innovations, including a group handling function for harvester heads and a new load scale. A new harvester head control system for harvesting eucalyptus trees, the PONSSE Opti2, was also introduced.

JUNE

29.6.
Ponsse signed a partnership agreement with SKS Group Oy. SKS Connecto Oy, which is a subsidiary of SKS Group and which will establish itself in the business park for partner companies in Vieremä, specialises in customer-specific solutions and contract manufacture, including the design, assembly services and manufacture of cable sets and electrical harnesses.

JULY

17.7.
Ponsse published its interim report for the period 1 January to 30 June 2007. Turnover for the period under review stood at EUR 149.9 million. Turnover rose by 38 per cent during the year. Progress was particularly strong in the Rest of Europe segment.

SEPTEMBER

20.9.
Ponsse started cooperation with Moscow State University. The goal is to offer extensive training in the cut-to-length method in cooperation with the biggest forestry university in Russia. The opening ceremony for the new training facilities was held on 20 September.

OCTOBER

4.10.
Hannu Kivelä (41), M.Sc. (Forestry Econ.), was appointed Development Director of Ponsse Oyj with responsibility for cooperation between Ponsse Group and forest industry companies, as well as for the development of the line of goods method in all of the Group's markets. Mr. Kivelä is also responsible for the development of the Group's strategy.

5.10.
Ponsse agreed to deliver a total of 67 cut-to-length forest machines and 44 harvester heads to Brazil and Uruguay. The deal concerns PONSSE forest machines and harvester heads as well as services relating to the use of the products. The products will be delivered to Brazil's Bahia Pulp and Uruguayan wood harvesting contractors.

10.10.
Ponsse introduced a prototype for a 10-wheel solution for harvesting on soil with poor bearing capacity. Ponsse has been involved in the development of wood harvesting technology for soft peat soil together with the Finnish state forest enterprise Metsähallitus and the Finnish Forest Research Institute. The new solution enables profitable and environmentally-friendly harvesting on soil with poor bearing capacity.

15.10.
Minister of Trade and Industry Mauri Pekkarinen inaugurated the new production facilities of HT Lasertekniikka Oy, Ponsse Oyj's partner company, in Vieremä.

16.10.
Ponsse published its interim report for the period 1 January to 30 September 2007. Turnover for the period under review stood at EUR 214.0 million. Ponsse's order book increased by 58 per cent to EUR 80 million and turnover grew by 37.2 per cent. The demand for PONSSE products was at a good level in all our market areas, except for North America.

29.10.
Ponsse signed an agreement with Stora Enso China on the delivery of PONSSE forest machines to China. The deal concerns harvesters and forwarders, as well as services and training relating to the use of the products. The two companies agreed on launching long-term cooperation for mechanising harvesting in Stora Enso's eucalyptus plantations in southern China.

The new service centre of the German Ponsse distributor Wahlers Forsttechnik GmbH in Stemmen.

The training co-operation with the Moscow Forestry University started in September.

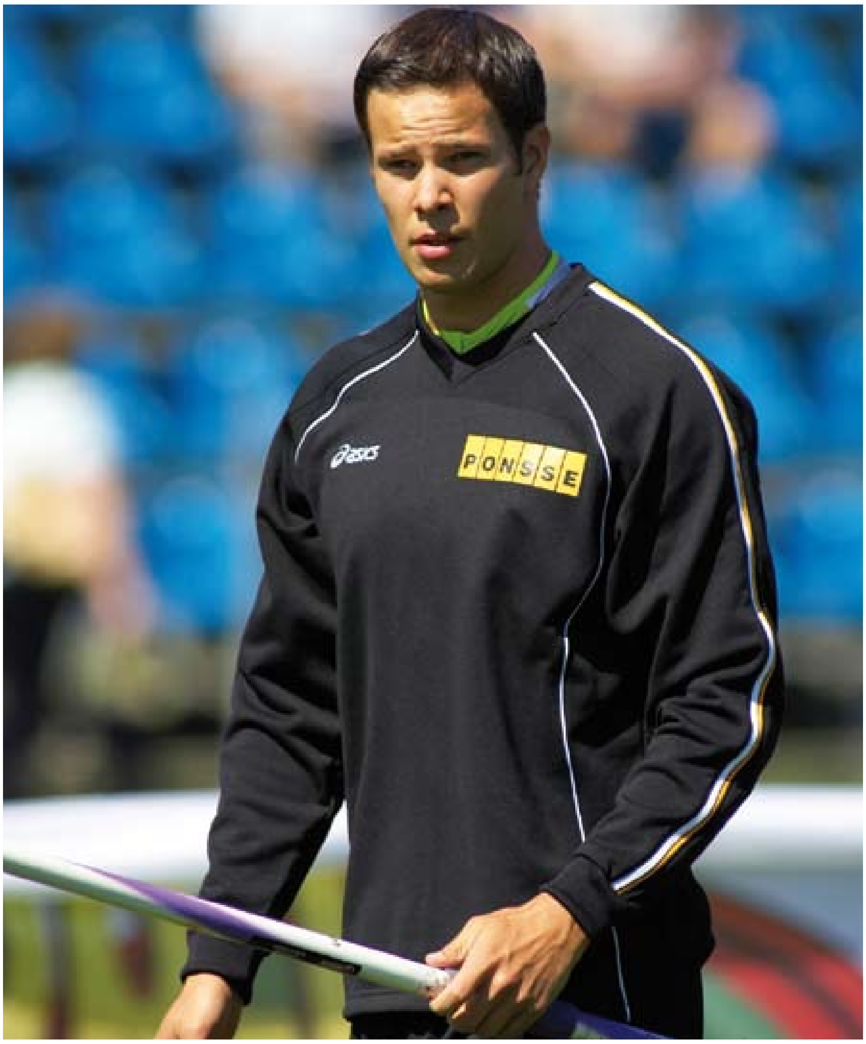
NOVEMBER

2.11.
Ponsse Oyj will establish two subsidiaries in Asia: Ponsse Asia Pacific Ltd. and Ponsse China Ltd. Ponsse Asia Pacific Ltd. will be responsible for the establishment and development of the Ponsse sales and service network in Asia and Oceania. Ponsse China Ltd. is responsible for the establishment and development of the Ponsse sales and maintenance network in China. The company will especially support wood harvesting mechanisation operations on Stora Enso China's eucalyptus plantations in southern China. Mikko Laurila, Forest Engineer, was appointed Managing Director of both companies to be established. Risto Kääriäinen, M.Sc in Technology, was appointed Country Manager of Ponsse China Ltd.

DECEMBER

15.12.
Ponsse and its partners will construct a holiday cottage for Tero Pitkämäki, World Javelin Throw Champion, in Vieremä, which will be owned jointly by the builders. Tero's World Championship title was celebrated at Ponsse in Vieremä.

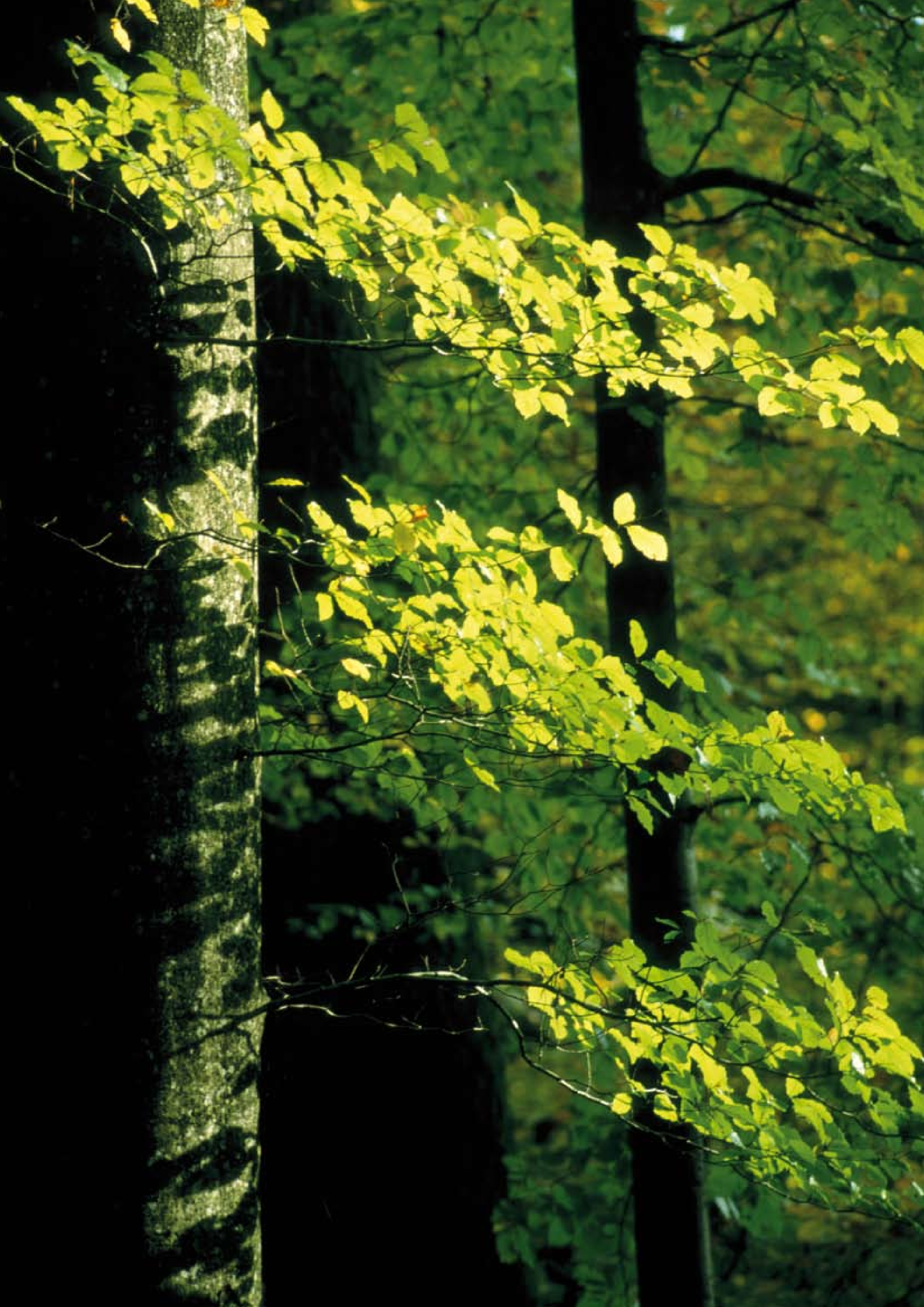
19.12.
Ponsse agreed to deliver a total of 22 cut-to-length method forest machines to China. The deal concerns PONSSE forest machines as well as training and maintenance services related to use of the products. The products will be delivered to China's Yangxin Eurasia Group Ltd during 2008.



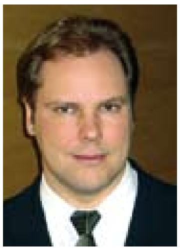
In 2007, Ponsse's co-operation partner Tero Pitkämäki won the World Championships in Javelin Throw and was elected as the best European male athlete of the year.

A ten-wheel forwarder solution for harvesting in poorly supporting terrain was launched in October.

Minister of Trade and Industry Mauri Pekkarinen inaugurated the new production facilities of HT Laserteknükka Oy in October.



REVIEW OF THE FOREST INDUSTRY AND CTL METHOD



Hannu Kivelä
Director, Strategy and Customer Cooperation
Ponsse Oyj

In 2007, the profitability of the wood product industry improved and the building sector in Europe reached an all time record. However, the building sector continued to slow in North America and its rate also slowed down in Europe towards the end of the year. The pulp and fine paper market, in turn, developed favourably throughout the year. All in all, the profitability of the paper and pulp industry improved despite the fact that price trends were unfavourable, due to the oversupply of magazine paper. The prices of magazine paper, too, have increased slightly at the beginning of this year. Forest industry raw material prices rose considerably in 2007, though the cost trend is expected to calm down in 2008. Timber costs, too, rose markedly throughout the year.

Although the year 2007 was all in all still difficult for the forest industry, the demand for cut-to-length forest machines rose considerably, worldwide. The competitive market, high costs and high timber prices in particular reduced the profitability of the forest industry and directed investments at improving wood procurement and at cost-effective cut-to-length machines.

In the beginning of 2008, it is difficult to predict the direction that the forest industry will take. The fall of demand in the building sector in North America has led to oversupply, which is currently looking for new targets. Owing to the fall in building volumes, the demand for wood products has been falling, particularly in North America but also in Europe since mid-2007, and the trend is not expected to show any growth until the year 2009. Demand for forest industry products in new markets, such as China, Russia, South America and India, will continue to grow despite the threat of recession. Strong growth will continue in the Russian market in particular. Of the single markets, felling volumes are expected to rise in Finland and partly in Germany, as compared with the previous year.

PERIOD OF CHANGE INCREASING INVESTMENTS WORLDWIDE

The paper and pulp industry is undergoing a global change. Existing plants are being shut down, the best plants refurbished and new plants built in different parts of the world. In North America, 2007 saw the first pulp and paper investments for decades and new investments are expected in the future. Several European plants, in turn, were extended and modernised. Bahia Sul and Metsä-Botnia will adopt their new pulp mills in South America, and several other investments are also in progress or have been unveiled.

In China, paper machine investments having already lasted for more than ten years continue to operate and the first major pulp mill investments are at sight. In addition to several investments in mechanical forest industry, there are several noteworthy pulp mill projects and paper machine plans in Russia. In addition, plantation forests are expanding, such as those in southern Africa, which may suggest investments in processing, too. In addition to the paper and pulp sector, the capacity of the mechanical forest industry will increase.

DEMAND FOR WOOD INCREASING IN ALL SECTORS

The reform of the forest industry and the building of additional capacity increases industrial fellings, thereby extending the global market for forest machines. More than a half of the roundwood used by the industry worldwide is delivered to sawmills and plywood plants in the mechanical forest industry and about one third to the defibering industry; slightly over one tenth is used for the manufacture of different types of boards (fibre and chipboards, MDF and OSB). The demand for wood in the manufacture of sawn timber and plywood increases by some 0.4 per cent per year, in the defibering industry by about 1.3 per cent and in board manufacture around 2.3 per cent. Although the share of the defibering forest industry of the industrial use of wood globally is ever-increasing, it does not appear to be exceeding the amount used in the mechanical forest industry.

Industrial fellings are increasing in all markets except for on the west coast of North America, and even there the fall is due to environmental reasons. All in all the use of wood in the forest industry will rise by some 300 million cubic metres by the year 2020.

FIGHTING CLIMATE CHANGE WITH ENERGY WOOD

Climate policy showed major progress at the Bali Climate Change Conference in December 2007. Climate change is now a generally-recognised fact worldwide. Europe aspires to radically reduce its greenhouse gas emissions: according to the proposal of the European Commission, the EU's energy production produced by renewable energy sources should be 20 per cent by the year 2020, compared to the current share of 8.5 per cent. The intention is to cover much of this with wood.

On the level of the European Union as a whole, increasing the share of renewable energy by one per cent using energy wood would mean the combustion of 100 million cubic metres of wood. In North America, too, increasing the use of wood in energy production is a political priority area and the use of wood is consequently increasing.

Increased wood energy harvesting shows in the growing demand for cut-to-length machines. Regardless of the felling and handling method, energy wood is usually transported from the forest to the roadside with a forestry tractor. The combined felling of timber and energy wood also increases the demand for harvesters and harvester heads.

THE CUT-TO-LENGTH METHOD IS INCREASING FOR SEVERAL REASONS

Interest in and demand for harvesting with cut-to-length forest machines increased considerably in 2007 and the growth still continues strongly. The increasing demand is attributable to several reasons. North America and Europe make up 80 per cent of the world's forest machine markets. Particularly in Europe, the felling volumes have increased and fellings have become mechanised. Both of these trends increase the demand for cut-to-length forest machines. The Russian forest sector is growing fast, and the increased wood prices are targeting investments at effective cut-to-length machines.

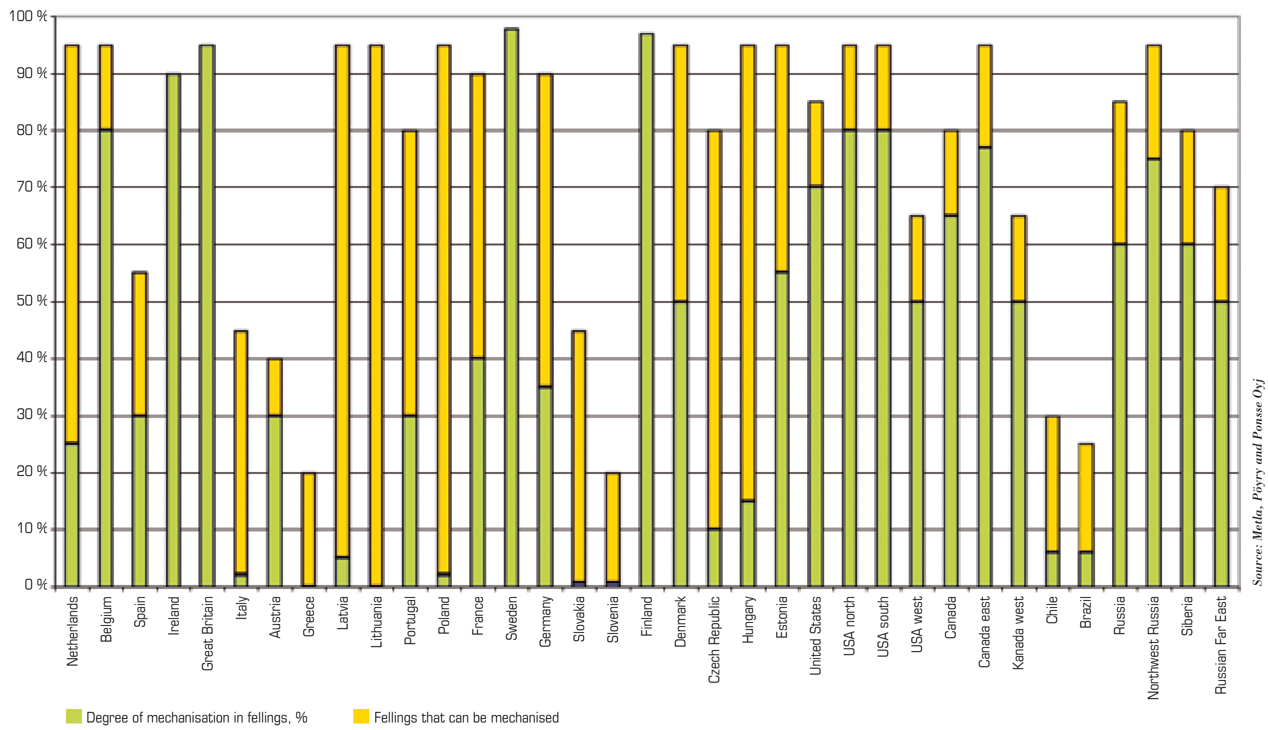
The spreading of the cut-to-length method on the established markets is attributable to an increasing lack of workforce, especially lumberjacks, as it is difficult to find new workers for hard forest work. As a result, the offer of driver training and maintenance services in the cut-to-length method has reached a level where customers can be rest-assured that the machines will be in working condition and of the required output level.
Felling volumes and mechanisation are also increasing globally. New forest industry investments increasingly evolve in places where the entire wood procurement process must be generated out of nothing. The trends increase the overall forest machine market and the share of the cut-to-length method of the markets. The share of fast-growth planted forests of the global production of industrial wood is increasing all the time. According to Pöyry's forecast, the area covered by fast-growth planted forests will increase from the present 20 million hectares to some 31 million hectares by the year 2020.

CHANGES IN VALUES FAVOUR THE CUT-TO-LENGTH METHOD

Changes in the values connected with the use of forests favours the use of cut-to-length machines in particular. More and more attention is being paid to sustainable forest use and environmental values. Several countries have imposed restrictions on the felling of natural forests in fear of the negative environmental effects caused by broad mechanical fellings. In this respect, the cut-to-length method is superior to the whole-tree method, as wide wheels and good load-carrying capacity keep soil damage, for instance, to a lesser degree than in the case of the large machines used in the whole-tree method. In addition, the cut-to-length method is the only way to ensure proper thinning, and as a result, tree growth can be utilised better and the quality of wood in final felling improved.

Keen competition in the forest industry and the persistently-difficult market situation are constantly increasing pressure towards effective harvesting and more careful use of wood. These trends, too, favour the cut-to-length method, which allows major cost savings and ensures maximum careful utilisation of valuable raw material, right from harvesting onwards.

DEGREE OF MECHANISATION IN FELLINGS



PROMISING OUTLOOK THROUGHOUT THE WORLD

On the above grounds, the market trend for cut-to-length forest machines is very positive from the manufacturer's point of view and the markets are growing worldwide. The cut-to-length method is spreading fastest in Russia where felling has traditionally taken place using the whole-tree method. Fellings in Eastern Europe are approaching the volumes recorded in the 1990s and most of the growth is harvested using the cut-to-length method. The spreading of the cut-to-length method in the developing market is based on its effectiveness and accuracy, though this requires support from the rapidly-developing maintenance and training services network.

The growing number of fellings in central and northern Europe relies almost solely on Scandinavian technology, and there is a rising interest in the cut-to-length method in North America, too. More and more forest companies aim to adopt the cut-to-length method in 2010. In Asia, Latin America, Oceania and Africa, most of the rapidly expanding harvesting of planted forests takes place using cut-to-length forest machines.

AREA REVIEWS

North Europe
Vice President Jarmo Vidgrén

NORTH EUROPE

Our businesses progressed steadily in North Europe, where our market share is nearly 30 per cent. North Europe is the leading cut-to-length method area: approximately 200 million cubic metres of timber is harvested in the area annually.

In Finland, our operations developed as planned. We reinforced our maintenance service network; our new contract workshop, P. Nieminen Ky, is now supplementing our services in the Joutsa region. We also added to the number of our own maintenance service personnel, particularly mechanics. We made an important investment decision concerning a maintenance service centre to be built in Kouvola in 2008. This year we will also continue training in the organisation: competence facilitates the best customer service possible.

In Sweden, our market share strengthened. Having performed well, Ponsse AB and its highly motivated personnel will continue on the same growth track. The start of our operations in Denmark in 2007 exceeded our expectations. In Norway, the year proceeded as predicted, and operations will be developed particularly in terms of sales and maintenance services in 2008. In 2008, our operations in Norway will also be moving to new premises.

Kesko Machinery Baltia's second year as a reseller of Ponsse went well; our sales were up in all Baltic countries. Kesko's strong expertise is evident in high levels of customer satisfaction. In 2008, we will be introducing a new ten-wheel forwarder solution for soil with poor load-bearing capacity, in the Baltic countries in particular, and we are expecting it to be a sales success.

North America
Vice President Marko Mattila

NORTH AMERICA

2007 was a challenging year as the recession in residential construction hindered the operation of sawmills in the United States and Canada. Over-priced flats and readily available housing loans overheated the market, which subsequently cooled down, breaking the increase in the value of properties. A loan crisis that affected consumption followed. The consumer-driven market is likely to reduce further in the United States this year and turn back to a growth track towards the end of 2009. The economic trend will influence the demand for construction materials at that time.

The situation has affected the entire North American forest industry. Postponement of investments has cut machine sales, but due to reliable machines and investments in customer service, Ponsse has retained its strong market position. The availability of maintenance services and spare parts over the machine life cycle is very important to customers. Ponsse North America, Inc. will focus on the development of the maintenance service business and distribution network.

In 2007, we expanded our maintenance service network to the West Coast and signed an agreement with the Canadian company Woodland Equipment, gaining us a foothold in the promising British Columbia market. Both agreement parties are strongly committed to the forest industry; Woodland Equipment considers customer support a number one priority.

Chadwick Baross, our distributor in Maine, USA, enjoyed great success during its first year of operation. In Maine we reached the market leader position in harvester sales.

Russia
Vice President Ville Siekkinen

RUSSIA

Russia has become one of Ponsse's key markets – and Ponsse is the leading harvesting brand in the area. Abundant forest resources, increasing domestic demand and access to the large Asian market are speeding up the development of the Russian forest industry. Wood supply for the recently announced wood processing investments will require qualitative and quantitative development of harvesting capacity.

Timber export duties that support domestic wood processing, if they come about, will stop the export of tens of millions within a few years, which will reduce the logging volumes in northwest Russia and the Far East, although this effect is likely to be temporary. More than half of the released timber will be directed to the already announced projects, and the rest will be taken by the domestic industry, which has been suffering from a shortage of timber.

In order to match the demand for machines, Ponsse is developing its Russian sales network. DormashImport started in 2007 as the Far East Ponsse dealer, and this year permanent Ponsse representation will be established in Eastern and Central Siberia.

Modern forest machines and the increasingly rigid requirements of the industry require professional forest machine operators, and Ponsse has taken the initiative in training them. A Ponsse training centre started in September at the Moscow State Forest University, and the concept will also be applied in the training centres established in association with the Petrozavodsk and Syktyvkas forest schools. New corresponding centres will be opened in central harvesting regions in the future, with the next four already appearing during 2008.

Latin America
Vice President Claudio Costa

LATIN AMERICA

The investments of previous years began to bear fruit in 2007, after we had strengthened the awareness of the Ponsse brand and product development in Latin America and increased local manufacturing capacity.

The most important Brazilian pulp producers are already using PONSSE forest machines in harvesting. Our products were also received well in our second focus area, Uruguay; at the moment, we are the market leader in the area, and all the main contractors in the country are using PONSSE machines. Due to solid demand, we established a subsidiary in Uruguay.

In 2007, Ponsse was the clear market leader in rubber-wheel harvesters in Latin America, and number two in forwarders; the most important products were Ergo, Elephant and BuffaloKing, as well as the 550 and 650 harvester heads. Positive development will continue in 2008 as well: we will continue the development of our distribution network and invest particularly in training and the maintenance service business. We will strengthen the market position of our cut-to-length machines in the harvesting of both eucalyptus and pine.

South America is rapidly becoming a global player in the forest, paper and packaging industry. According to a PricewaterhouseCoopers survey, half of the top ten producers in the pulp market will be located in South America by 2011. Last year, there were two. South America has the most abundant forest resources in the world.

Central and Southern Europe
Vice President Tapio Ingervo

CENTRAL AND SOUTHERN EUROPE

Central and Southern Europe is a vast and versatile market area where dozens of hardwood and softwood species are harvested. The countries in this area differ from each other when it comes to terrain, climate, working methods and working conditions, as well as the ownership of forests.

Ponsse's business has steadily moved ahead in Central and Southern Europe; our market position has improved, and Central and Southern Europe has become one of our main market areas. We have continued to develop our distribution and maintenance network, and another increasingly important development area includes the new EU countries in Eastern Europe. The massive Ponsse Road Show that toured Europe in the spring of 2007 promoted our company and our products in these new market areas.

Sales of both new and used machines reached a new record. The Ergo harvester and the Buffalo forwarder remained Ponsse's best selling machines last year, but the new heavy-duty PONSSE Bear harvester also sold very well.

Ponsse has heavily invested in training for our personnel and the personnel of our retailers, and we will continue to support the training of forest machine operators in the future. Training activity will be developed in co-operation with the Ponsse Academy, local educational institutes and authorities.

Asia-Pacific and Africa
Vice President Mikko Laurila

ASIA-PACIFIC AND AFRICA

Asia is home to nearly 60 per cent of the world's population, and its economy is growing at the fastest rate in the world. By 2015, the area's consumption of paper and cardboard is likely to exceed 180 million tonnes, leaving the combined annual consumption of Western Europe and the United States behind. The world's paper production capacity grows approximately ten million tons per year, half of which in Asia.

Ponsse expanded its distribution network to the growing Asian market and established subsidiaries in Hong Kong and China in the autumn of 2007. In the next stage, the network will be extended to Indonesia, Japan and Australia, where rapidly increasing harvesting requires mechanisation. Ponsse offers comprehensive partnership with maintenance, spare parts and training services to companies facing growth challenges.

In South Africa, collaboration with Babcock Equipment commenced as planned in 2007. More than 80 per cent of South African harvesting takes place in the provinces of Kwazulu-Natal and Mpumalanga; the collaborative partners were strongly represented in the main event of the forestry industry in Pietermaritzburg in the summer 2007.

Machine sales in South Africa developed as planned, and the growth outlook is favourable. In order to promote mechanised harvesting, the local forest industry offers long-term agreements to entrepreneurs who have greeted with enthusiasm the solutions offered by Ponsse and Babcock Equipment. Ponsse's strong machine expertise and Babcock Equipment's sound organisation and local expertise ensure Ponsse's growth in the area's mechanising market in 2008.

GROWTH AREAS

Wood harvesting in China is becoming more mechanised

Risto Kääriäinen
Country Manager (China)
Ponsse China Ltd.

In the end of 2007, Ponsse set up a subsidiary in China. Ponsse China Ltd. is responsible for Ponsse's sales, maintenance, spare part and training services in China, headquartered in the city of Beihai in the Province of Guangxi, in southern China. With the new company, Ponsse is close to its customers and can offer them a complete, effective, reliable solution to address all the challenges of mechanical harvesting.

Ponsse signed an agreement with Stora Enso Guangxi on the delivery of forwarders and harvesters to China. The deal also covers machine operation services and training. In addition, the two companies have agreed on launching long-term cooperation to mechanise harvesting in Stora Enso's eucalyptus plantations in southern China.

Ponsse agreed on delivering 22 cut-to-length forest machines to the Chinese Yangxin Eurasia Group Ltd, which is engaged in the harvesting and wood processing industry. The deal also covers machine training and maintenance services, which utilise Ponsse China's extensive service offering.

These new customers mark an important opening step for Ponsse's presence in China. Both of the customers are major actors in their fields and will prove valuable references for Ponsse China in the future.

Ponsse will continue to strengthen and develop its operations in China in 2008. We expect to receive more orders from the market area and to establish new customer relationships.

It has been pleasing to note how well the Ponsse spirit also works in the culture and operating environment in China. Within a short period of time we have been able to establish a skilled training and maintenance organisation that our local customers appreciate.

PONSSE Ergo and PONSSE Buffalo marching to China.

Operator training is an important part of the harvesting mechanisation process.

Lars Erlandsson
Harvesting Technology & System Development Senior Manager
Stora Enso

STORA ENSO IN CHINA

In summer 2007, Stora Enso Guangxi concluded an agreement with Ponsse to be our partner for the first forest machines in South China. The work to set up the best organization for mechanizing harvesting started much earlier. Following a number of different tests and trials, we invited machine suppliers to present our request and see our conditions. The region south of Guangxi is exceptional in many ways. The terrain conditions vary from small flat areas to big areas with extremely steep and long slopes. Our rented plantations are scattered, which means that, together with the large population who mainly receive their income from agriculture, we have to take environmental issues very seriously.

We agreed three different parts for the contract: training, service and machines. When there is no experience of forest machines, we believe the key factors for success in the start-up phase are training and securing the service. What appealed us most in Ponsse's offer was that they had all parts "in house", together with the back-up and the commitment we felt from the beginning. We are trying to achieve the same type of concept for our machine teams as we use in Scandinavia with independent operators who take care of daily tasks with support from our supplier. So far, we have no reason to alter our opinion or regret our choice of partner in China.

In cooperation with Ponsse we believe it is possible to mechanize 70% of our harvesting. That is a big step from the traditional harvesting in Guangxi that uses chain or hand saws, machetes and manual forwarding. We still have a few years to prepare ourselves to supply the planned mill with their yearly demand of 3 million m^3. We need these years to train 250 machine operators, set up a service organization for the whole area and make sure our managers have basic knowledge of mechanized harvesting.

I believe both Ponsse and Stora Enso are going to see some interesting years in Guangxi in China.

Ponsse's comprehensive selection and training services were the reasons why Stora Enso decided to use the PONSSE machines.

The terrain in southern Guangxi varies from extremely steep hills to level.

Comprehensive services are extremely important in Latin America

In 2007, Ponsse's subsidiary that was founded in 2005 and investments in the Latin American market began to bring results. In addition to building the corporate image, investments were made in R&D efforts to make the products match the local customers' special needs.

Now, Ponsse's forest machines are used in harvesting timber for Brazil's major pulp mills. During the year, Ponsse Latin America Ltda signed an agreement with Bahia Pulp, including deliveries for 2007–2010.Strong progress was seen in the Uruguayan market as well. Cooperation with David Henderson, a contractor in the industry, has raised Ponsse's awareness and helped in becoming the market leader in forest machine trade in Uruguay. Increasing demand was met by establishing a subsidiary in Uruguay, with a customer service, training and maintenance service centre in Paysandú and another customer service centre in Tacuarembó.

In 2007, Ponsse was the leading supplier of rubber-wheel harvesters and the second-largest supplier of forwarders in Latin America. Investment in training and service functions will continue in 2008. The purpose is to ensure the high performance and productivity of our customers' machines, but also first-class availability and profitability of the machine investment. At the same time, Ponsse intends to stabilise its market position in both eucalyptus harvesting and pine harvesting with the cut-to-length method.

BAHIA PULP – LONG-TERM COLLABORATION

Part of the Asian RGM International group, Bahia Pulp manufactures high-quality soluble pulp, and is moving from manual to mechanised harvesting with the help of Ponsse technology. Sérgio Luís Martins dos Santos, Forest Engineer and Doctor in Forestry Sciences, who is in charge of the company's timber supply, says that ultimately the decision to choose Ponsse as the machine supplier was an easy one.

"We required the harvester head supplier to provide forwarders as well. In addition, we wanted our partner to assist in sourcing maintenance parts, servicing and user training. Also the synergy between products and after-sales services spoke in favour of the decision. In the acquisition process, we therefore confirmed the purchase of 44 harvester heads and 11 forwarders," Santos states.

The deal was made in mid-2007, and the first machines arrived in Bahia in October. Currently, Bahia Pulp has 18 Ponsse forest machines adapted for local conditions. According to Santos, it is already now clear that Ponsse's technical solutions will reduce production costs. This improved profitability improves environmental friendliness and promotes the utilisation of harvested wood. Bahia Pulp has ambitious plans for 2008 as well. The company aims to increase its annual pulp production from the current 115 thousand tonnes to 365 thousand tonnes. The company intends to soon open a second production line in Camaçar, and will simultaneously strengthen its cooperation with Ponsse Latin America.

METSÄ-BOTNIA TRUSTS IN PONSSE'S EFFECTIVENESS AND SKILLS

Metsä-Botnia, a cooperative partner of Ponsse Latin America, is the largest player in the forest industry in Uruguay. According to Jorma Pohjola, Botnia's head of harvesting, Ponsse is a pioneer in cut-to-length machines. "Ponsse undoubtedly manufactures the world's best forest machines. Harvesting techniques vary greatly in terms of manoeuvrability and how the product can be utilised. Mechanisation leads to more efficient production and higher quality, which is also seen in our collaboration with Ponsse," Pohjola comments.

"In addition to healthy competition, we nowadays also increasingly evaluate after-sales services carefully and in more detail. Ponsse

A PONSSE harvesting eucalyptus trees in Uruguay.

'Bahia Pulp requires comprehensive services from the machine supplier to support the growth,' says Mr Santos.

does seek to be close to its customers, solve their problems, train the customer's personnel and maintain a continuous customer relationship. I believe that Ponsse's presence in Uruguay will develop the forest industry internally and promote it at a more general level," Pohjola believes.

In November 2007, Botnia commissioned a new factory in Frey Bentos. According to Pohjola, Botnia wishes to increase the efficiency of its operations through even more long-term and professional partnerships. The requirements set for its partners include absolute reliability, and that is exactly what contractors using Ponsse technology have been able to offer.

GERTIL S/A HAS DEVELOPED AND GROWN WITH PONSSE

Established in 2003, Gertil S/A has quickly found its place in the Uruguayan harvesting and timber transport market. Like Ponsse, Gertil concentrates on customers that purchase services, and it has selected Ponsse's Latin American subsidiary as its partner.

Cooperation with Ponsse has improved Gertil's productivity and financial standing, as Ponsse machines consume less fuel and are more reliable than the competition. The machines' user comfort and technology have also received praise.

Luiz Fabini, Executive Vice President at Gertil, praises the initial experiences and results as extremely positive: "We believe that the partnership with Ponsse provides us with an opportunity to grow in the harvesting industry. Ponsse is near us and understands our needs immediately."

In addition to the high level of technology, Fabini commends Ponsse's training offering and maintenance services: "Even though Ponsse is a new company in Uruguay, it has already won the trust of the market. All contractors value good maintenance service. It is something that Ponsse has mastered, as it is competitive, acts quickly and predicts changes before they take place. I know that if I need a professional technician for a specific machine right now, I will get him," Fabini says.

SEAMLESS RELATIONSHIP BETWEEN PONSSE AND MONTENOBLE

Montenoble, headed by David Henderson, was the first forest company to adopt PONSSE forest machines in Uruguay. The company's head office is located in the Young region. Since then, Henderson has been speaking strongly in favour of Ponsse, and with the help of Ponsse, Henderson has expanded both his machine fleet and operations.

"Such large investments have undoubtedly transformed the operations of our company, as work has expanded and quality has improved. In addition to increasing safety, I'm very satisfied with Ponsse's speed and professionalism. Ponsse arranges training for operators and guarantees the availability of maintenance parts and maintenance services," Henderson praises.

Montenoble's primary objective for 2008 is to keep its production volume up, including the harvesting of approximately 35,000 cubic metres of eucalyptus every month, and possibly taking part in Metsä-Botnia's harvesting operations. Together these suggest an annual eucalyptus production volume of 3.5 million tonnes. Henderson signed an agreement of buying nine new PONSSE machines in autum 2007 and has now the world's largest stock of PONSSE Elephants.

Luiz Fabini values the reliable partnership of Ponsse and Gertil S/A.

The training services are customised to meet the customers' needs.

The challenging wood harvesting market of Russia is growing

Some 200 million cubic metres of wood are harvested in Russia per year. Despite the growth experienced in the last decade, this is only half of the peak volumes harvested in the former Soviet Union. Felling volumes are expected to increase considerably during the next ten years when the level of forest management and utilisation approaches the Scandinavian level and felling volumes increase in western and central Siberia and the Russian Far East. The growing volumes are quickly exploited by the rapidly-expanding Russian wood-processing industry, which addresses the growing Russian demand, and above all supplies the Asian market. Volume growth depends on the increase of domestic processing. Several major investments have been made in the sawmill, plywood and board industry in recent times. It is expected that several pulp and paper industry projects will be implemented in the next few years.

Mechanised harvesting has increased fast and growing felling volumes can only be reached by investing in modern equipment. In addition, the increasingly strict industrial quality requirements call for the use of top-level technology throughout the harvesting chain. The modern cut-to-length (CTL) method is economically superior: harvesting costs are considerably smaller and the share of the valuable log can be double the amount available when using traditional methods.

The financial market in Russia has developed in just a few years to the extent that getting money under reasonable terms is no longer a problem. A large number of financing companies have been established in Russia that channel oil and gas revenues to production investments. It is fairly easy for a company to finance harvesting equipment purchases if it has proof of expertise in the field and a clearly-formulated repayment plan.

LONG DISTANCES AND DEMANDING CONDITIONS

Russia is a vast country where 10,000 kilometres of the northern coniferous zone extend from the gates of the EU to an area east of Japan. To ensure uninterrupted operation of the harvesting technology, maintenance must be organised in broad forest areas where the infrastructure is quite unsophisticated. The task would be impossible without regional partners who are familiar with the local conditions.

Ponsse has two successfully-working partners in the European part of Russia: Zeppelin in the western areas and Lespromservis in Komi, Kirov and Perm. In the Far East, Dormash has proven to be part of this group. Permanent Ponsse representation will be established to the east of the Urals and in eastern and central Siberia in 2008. Work on establishing a representation in Belorussia in the CIS area is also in progress. The clientele obtained there of course deserves local maintenance and other services.

In selecting its partners, Ponsse pays attention to regional knowledge and technical and harvesting expertise. However, the most important thing is attitude: machines must work, as the incomes of the customer and the whole Ponsse organisation depend on it.

Climate and nature impose highly differing requirements on technology in Russia's vast forest areas, which are characterised by extremely cold and hot weather conditions where annual temperature fluctuations may be as much as 80 degrees. In addition, machines must be able to cope with deep snow, rocky areas, mud, steep slopes and soft mires. To choose the right machine, one must be familiar with the local conditions. In addition, constant development of the product line requires the availability of exact information on the prevailing conditions from local partners.

INTRODUCING A NEW GENERATION OF PROFESSIONALS

Among the most evident limitations to adopting new technology is the lack of competence at all levels. The management, logistics, operators and maintenance must all be rendered to change their operation to match the new technology. Attracting talented, ambitious young people to the sector requires improving how the lumberjacks are seen, changing their image from that of the forced labour convicts of the past, to the stars of a winning team. This requires linking salary to performance so as to ensure that a

The varying terrain is demanding to the performance of the machinery: PONSSE Buffalo on the steep hills of the Far East.

Co-operation with the Moscow Forestry University started in September 2007.

skilled forest machine operator will get his share of the results of the work. Ponsse is actively developing harvesting training programmes together with forest education establishments and creating a new generation of forest professionals.

ZEPPELIN CONTRIBUTING TO PONSSE'S GROWTH

Ponsse has gained a strong hold in Russia's European areas and in western Siberia. Zeppelin Russland, Ponsse's first dealer in Russia, has been strongly engaged in this growth. The start has been challenging to both the parties: in addition to selling machines, operators must be trained and maintenance established - often out of nothing. Long distances and the traditionally low appreciation of the forest sector, and the resulting lack of sophistication, make this task much more complicated than in Scandinavia, for instance.

According to Anna Kozhevatova, Head of Zeppelin's forest sector, the reason why the company chose Ponsse as the harvesting technology partner was that it wanted to offer its customers a chance to adopt the most modern available technology right away. Zeppelin was also interested in Ponsse's growth-orientation and the strong commitment of its management to launching customers' harvesting operations. "Special challenges are imposed by the harsh conditions prevailing in Russia, but both Ponsse and Zeppelin have been able to keep their commitment to make effective use of the customer's technology. Ponsse has offered skilled technical assistance in Russia from the outset of cooperation, which has been a great help in adopting the technology and arranging maintenance", Ms. Kozhevatova says.

Vitali Tumanov, Customer Service Manager of Zeppelin, appreciates Ponsse's support in maintenance. "We have been able to organise fluent machine maintenance over our broad area. Given the harsh conditions prevailing in Russia, it is not nearly as easy as it is in Europe where the distances are short and connections fluent. Marshy terrain and large, often sudden temperature fluctuations make the situation even more difficult. We are accustomed to working in these conditions, and Ponsse has supported us to the extent that I believe our cooperation will become even closer in future. We will together invest particularly in the training of operators and mechanics in the near future", says Mr. Tumanov.

Vitali Tumanov, Customer Service Manager of Zeppelin, praises Ponsse for its active role in developing training.

Ponsse's long-term investments in supporting dealers has introduced it to a large number of new customers in Russia. The conditions are demanding so difficulties are bound to occur. However, overcoming them through joint efforts between Ponsse and the dealers provides a foundation for long-term customer relations.

Anna Kozhevatova, Forest Sector Manager of Zeppelin, appreciates Ponsse's commitment to long-term cooperation.


PONSSE

SERVICE BUSINESS

Services for the entire lifetime of a machine

Juhani Mäkynen
Service Director
Ponsse Oyj

Ponsse's maintenance services cover all customer and distribution chain services: local service outlets close to the customer and the factory's strong maintenance service organisation that serves the distribution net globally.

The purpose of maintenance services is to keep the customer's machines in good repair and to ensure the targeted production process usability level. Our maintenance service covers customers' needs for the entire equipment life-span. Our key global products are original PONSSE parts, PONSSE accessories, maintenance and upgrade packages, repair workshop services, field maintenance services, operator and maintenance training, service network upkeep services, and replacement machine services. Our ability to serve customers is based on skilled, motivated staff around the world.

GLOBAL SERVICE NETWORK

In 2007, Ponsse extended its service network to cover nearly forty countries. Our service partnership network now comprises some 300 qualified service technicians, who ensure the usability of PONSSE products in all continents. In rapidly growing areas, such as Russia, China and Latin America, Ponsse opened service centres supporting our customers' operation. We also set up new service centres with our partners in other areas, too.

SERVICES TO ADDRESS ALL CUSTOMER NEEDS

Ponsse's worldwide clientele is composed of both major forestry companies and small private businesses. An indication of successful cooperation is numerous long-term customer relations regardless of size and location. Our challenge and aim is to find the most suitable ways of serving all customer groups with a view to regional special factors. A global phenomenon in the forest machine sector is to focus on the company's own core expertise regardless of the size of the machine fleet. Machine maintenance services are purchased from a high-quality supplier. This offers Ponsse new opportunities for offering complete service packages to customers. We address the needs of the entire clientele in our service offering.

REGIONAL GROWTH OF THE SERVICE MARKET

Maintenance service is provided in the form of local business in which we grow together with our customers. In our traditional fields of operation, our maintenance service has expanded steadily according to customers' needs. Maintenance services have grown significantly in new areas, too. In connection with the machine procurements of major customers, Ponsse has made major investments for producing services and for launching new customer-supporting service operations. These investments have typically required corporate-level decisions. Experiences of cooperation have been excellent, and we will continue to keep up our ability to expand geographically together with selected customers.

SERVICE GROWTH BASED ON QUALITY AND REFORM

Ponsse's service business growth is based equally on strong traditional forest areas, and new markets. Effective harvesting requires effective machine maintenance both in Scandinavia and Latin America. Although business is pursued locally, quality standards are global. Quality is the only element for competing in the provision of services. Ponsse's maintenance services have been able to increase their share, thanks to high quality, and we will promote this trend in the future as well. The purpose of maintenance services is also to develop new services according to the customer's needs. To match the increasing size of the machine fleet, we have developed services for securing or extending the calculated machine lifetime. We have also launched a service for reconditioning reusable parts. We will make major investments in service R&D in the future.

OUTLOOK

Ponsse's maintenance services have two tasks: to provide even better, more high-quality services in the traditional forest machine market and to bring services to new areas where our customers are expanding. Both of these sectors are equally important to us and we intend to support our customers in the future, too.

Servicing machines on-site in Uruguay.

Ponsse is a strong brand also in servicing products.

PRODUCTION

More effective and customer-oriented production process

Juho Nummela
Factory Director
Ponsse Oyj

Productivity and the quality of operation have been brought to a brand new level in Ponsse's factory in Vieremä. The standardisation of the production process and the introduction of broad, modular product families serve the customer's machine procurements and the entire product lifespan. The customer can flexibly choose the desired features for its forest machine and the production is capable of implementing them effectively.

The product information saved in Ponsse's systems supports the maintenance of the machine throughout its lifespan. All later maintenance services will rely on the product structure data, from spare parts all the way to servicing measures. The product structure data is continuously updated, so Ponsse always has access to upgraded structural data and can provide the customer with the correct parts.

Ponsse has always designed, tested and manufactured all of the key components for its products. This ensures effective quality assurance, management of component-related risks and the availability of maintenance parts through the product lifespan. All manufacture is in Ponsse's own hands, which also improves the profitability of production.

YEAR OF GROWTH

The year 2007 marked a period of major growth in production. In addition to growth, Ponsse invested in quality improvements and launched the manufacture of new machine models. The strengthening of the product development organisation also showed in the ongoing development of the production organisation. The development of the supplier network had a positive impact on production despite the general material availability problems. Tried and tested operating models were extended to cover the entire factory. Ponsse perceives the innovativeness of the staff as a major resource and is constantly developing functions, such as encouraging initiatives, in order to support innovativeness.
With the increased machine delivery volumes, Ponsse has continued its investments in future growth and competitiveness. These and near-future investments will provide the basis for steady, profitable growth and global customer support. All the investments are targeted at constantly developing product manufacturability, quality and reliability.

In 2007, major resources were assigned to constant improvement, i.e. to the constant development of products and processes and to eliminating any problems. The efficiency of constant improvement is above all ensured by cooperation between production, product development, management, quality, purchasing and other organisations, across organisation boundaries. One of Ponsse's competitive edges is collaboration between organisations and fast reaction to problems. If problems occur in production, the representatives of different organisations can be called to the site immediately so problems can be solved quickly.

In 2007, part manufacturing activities focused on developing the automation system and processes.

QUALITY INVESTMENTS IN ASSEMBLY AND PARTS MANUFACTURE

The investments of 2007 continued Ponsse's investment programme, the aim of which is to develop the quality of end products, increase production volumes and improve the Group's cost efficiency. The production model enables the manufacture of individual customer-specific products with the efficiency of serial production.

The Vieremä factor has broadly moved over to a line-type production system. In assembly, lines are already in use for basic machines, cabins and harvester heads. Line production was also adopted in crane assembly in summer 2007 so the major reforms in final assembly have now been completed. The focus in the near future will be on developing module testing and the constant improvement scheme for minimising production line errors and developing the entire factory layout, for instance.

As for part manufacture, major attention was paid to developing automation and processes. In addition to replacement investment, shot blasting in the painting shop was automated with two robots, which removed a hard manual work phase and markedly accelerated the shot blasting process. Line-type production will be adopted in frame welding and a frame machining centre added in 2008.

PRODUCTION IN BRAZIL

Ponsse Brazil's subsidiary in Sao Paolo manufactures PONSSE harvester heads for eucalyptus debarking. The factory focuses on the assembly of harvester heads. Ponsse wanted to bring the production of debarking harvester heads close to the local customers and at the same time to show that Ponsse is committed to the Latin American market.

The same processes and production and quality requirements were introduced in the Brazil factory in 2007, as in Ponsse's Vieremä factory. The operation is controlled from the Vieremä factory in close cooperation with the local organisation. Product development on debarking harvester heads was also developed forcefully, on location in Brazil. Production volumes are rising strongly and the factory now has preconditions for increasing them further.

The factory in Brazil meets all the quality and operational standards used in Vieremä, Finland.

The Vieremä factory has transferred to a highly line-based production system.

EPEC OY

Ponsse's technology company continued its strong growth

Jouni Matikainen
Managing Director
Epec Oy

Ponsse's technology company Epec Oy continued its strong positive growth in 2007. It has now been able to really utilise the capacity of the production line that was renewed in the previous year. The company is constantly working on sustaining high quality, and the pass marks of the new automation testing equipment obtained for the production line have showed a progressive trend throughout the year.

Thanks to increased production capacity, new customer acquisition on the international market has been improved even further. High quality products, broad application expertise and comprehensive project service have strengthened Epec's position as the supplier of complete system packages, which has increased the trust shown by customers.

The year 2007 introduced several potential new partners with whom negotiations are currently in progress. 2007 also marked the first step to the South American market when Epec Oy and the Brazilian Syndeo Technologies signed an agreement on the retailing in and support of machine control systems.

YEAR OF FAST PRODUCT DEVELOPMENT

Epec Oy strengthened its product family by launching the MobilePC vehicle computer for use in machine environments that it had developed in close collaboration with Ponsse. After exhaustive tests in summer, the device was adopted into production at Ponsse at the turn of the year.

Epec attended for the first time the Agritechnica 2007 Fair in Hannover and Bauma 2007 in Munich. The Fairs were an important, successful step in entering the central European market. The stands attracted many visitors and the MobilePC, which was first presented at Bauma, aroused a lot of interest.

The season's novelties also included a 2040 colour display, whose supplementary user-friendly graphical programming environment was presented at the PlC/IPC/Drives Exhibition Fair in Nuremberg. Epec Oy also attended the SmartSystems 2007 event, which was arranged in Seinäjoki where Epec is headquartered.

DEVELOPING CUSTOMER SUPPORT

The product support organisation was strengthened during the year. In 2008, basic intensive courses on control system products will be arranged for customers. Product training will be supplemented with customised, targeted training sessions.

INVESTMENTS IN QUALITY ASSURANCE

Production quality control has been and will continue to be improved in order to match the growing business. The production control systems, optical inspection devices and final testing equipment of the new production line together make up a comprehensive testing process that covers the entire production line.

A new investment in 2007 was automation testing equipment for embedded display units. In addition, comprehensive type approval and environmental tests complying with vehicle directives were completed.

Top results were achieved with Epec's control units in for example shock-and vibration resistance tests that represent mechanical strain. The shock-resistance value was an astonishing 100 g, and the vibrate resistance 19 grms (10-500 Hz). The use of the existing product and production information management systems was also developed as part of quality assurance.

"Epec considerably strengthened its position as the developer and supplier of control systems for mobile machines during the year. The company's sales and marketing investments in the international market created a strong position for its products and services, especially in China. We made considerable R&D investments and launched several new products. This gives a very good outlook for 2008, which will be Epec's 30th anniversary year", says Jouni Matikainen, Managing Director of Epec Oy

Business operations in China are growing fast. The picture shows a Chinese vertical drill that carries Epec's machine control system.

PONSSE at a harvesting site in China.

PURCHASING AND LOGISTICS

Ponsse and partnership companies in close co-operation

Pasi Arajärvi
Director of Purchasing and Logistics
Ponsse Oyj

Ponsse began to systematically develop its supplier network in 2005 with the aim of concentrating the delivery of all strategic components to carefully selected strategic partners capable of filling Ponsse's strict quality and operational reliability requirements. Component availability problems are a generally recognised risk factor in the industry and the intention is to minimise its effects by developing the supplier network. To prepare for fluctuations in global demand and especially that for heavy machinery, it is important to anticipate risks related to raw materials and the subcontractor and supplier network.

Agreements signed with partner companies have strengthened Ponsse's risk management. The agreements are comprehensive and cover a long period of time, and both parties definitely commit themselves to complying with the agreed quality and delivery time criteria.

Partnership agreements have also been concluded with service companies. The transport of PONSSE forest machines to ports for exports takes place by rail in collaboration with the VR Group. Growing export volumes introduced the need to ensure that transports are environmentally friendly, safe, punctual and reliable, which promotes the fluency of the export network.

Several processes of continuous development have been launched in the purchase organisation with the aim of ensuring high end product quality and improving production turnaround times and processes. Close cooperation is pursued with partner companies in developing and planning components, for instance, which improves results and the competitiveness of both parties. With closer co-operation, suppliers can better anticipate the needs of Ponsse's growing machine volumes and make their investments accordingly.

Several suppliers have been selected for some components, each of them operating in their own market area. This means that prices can be kept competitive and the availability of products ensured. Ponsse has extended its purchase organisation to different continents and the operation is managed from Vieremä.

PARTNER COMPANIES

In future, too, the high quality of PONSSE products is ensured by developing the supplier network and building the partner network. Ponsse's objective is to attract all important suppliers to the business park for partner companies in Vieremä. The park is situated in the immediate vicinity of the Vieremä factory and already houses RATEsteel Oy, HT Lasertekniikka Oy and Hytar Oy. In addition, SKS Connecto Oy will start there in spring 2008. Ponsse is still looking for partners capable of supplying goods according to the needs of Ponsse's customer-oriented production.

The location of partner companies close to Ponsse's production facilities has proved even more profitable than expected to both parties. The close location facilitates daily cooperation, helps in reacting to problems

Exported PONSSE machinery is transported to harbours by railway.

The RATEsteel Oy facilities will be expanded in 2008.

and improves reliability of delivery. Ponsse and its partner companies have pursued especially close cooperation in product development and quality control. The proximity of the business park for partner companies improves the flexibility of Ponsse's own production and reduces the need for storage. The companies are committed to using the best technologies in their production, which shows in product quality and deliveries.

The Municipality of Vieremä is actively engaged in providing conditions for pursuing business: Vieremän Toimitilat Oy was responsible for building facilities for the partner companies, for instance. The municipality is characterised by a generally positive business atmosphere and systematic commitment to developing the business sector. New partner companies and Ponsse's growing staff numbers have posed challenges for the municipality, e.g., by increasing the need for new apartments.

RATEsteel Oy

RATEsteel Oy, which operates in the business park for partner companies, manufactures load spaces, feed rollers and log gates for forwarders. The company operates in facilities with an area of approx. 2000 m^2 that were completed two years ago, but the aim is to extend the floor area in the coming months due to growing production volumes. Managing Director of the company that was founded 10 years ago is Teuvo Jääskeläinen.

Products are manufactured through queue control in accordance with Ponsse's customer-oriented production methods and delivered to Ponsse's factory as ready-to-install sub-assemblies. Several development projects are currently being implemented and planned for raising the degree of automation in production and the efficiency of production, for instance, so that even larger ready-to-install sub-assemblies can be directed to Ponsse's production. RATEsteel currently employs automatic welding control on feed rollers, for instance.

RATEsteel has a staff of 20 persons, and according to Managing Director Teuvo Jääskeläinen the availability of labour is good in view of future growth too. With the work becoming more diversified and automatised, young people have begun to show more interest in the metal industry. The average age of the company's staff is 28 years. Staff development has a key role in the company: the staff are currently undergoing a quality training scheme that acts as a tool for in-house development and is an indication of the company's commitment to high-quality production.

"It has been a pleasure to see how the staff are 100 % committed to developing our operation. Our employees are innovative and proud of their skills. They know they are making the world's best forest machines, and it clearly motivates them to do their best," Teuvo Jääskeläinen says.

According to Mr. Jääskeläinen, close cooperation with Ponsse has developed operations and product quality in both companies. Ponsse has also been engaged in planning RATEsteel's production and in solving problems. "Cooperation has been very smooth. We receive help if we need it and we can openly discuss matters," Mr. Jääskeläinen says. "Expanding with Ponsse's growing production volumes has offered us a chance to develop and take our technical expertise quite far. The development outlook is good and we want to develop our activities continuously. Production planning plays an important role in our operation. Prompt deliveries call for effective production planning, as it is not a good idea to keep large inventories," Mr. Jääskeläinen says.

HT Laserteknikka Oy

In November 2006, Ponsse signed a partnership agreement with HT Lasertekniikka Oy. The company is the leader in laser and water cutting in Finland, and has the largest range

'At RATEsteel Oy, we invest in increasing the degree of automation in our production,' says the Managing Director, Teuvo Jääskeläinen.

HT Lasertekniikka Oy's facilities in Vieremä.

of equipment and capacity in the country. The agreement covers sheet-like steel components, which HT Lasertekniikka cuts and edges for machine frame manufacture. Mauri Pekkarinen, Minister of Economic Affairs, inaugurated HT Lasertekniikka's new facilities in Vieremä on 15 October 2007. Covering a floor area 2500 m², they feature the latest technology available in the field. The company moved its operation and a staff of 35 from the Iisalmi outlet to Vieremä in spring and summer 2007. The average age of the staff is 38.

HT Lasertekniikka sets out from customer-oriented complete solutions and delivers systems to a broad clientele. ISO 9001 and ISO 14001 certified quality and environmental systems support the quality of the company's activities. The company was founded in 1989 by Hannu Teiskonen, who is currently the Chairman of the Board of Directors.

In Vieremä, the company has access to laser cutting equipment, edging presses, a CNC machining unit and shot blasting equipment. "The latest technology greatly improves our price competitiveness. We also aim to be at the forefront of technology development in the European Union. In practice it means introducing new laser processing methods – we do laser welding up to 8 mm.", says Ilkka Nikkilä, Managing Director of HT Lasertekniikka Oy.

"We have been able to recruit skilled staff in Vieremä, in whose recruitment and training we have collaborated with equipment suppliers. We need more metal sector professionals in the future, too, and aim to become a sought-after employer. The Municipality of Vieremä has kept its commitments superbly and for its part made it possible for us to move to Vieremä. The company has got things done smoothly with Ponsse and the Municipality of Vieremä. We intend to listen carefully to customers' needs in future, too, and to look for sustained business growth together with them," Mr. Nikkilä says.

According to Managing Director Ilkka Nikkilä, proximity and close cooperation allow a seamless connection to Ponsse's production system, which is a precondition for building a world-class production system.

Hytar Oy

In November 2006, Ponsse also concluded a tripartite partnership agreement with Manuli Rubber Industries S.p.a and Hytar Oy on the manufacture of hydraulics hose sub-assemblies and connectors. Manuli Rubber Industries is a globally operating, leading European manufacturer of hydraulics hoses and connectors, whose products are known for their high quality. Hytar Oy operates as Manuli's partner in Finland and Russia.

Founded in 1971, Hytar Oy is part of the AVS Group. Hytar Oy's production facilities in Vieremä use state-of-the-art technology with many innovative production solutions. Its machine fleet in Vieremä is also completely new. The company's production facilities cover some 2000 m² and it has a staff of 24 persons, of whom 60 per cent are women.

The availability of labour in Vieremä has been good and most of the recruitment was completed through training arranged by the employment agency and Hytar. The average age of the staff is 28. "We have been very satisfied with the services of and cooperation with the employment agency in Iisalmi. Our staff have proved committed and precise in their work. Here, people seem to be innately accustomed to work, showing an ex-

'Close co-operation enables a seamless connection to the Ponsse production system,' says Ilkka Nikkilä, HT Lasertekniikka Oy's Managing Director.

The business of Hytar Oy's new facilities in Vieremä started at full power in the beginning of 2008.

cellent attitude towards their work. Another asset of a small locality is that problems can be solved fast without wasting time on unnecessary bureaucracy," says Kaarle Tuominen, Managing Director of Hytar Oy.

"Although we are used to collaborating closely with the companies that we supply, a partnership agreement of this size is unique for us, too," Kaarle Tuominen says. "In Vieremä we currently focus solely on making products for Ponsse, as we want to ensure that everything runs smoothly. We also have capabilities for serving other nearby companies in the future."

According to Sales Manager Raimo Tuominen from Hytar Oy, cooperation with Ponsse is close and pursued in a constructive spirit: "We have daily contacts, which of course also shows in the smoothness of activities. The rate of Ponsse's production and R&D is high so close cooperation of this kind enables close collaboration in both R&D and quality issues. It also ensures that we can prepare for growth in Ponsse's production." According to Kaarle Tuominen, the cooperation is also informative, as it has been necessary to rethink many things in production and products: "We have been able to solve our common problems with Ponsse in a constructive spirit and the current situation and outlook look very good".

SKS Connecto Oy

SKS Connecto Oy will move its production from Otanmäki to Vieremä in May 2008. The company will establish itself in new premises in Ponsse's business park for partner companies and employ some 35 persons. SKS Connecto Oy specialises in high-quality customer-specific solutions and contract manufacture, including design, assembly services and manufacture of cable sets and electrical harnesses. The company is the market leader in its field in Finland. SKS Group Oy, the parent company of SKS Connecto Oy, was founded in 1924. It provides machine building and equipment manufacture solutions for industry, ranging from importing of components to system deliveries.

Jari Vähämäki, Managing Director of SKS Connecto Oy, says that the operation will be developed vigorously and the targeted number of staff in the future premises will be 60. The building project with the Municipality of Vieremä has proceeded well, though the lack of moderately priced rental apartments has somewhat hampered the moving of employees to Vieremä.

"The current premises in Otanmäki are not in line with our growth target so we were already looking for a new location nearby. Becoming established in Vieremä offers good opportunities for developing cooperation with the main customer. With the close location, it is also possible to improve the flow of information and materials and to create a feeling of solidarity," Mr. Vähämäki says.

Hytar Oy Sales Manager Raimo Tuominen and Managing Director Kaarle Tuominen stress the significance of co-operation, especially in product development and quality.

SKS Connecto Oy's Managing Director Jari Vähämäki trusts that the close location will further develop the business.

BOARD OF DIRECTORS AND MANAGEMENT

The members of the Board of Directors were elected at the Annual General Meeting on 12 April 2007.

ELECTION OF THE MEMBERS OF THE BOARD OF DIRECTORS

According to the Articles of Association, Ponsse Oyj's Board of Directors is composed of no fewer than five and no more than eight members. The members of the Board of Directors are elected at the Annual General Meeting, which must be held by the end of June pursuant to the Articles of Association. The term of office of a member of the Board expires at the following Annual General Meeting. The Board elects a Chairman from among its members for one term of office at a time.

MEETINGS OF THE BOARD OF DIRECTORS

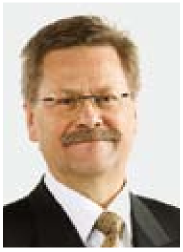
The Board of Directors meets eight times during the financial year. Members of the Board of Directors regularly attended the meetings, with attendance percentage at 95.8%.

BOARD OF DIRECTORS ON 31 DECEMBER 2007

CHAIRMAN

EINARI VIDGRÉN
B. 1943

- Industrial Counsellor
- The founder of Ponsse Oyj
- Chairman of the Board of Directors of Ponsse Oyj since 1993
- Chairman of the Board of Directors of Epec Oy
- Shareholding in Ponsse Oyj on 31 December 2007: 13,261,456 shares



ILKKA KYLÄVAINIO
B. 1946

- Wood industry technician
- Member of the Board of Directors of Ponsse Oyj since 1999, President and CEO and Chairman of the Board of Directors of Keitele Forest Oy, Keitele Engineered Wood Oy, Keitele Timber Oy and Keitele Energy Oy, member of the Board of Directors of Suomen Sahat ry, member of the Board of Directors of Epec Oy
- Shareholding in Ponsse Oyj on 31 December 2007: 22,640 shares

JUHA VIDGRÉN
B. 1970

- Master of Pedagogy
- Vice Chairman of Ponsse Oyj's Board of Directors, member of the Board of Directors of Ponsse Oyj since 2000, member of the Board of Directors of Finntoto Oy, member of the Board of Directors of Epec Oy, member of the Board of Directors of Vieremän Oriyhdistys ry (Vieremä Stallion Association), Chairman of Vieremän kylänraitti ry (Vieremä Village Association).
- Shareholding in Ponsse Oyj on 31 December 2007: 2,711,500 shares

MEMBERS

MAARIT AARNI-SIRVIÖ
B. 1953

- MSc (Eng), MBA
- Member of the Board of Directors of Ponsse Oyj since 2007, Borealis Group, Director of Fenolit Business Unit in Finland (2001-2007), President and CEO of Mint of Finland Ltd as of 1 April 2008, member of the Board of Directors of Borealis Polymers Oy, member of the Board of Directors of Rautaruukki Oyj, member of the Board of Directors of Wärtsilä Oyj, member of the Board of Directors of Epec Oy, member of the Board of Directors of Vattenfall AB (2003-2007)
- Shareholding in Ponsse Oyj on 31 December 2007: 3,000 shares

NILS HAGMAN
B. 1947

- BSc (Econ)
- Member of the Board of Directors of Ponsse Oyj since 2004, Chairman of the Board of Directors of Mateko Oy, member of the Board of Directors of Epec Oy
- Shareholding in Ponsse Oyj on 31 December 2007: 2,000 shares

SEPPO REMES
B. 1955

- MA, LSc (Econ)
- Member of Ponsse Oyj's Board of Directors since 2004, member of the Board of Directors and Chairman of the Auditing Committee of the Board of Directors of OMZ, member of the Board of Directors and Chairman of the Auditing Committee of the Board of Directors of SeverstalAvto, member of the Board of Directors, Chairman of the Auditing Committee of the Board of Directors, member of the Valuation Committee and Member of the Strategy and Reform Committee of RAO EES, member of the Board of Directors of System Operator (RAO EES), member of the Board of Directors of OGK-6, member of the Board of Directors of HydroOGK, member of the Board of Directors of the Association for Protection of Investor (API), member of the Board of Directors of Russian Institute of Directors (RID), member of the Board of Directors and Chairman of the Auditing Committee of the Board of Directors of Kirovskie Zavody, member of the Board of Directors of MRSK Volga, Member of the Board of Directors of LSR, President and CEO of OOO Kiuru, member of the Board of Directors and Chairman of the Auditing committee of the Board of Directors of Sibur Holding, member of the Board of Directors of Epec Oy
- Shareholding in Ponsse Oyj on 31 December 2007: 9,320 shares

MANAGEMENT TEAM 31 DECEMBER 2007

ARTO TIITINEN, b. 1959,
Chairman of the Managemen Team
- MBA
- President and CEO
- President and CEO since 1 April 2004
- Shareholding in Ponsse Oyj on 31 December 2007: 114,080 shares

PASI ARAJÄRVI, b. 1967
- Bachelor of Logistics
- Purchasing and Logistics Director
- Joined Ponsse in 2002

TAPIO INGERVO, b. 1967
- MSc (Econ)
- Vice President responsible for the Central- and South-European business area, President and CEO of Ponssé S.A.S.
- Joined Ponsse in 2002
- Shareholding in Ponsse Oyj on 31 December 2007: 2,000 shares

JARI MONONEN, b. 1974
- Forester, MSc (For)
- Communications Director
- Joined Ponsse in 2001

JUHANI MÄKYNEN, b. 1971
- MSc (Eng)
- Service Director
- Joined Ponsse as of 2 April 2007

JUHO NUMMELA, b. 1977
- Dr.Tech.
- Factory Director
- Joined Ponsse in 2002
- Shareholding in Ponsse Oyj on 31 December 2007: 26,246 shares

PAULA OKSMAN, b. 1959
- MA
- HR Director, Principal of Ponsse Academy
- Joined Ponsse in 2005

MIKKO PAANANEN, b. 1963
- LLM
- CFO, Deputy to the President and CEO of Ponsse Oyj
- Secretary of Ponsse Oyj's Board of Directors
- Joined Ponsse in 2002
- Shareholding in Ponsse Oyj on 31 December 2007: 5,040 shares in his own and his ward's names

SEPPO TAATILA, b. 1953
- MSc (Eng)
- Technology and R&D Director
- Joined Ponsse in 2006

JARMO VIDGRÉN, b. 1975
- Commercial College Graduate in Marketing
- Vice President responsible for the North-European business area, Sales Director
- Joined Ponsse in 1997
- Shareholding in Ponsse Oyj on 31 December 2007: 232,140 shares in his own and his ward´s names

SALES MANAGEMENT GROUP 31 DECEMBER 2007

ARTO TIITINEN, b. 1959
- MBA
- President and CEO
- President and CEO since 1 April 2004

CLAUDIO COSTA, b. 1962
- MSc (Econ)
- Vice President responsible for the South-American business area, President of Ponsse Latin America Ltda
- Joined Ponsse in 2005

TAPIO INGERVO, b. 1967
- MSc (Econ)
- Vice President responsible for the Central and South-European business area, President of Ponssé S.A.S.
- Joined Ponsse in 2002

MIKKO LAURILA, b. 1970
- Forest engineer
- Vice President responsible for the Asia-Pacific and Africa business area, President of Ponsse China Ltd. and Ponsse Asia Pacific Ltd.
- Joined Ponsse in 1999

MARKO MATTILA, b. 1973
- Forest engineer
- Vice President responsible for the North-American business area, President of Ponsse North America, Inc.
- Joined Ponsse as of 1 April 2007

VILLE SIEKKINEN, b. 1955
- MPS, MBA
- Vice President responsible for the Russian business area, President of OOO Ponsse
- Joined Ponsse in 2005

JARMO VIDGRÉN, b. 1975
- Commercial College Graduate in Marketing
- Vice President responsible for the North-European business area, Sales Director
- Joined Ponsse in 1997

PONSSE'S PRODUCT RANGE

HARVESTERS

THE NEW PONSSE ERGO

Ponsse's most important new product in 2007 was the PONSSE Ergo. The most powerful harvester in its size category, PONSSE Ergo went through extensive improvements made to the base machine, based on customer feedback. In addition, the PONSSE Ergo's performance and usability were developed by means of a new harvester head and crane.

The assets of the new PONSSE Ergo harvester are the new C4 crane and H7 harvester head. The innovative solutions included in the structure of PONSSE H7 enable faster harvesting, improve the quality of harvested wood and increase the harvester head service life. Its superior feed efficiency and fast delimbing make handling large stems easier. The PONSSE C4 is a new efficient sliding boom crane with a lifting power of 228 kNm, which is absolutely the greatest in its size category.

The new Opti4G 4.602 data system version, the new-generation control modules and several improvements to the base machine ensure high productivity and utilisation rate. User comfort is secured by an improved, patented active damping function as well as the market's most versatile crane and harvester head range.

Ponsse's product range comprises harvesters in all size categories. An efficient diesel engine and hydraulics system optimise the machine's productivity, operation and fuel consumption. The ergonomic cabin on PONSSE harvesters keeps the driver alert all day.

PONSSE Bear

PONSSE Beaver

FORWARDERS

PONSSE forwarders are equipped with the most efficient and economic diesel engines in their size class, and with high-performance hydraulics. Forwarders are delivered either as a 6-wheel or 8-wheel version. Efficient loaders and the accurate OptiControl control system guarantee the tractive force and productivity of the machines.

PONSSE Elephant

PONSSE BuffaloKing

PONSSE Buffalo

PONSSE Elk

PONSSE Wisent

PONSSE Gazelle

PONSSE 10W

In October 2007, Ponsse launched a prototype of a 10-wheel solution for harvesting on soft soil. The solution enables profitable and environmentally friendly harvesting also on soil with poor bearing capacity. The concept is based on a 10-wheel, five-axle forest machine and a supporting track solution, which together significantly reduce the surface pressure imposed on the ground as compared with conventional solutions. The product will be introduced into production in 2008.

PONSSE 10W

DUAL
PONSSE Dual is a harwarder that can be converted from a harvester to a forwarder and vice versa in about ten minutes. With the Dual, forest machine contractors can flexibly supplement the capacity of their standard equipment and cost-effectively carry out both logging and short-distance transportation in contracts where a two-machine harvesting chain would be unnecessarily bulky and expensive in view of the returns. There are two size categories in the product line: BuffaloDual and WisentDual.

PONSSE Dual

SMALL WOOD AND BIOENERGY
Ponsse also invests in developing machines and harvesting methods for small wood and energy wood. The EH25 energy wood harvester head is a flexible solution for small and energy wood harvesting and prevents damage to the remaining forest. It makes harvesting effective, especially when combined with the PONSSE Dual. Ponsse offers a group handling feature for the H53 and H7 harvester heads for the simultaneous handling of several stems. With the function, it is possible to collect, delimb and cut several stems at the same time as bundles.

CONTROL SYSTEMS, OPTI
The intelligent information and measuring systems included in the OPTI product family increase the accuracy and productivity of wood harvesting at all stages. They allow making the drive transmission and loader management of forest machines logical, accurate and fast. The OPTI control system is clear and easy to use for the machine operator.

CONTROL SYSTEMS, MOBILE MACHINES
The main products of Ponsse's technology company Epec Oy include embedded machine control systems for mobile forest machines. Epec's intelligent, programmable control and display units are developed to withstand extreme conditions. In demanding machine applications the control system is supplemented by the Opti vehicle computer manufactured by Epec, which is suitable for machine and vehicle environments. Epec also manufactures measuring instruments for harvester heads and loader scale products, such as PONSSE Load Optimiser load scales.

HARVESTER HEADS

Ponsse has a broad and advanced harvester head range. PONSSE harvester heads operate accurately and do not damage the trunk surface unnecessarily. At the same time, they feature advanced power and durability for enduring extreme stress. In addition to harvester heads for coniferous and deciduous trees, the range also has heads for handling eucalyptus trees and small and energy wood. Ponsse's harvester head range: H53, H60 series, H73e, H7, H8 and debarking models PONSSE 550 and 650.

SERVICE

Ponsse has a comprehensive maintenance network providing service in all of its market areas. The demand for Ponsse maintenance contracts has increased rapidly. By making a maintenance contract, forest machine contractors can ensure the usability of their machines and easily calculate the maintenance costs.

TRAINING TECHNOLOGY

The PONSSE 3D forest machine simulator is an effective, inexpensive practising solution for performing forest machine training in schools and companies. Performing advance training in simulated conditions saves machines and forests in real conditions. The machine fleet can be used for productive work during training. The maintenance simulator developed by Ponsse graphically illustrates a forest machine's maintenance functions and simulates all of the forest machine's functions.

TRADE-IN MACHINES

Ponsse offers a comprehensive selection of used forest machines for thinning and regeneration harvesting. Ponsse markets both its own and other manufacturers' trade-in machines, and they are sold trans-nationally. Versatile maintenance and upgrade services are available for trade-in machines.

FINANCIAL STATEMENTS

CONTENTS

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

BOARD OF DIRECTORS' REPORT FOR THE PERIOD 1 JANUARY – 31 DECEMBER 2007

GENERAL

Ponsse Group's turnover for the financial period stood at EUR 310.1 million (EUR 238.6 million in 2006) and operating profit at EUR 37.1 million (EUR 29.6 million in 2006). Profit before tax was EUR 36.4 million (EUR 28.5 million). Earnings per share were EUR 0.95 (EUR 0.75).

TURNOVER AND PROFIT

Consolidated turnover rose by 29.9 per cent, year on year, to EUR 310.1 million (EUR 238.6 million). International business operations made up 70.6 per cent of turnover (62.8 per cent).

Turnover was regionally distributed as follows: Nordic countries 47.2 per cent (52.2 per cent), the rest of Europe 41.0 per cent (36.2 per cent), North and South America 10.2 per cent (10.8 per cent), and other countries 1.6 per cent (0.8 per cent).

There was a keen demand for roundwood on the key Nordic market during the financial year. In Finland, timber business was in part activated by the export customs duties imposed by Russia on roundwood. Increased thinning enhanced the sales of forest machines in Finland and Sweden.

There was a keen demand in Central Europe for cut-to-length method forest machinery on account of a change in harvesting methods, increasing felling volumes and keen demand for roundwood.

Major forest industry investments and the adopted timber customs duties had a favourable impact on the demand for Ponsse's forestry tractors in Russia.

In North America, the market situation was challenging throughout the period under review. Work on opening the South American market and developing products meeting the local special conditions continued during the financial year. During the period under review we concluded the first significant deals in Brazil and Uruguay.

Staff costs for the period totalled EUR 42.5 million (EUR 37.6 million), and other operating expenses were EUR 30.4 million (EUR 24.5 million). Net financial expenses were EUR -1.7 million (EUR -1.5 million). Income and expenses resulting from currency risk hedging were included in the financial items.

Consolidated operating profit for the financial period rose by 25.3 per cent compared with the previous year, being EUR 37.1 million (EUR 29.6 million). Operating profit accounted for 12.0 per cent of turnover (12.4 per cent). Return on capital employed (ROCE) stood at 37.4 per cent (35.5 per cent).

Profit for the accounting period totalled EUR 26.5 million (EUR 21.0 million). Earnings per share were EUR 0.95 (EUR 0.75).

BALANCE SHEET AND FINANCIAL POSITION

The consolidated balance sheet total amounted to EUR 153.9 million (EUR 125.0 million) at the end of the year. Interest-bearing liabilities totalled EUR 33.9 million (EUR 30.9 million). Net liabilities were EUR 19.5 million (EUR 21.9 million). The parent company's net receivables from other Group companies stood at EUR 42.8 million (EUR 30.0 million). Equity ratio stood at 50.3 per cent (49.1 per cent). Cash in hand and at banks came to EUR 12.6 million (EUR 8.6 million). The company uses finance credit agreements to maintain financial flexibility and balance seasonal fluctuations, of which EUR 20 million remained unused at the end of the financial period.

The reported cash flow from business operations reached EUR 19.0 million (EUR 6.8 million), while that from investing activities was EUR -6.4 million (EUR -5.2 million).

External contingent liabilities amounted to EUR 4.1 million (EUR 3.8 million) at the end of the financial period.

ORDER INTAKE AND ORDER BOOKS

The order intake for the period totalled EUR 361.2 million (EUR 242.9 million), while period-end order books were valued at EUR 110.1 million (EUR 59.2 million). The order books included dealers' minimum purchase commitments, based on previous practice.

DISTRIBUTION CHANNELS

During the period, new service centres were opened at Pitkäranta in Russia, Riga in Latvia, Stemmen in Germany and Hyvinkää in Finland.

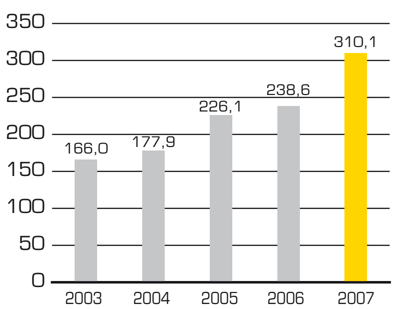
Two new maintenance and sales companies were opened during the year, one in China and one in Uruguay.

CAPITAL EXPENDITURE AND R&D

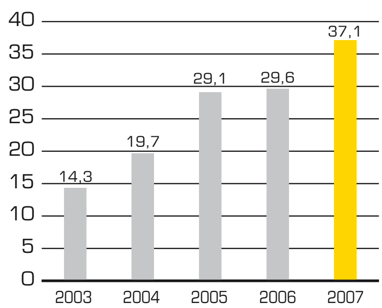
Ponsse invested considerably in R&D and in extending its product offering. The Group's R&D expenses totalled EUR 5.7 million (EUR 4.1 million). The amount of activated R&D expenses during the period was EUR 851 thousand (EUR 808 thousand).

During the financial year, Ponsse introduced a new forwarder solution for soils with poor

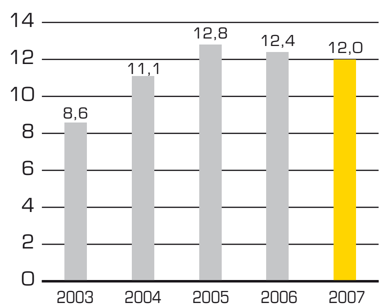
TURNOVER, MEUR



OPERATING PROFIT, MEUR



OPERATING PROFIT, %



load-bearing capacity. The concept is based on a ten-wheel, five-axle forest machine and a load-bearing crawler track solution. The new solution markedly reduces the surface pressure imposed on the ground as compared with traditional solutions and extends the harvesting period with a view to environmental considerations.

In May-June, Ponsse presented several new products and product improvements at the Skogselmia Fair in Sweden. The usability and productivity of the best-selling PONSSE Ergo harvester was improved with a development programme covering over 30 points. Other products displayed at the fair were the new C4 harvester crane and H7 harvester head, LoadOptimizer loader scale for weighing timber and energy wood, and an energy wood harvesting head feature which makes it possible to handle several trunks simultaneously.

Ponsse continued the strong development of eucalyptus and acacia harvesting technology during the period. The new harvester head control system Opti2 enables PONSSE harvester heads to be used more effectively in crawler-tracked machines, too. The effectiveness of debarking harvester heads was increased with several product technical improvements. Much of the debarking technology is being developed in Brazil.

Ponsse started cooperation with Moscow State University. The purpose of the cooperation is to arrange extensive training in the use of the cut-to-length method.

Epec Oy, a subsidiary, continued investments in production and testing equipment during the financial year,

The investment programme for the Vieremä factory continued during the period. Other major primary capital expenditure came from software and equipment. In addition, a number of operational development projects were implemented during the period.

Capital expenditure totalled EUR 6.6 million (EUR 5.3 million).

QUALITY AND ENVIRONMENT

Ponsse is committed to observing the ISO 9001:2000 quality standard, the ISO 14001 environmental system standard and the OHSAS 18001 occupational safety and health standard, the first of which is certified. DNV conducted an audit related to the ISO 9001 quality system during the period.

The company continued to develop operating models and production processes with quality control circles, internal audits and investments in quality leadership.

For the occupational health and safety system, the most important projects in 2007 were the compiling of a safety folder and the fire safety training and evacuation drills arranged at the Vieremä factory. The emphasis on occupational health care has been actively shifted towards a preventive approach, of which concrete examples include team-specific recreational exercises and special theme days for pause exercise. In addition, first-aid training was arranged to a broad personnel group.

A Group-level information security group was set up in order to develop information security. The group is responsible for the general development of information security, maintaining Group information security policy and coordinating the information security training arranged for the staff.

The company monitors and complies with the environmental legislation in all its functions. Legislative amendments are continuously monitored and the necessary actions are taken accordingly. In accordance with Ponsse's environmental policy, the company aims at developing and manufacturing products which in use exert as little load on the environment as possible. Environmental aspects are taken into account in the design and manufacturing of the products at all levels of the organisation.

CHANGES IN GROUP STRUCTURE

Three new subsidiaries were established in Ponsse Group during the financial year: Ponsse Asia-Pacific Ltd. (Hong Kong), Ponsse China Ltd. (Beihai, China) and Povery S.A. (Montevideo, Uruguay).

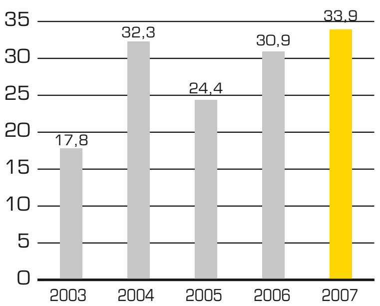
Lako Oy, a Turku-based subsidiary, was merged with its parent company Ponsse Oyj on 1 September 2007. The manufacture of harvester heads in Turku terminated at the end of the financial year.

No other changes took place in the Group structure. The subsidiaries included in the Ponsse Group are Ponsse AB, Sweden; Ponsse AS, Norway; Ponssé S.A.S., France; Ponsse UK Ltd., Great Britain; Ponsse North America, Inc., United States of America; Ponsse Latin America Ltda, Brazil; OOO Ponsse, Russia, Ponsse Asia-Pacific Ltd.; Hongkong, Ponsse China Ltd.; Kiina, Povery S.A.; Uruguay and Epec Oy, Seinäjoki, Finland. Sunit Oy, operating in Kajaani, Finland, is an affiliated company in which Ponsse Oyj has a holding of 34 per cent.

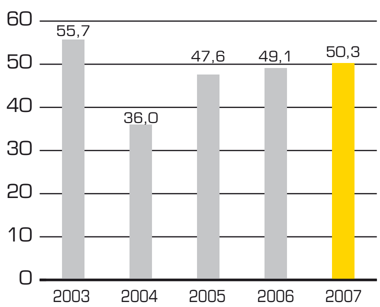
PERSONNEL

The Group had an average staff of 876 (795) during the period. At the end of the period, the Group employed 945 (795) people, 750 (643) of whom worked in Finland and 195 (152) abroad.

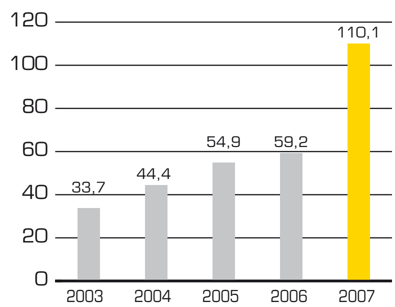
INTEREST-BEARING LIABILITIES, MEUR



EQUITY RATIO, %



ORDER BOOKS, MEUR



For the parent company, most of the increase in the number of staff took place in the maintenance business, production and R&D. The staff of the subsidiaries in Latin America and of Epec Oy increased on account of business growth.

GENERAL MEETING

The Annual General Meeting was held in Vieremä on 12 April 2007. The meeting dealt with matters stipulated by Section 10 of Ponsse Oyj's Articles of Association. The Annual General Meeting decided to distribute a dividend of EUR 0.40 per share for the period ending on 31 December 2006.

The Annual General Meeting authorised the Board of Directors to purchase a maximum of 250,000 of the Company's own shares with the Company's free shareholders' equity. The authorisation is valid until 30 June 2008. The Annual General Meeting also authorised the Board of Directors to decide on the assignment of a maximum of 250,000 of the Company's own shares. This authorisation, too, is valid until 30 June 2008.

The Annual General Meeting decided to pay a bonus to the Company's staff for 2006. The amount of the bonus was confirmed at EUR 85 for each month of employment.

MANAGEMENT AND AUDITORS

Ponsse Oyj's Board of Directors comprised six members during the financial period: Maarit Aarni-Sirviö (as of 12 April 2007), Nils Hagman, Ilkka Kylävainio, Seppo Remes, Mirja Ryynänen (until 12 April 2007), Einari Vidgrén and Juha Vidgrén. Einari Vidgrén acted as Chairman of the Board and Juha Vidgrén as Vice Chaiman.

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

The Board of Directors convened nine times during the financial period. Board members assiduously attended the meetings, whose attendance rate was 95.8 per cent.

President and CEO during the report year was Arto Tiitinen, MBA, with Mikko Paananen, LLM, CFO, acting as deputy.

During the financial year, the Group's Board of Directors comprised Pasi Arajärvi, Purchasing and Logistics Director, Tapio Ingervo, Vice President responsible for the Central and South Europe business area and President of Ponssé S.A.S., Jari Mononen, Communications Director, Juhani Mäkynen, Maintenance Service Director (as of 2 April 2007), Juho Nummela, Factory Director, Paula Oksman, HR Director, Seppo Taatila, Technology and R&D Director, Arto Tiitinen, President and CEO, Mikko Paananen, CFO, Deputy to the President and CEO of Ponsse Oyj, and Jarmo Vidgrén, Vice President responsible for the North Europe Business area.

The Sales Management Group comprised Cláudio Costa (Latin America), Tapio Ingervo (Central and South Europe), Marko Mattila (North America), Mikko Laurila (Asia-Pacific and Africa), Arto Tiitinen, President and CEO, Ville Siekkinen (Russia) and Jarmo Vidgrén (North Europe).

Ernst & Young Oy acted as the company auditors with Eero Huusko, Authorised Public Accountant, as the principal auditor.

SHARE PERFORMANCE

The trading volume of Ponsse Oyj shares for 1 January - 30 December 2007 totalled 3,812,860, accounting for 13.6 per cent of the total number of shares. Share turnover came to EUR 58.6 million, with the period's lowest and highest share price amounting to EUR 11.27 and EUR 19.40 respectively.

At the end of the period, the shares closed at EUR 14.20 and the market capitalisation totalled EUR 397.6 million.

On 21 December 2007, the Company reported that it would start the purchase of its own shares on 28 December 2007. Ponsse Oyj or its subsidiaries did not own the Company's own shares at the end of the period under review.

CORPORATE GOVERNANCE SYSTEM

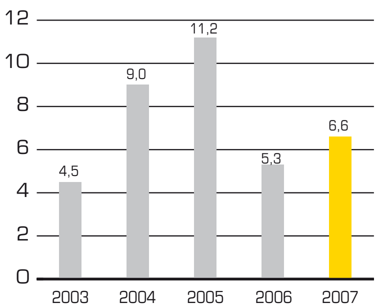
The company's Board of Directors has approved the principles for Ponsse Oyj's corporate governance, which are available on the company's website at www.ponsse.com/english/investors. The principles are based on the recommendation for good corporate governance issued by Helsinki Stock Exchange, the Central Chamber of Commerce and the Confederation of Finnish Industry and Employers in 2003.

RISK MANAGEMENT

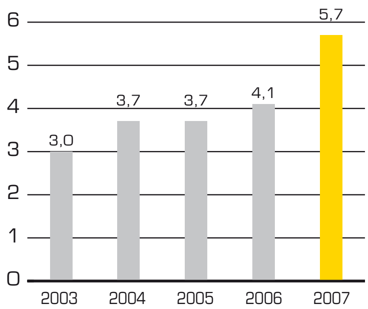
The Ponsse Group's risk management policy seeks to maintain and further develop a practical and comprehensive system for the management and reporting of risks. This entails a systematic risk assessment for each function and unit, integrating risk management into the business processes, constant quality development and disseminating information on best practices.

Internal supervision constitutes an essential part of risk management. The Board of Directors is responsible for the organisation of the operations and their adequacy, whilst the President and CEO are responsible for the implementation of supervision in practice.

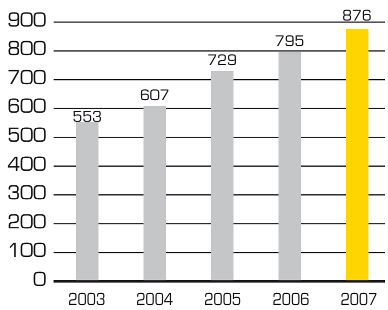
GROSS CAPITAL EXPENDITURE ON FIXED ASSETS, MEUR



RESEARCH AND DEVELOPMENT EXPENDITURE, MEUR



AVERAGE NUMBER OF STAFF



Methods of internal supervision include internal guidelines, reporting and various technical supervision systems related to activities. An internal auditor is responsible for the company's internal supervision in practice, and he/she reports to the Board of Directors.

BUSINESS RISKS AND THEIR MANAGEMENT

The effect of general economic fluctuations is cushioned by the fact that the company's business operations are spread over several geographical areas.

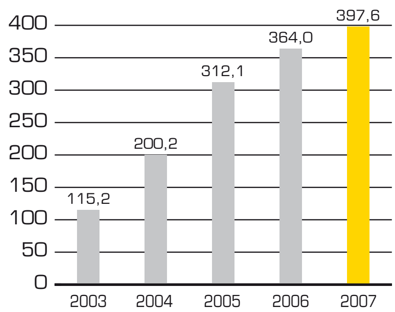
Risks related to raw materials, components and the subcontractor and supplier network are essential to Ponsse's operations. To control these risks and minimise the adverse effects of changes, the Company is strongly investing in developing supplier network cooperation. The operation of the network is developed and secured through in-depth partner cooperation and by supporting the positioning of strategic suppliers in the business park for partner companies in the immediate vicinity of Ponsse's Vieremä factory. Component-related risks are also controlled by manufacturing a large number of key components in the Company's own production facilities. Raw material and component suppliers' possible delivery problems may increase the prices of raw materials used in PONSSE products and lengthen their delivery times. Ponsse has strengthened the control of these risks by adjusting the conditions of its supplier agreements and by extending their periods of validity.

Ponsse Group's financing risk management controls liquidity, interest and currency risks, and secures the availability of debt-based financing on competitive conditions. The use of the euro as the invoicing currency has increased in several market areas, which reduces the Company's currency risk.

OUTLOOK FOR THE FUTURE

Demand on the forest machine market is keen at the outset of 2008. The value of the order books was higher compared to the beginning of last year and the order stock extends further. The record-high value of the order books suggests that the Company's business will grow this year. The demand in North America is not expected to recover until the year 2009. Major investments of the forest industry in South America, Asia and Russia will increase in the next few years.

MARKET VALUE OF SHARE CAPITAL, MEUR

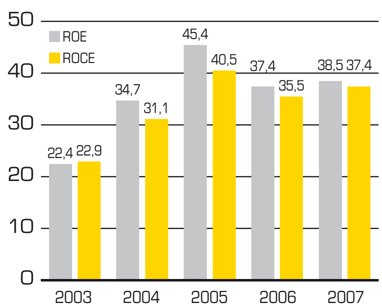


The Company's growth expectations are supported by its good position in all of the main market areas and its deliberate efforts to strengthen its market position. Growth in new markets is based on forest industry investments and producing harvesting solutions for them. The market for cut-to-length forest machines is estimated to continue to grow faster than fellings.

Implemented and ongoing production investments will increase manufacturing capacity and the automation rate in 2008. This will enable the Company to respond to growing demand.

In 2008, the Company will strengthen its market position and its turnover and business result will continue to grow.

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



THE MOST IMPORTANT EXCHANGE RATES

	31.12.2007	Average exchange rate 2007	31.12.2006	Average exchange rate 2006
SEK	9,44150	9,24748	9,04040	9,26372
NOK	7,95800	8,02527	8,23800	8,03762
GBP	0,73335	0,68607	0,67150	0,68217
USD	1,47210	1,37489	1,31700	1,25658
BRL	2,61300	2,67775	2,82340	2,75025
RUB	35,98600	35,07592	34,68000	34,14754

PROFIT AND LOSS ACCOUNT

Eur 1,000	Note[1]	2007	2006
Turnover	1	**310,053**	**238,642**
Increase (+)/decrease (-) in stocks of finished goods and work in progress		2,159	5,774
Other operating income	5	1,326	2,132
Raw materials and services		-199,253	-150,621
Expenditure on employment-related benefits	8, 35	-42,538	-37,612
Depreciation and amortisation	7	-4,270	-4,256
Other operating expenses	6	-30,398	-24,469
Operating profit		**37,080**	**29,590**
Share of results of associated companies		1002	441
Financial income and expenses	10	6,203	5,779
Net financial expenses	11	-7,901	-7,304
Earnings before tax		**36,384**	**28,505**
Income taxes	12	-9,907	-7,463
Profit for the period		**26,477**	**21,042**
Earnings per share calculated from the profit belonging to parent company shareholders:			
undiluted earnings per share (EUR)	13	0,95	0,75
earnings per share adjusted for dilution (EUR)	13	0,95	0,75

1) The note refers to the Notes to the Accounts on pages 54-75.

BALANCE SHEET

Eur 1,000

ASSETS	Note[1]	2007	2006
Non-current assets			
Intangible assets	15	4,262	3,605
Goodwill	15	3,737	3,791
Property, plant and equipment	14	25,946	24,308
Financial assets	18, 31	128	26
Holdings in associated companies	17	2,156	1,328
Non-current receivables	19	403	178
Deferred tax assets	20	1,686	972
Total non-current assets		**38,318**	**34,206**
Current assets			
Stocks	21	65,635	58,615
Trade receivables	22, 31	29,276	20,715
Income tax receivable		861	349
Other current receivables	22, 31	7,191	2,568
Liquid assets	23, 31	12,633	8,564
Total current assets		**115,595**	**90,811**
TOTAL ASSETS		**153,914**	**125,017**

		2007	2006
CAPITAL AND RESERVES, AND LIABILITIES	Liite[1]		
Capital and reserves	24		
Share capital		7,000	7,000
Other reserves		19	20
Translation differences		-943	-750
Retained earnings		70,456	54,888
Shareholders' equity belonging to parent company shareholders		**76,532**	**61,157**
Minority interest		0	0
Total shareholders' equity		**76,532**	**61,157**
Non-current liabilities			
Interest-bearing liabilities	28, 31	16,717	22,408
Deferred tax liabilities	20	768	869
Other non-current liabilities	29, 31	30	74
Total non-current liabilities		**17,515**	**23,351**
Current liabilities			
Interest-bearing liabilities	28, 31	17,225	8,487
Provisions	27	4,341	3,517
Tax liabilities for the period		1,752	230
Trade creditors and other current liabilities	29, 31	36,548	28,275
Total current liabilities		**59,867**	**40,509**
TOTAL CAPITAL AND RESERVES, AND LIABILITIES		**153,914**	**125,017**

1) The note refers to the Notes to the Accounts on pages 54-75.

CASH FLOW STATEMENT

Eur 1,000	Note[1]	2007	2006
Business operations:			
Profit for the period		26,477	21,042
Adjustments:			
Financial income and expenses		1,698	1,525
Share of the result of associated companies		-1,002	-441
Depreciation and amortisation		4,270	4,256
Income taxes		9,897	7,866
Other adjustments		-717	-424
Cash flow before change in working capital		40,623	33,824
Change in working capital:			
Increase(-)/decrease(+) in current non-interest-bearing receivables		-13,091	-4,551
Increase(-)/decrease(+) in stocks		-7,020	-13,454
Increase(+)/decrease(-) in current non-interest-bearing liabilities		8,220	4,542
Change in provisions for liabilities and charges		824	-2,807
Interest received		298	269
Interest paid		-1,463	-1,273
Other financial items		-505	-527
Income taxes paid		-8,886	-9,201
Net cash flow from business operations (A)		**19,001**	**6,822**
Investments:			
Investments in tangible and intangible assets		-6,565	-5,318
Investments in other assets		-14	-2
Dividends received		178	126
Cash outflow from investing activities (B)		**-6,401**	**-5,194**
Financing:			
Withdrawal of current loans		8,855	2,729
Repayment of current loans		0	0
Increase(-)/decrease(+) in current interest-bearing receivables		-93	-356
Withdrawal/repayment of non-current loans		-5,735	3,170
Payment of finance lease liabilities, IAS 17, IAS 18		-116	313
Increase (-)/decrease (+) in non-current receivables		-239	-61
Dividends paid and other distribution of profit		-11,200	-11,200
Net cash outflow from financing (C)		**-8,529**	**-5,405**
Increase (+)/decrease (-) in liquid assets (A+B+C)		4,071	-3,777
Liquid assets on 1 January		8,562	12,339
Liquid assets on 31 December	23	12,633	8,562

1) The note refers to the Notes to the Accounts on pages 54-75.

CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY

	Attributable to equity holders of the parent company					Minority interest	Capital and reserves total
Eur 1,000	Share capital	Share premium account and other reserves	Translation differences	Retained earnings	Total		
Shareholders' equity, 1 Jan 2007	**7,000**	**20**	**-750**	**54,887**	**61,157**	**0**	**61,157**
Translation differences	0	0	-193	291	98	0	98
Net income recognised directly in equity	**0**	**0**	**-193**	**291**	**98**	**0**	**98**
Net profit for the period	0	0		26,477	26,477	0	26,477
Total income and expenses recognised during the period	**0**	**0**	**-193**	**26,768**	**26,575**	**0**	**26,575**
Dividend distribution	0	0		-11,200	-11,200	0	-11,200
Shareholders' equity, 31 Dec 2007	**7,000**	**20**	**-943**	**70,455**	**76,532**	**0**	**76,532**
Shareholders' equity, 1 Jan 2006	**7,000**	**20**	**-442**	**44,811**	**51,389**	**0**	**51,389**
Translation differences	0	0	-308	234	-74	0	-74
Net income recognised directly in equity	**0**	**0**	**-308**	**234**	**-74**	**0**	**-74**
Net profit for the period	0	0		21,042	21,042	0	21,042
Total income and expenses recognised during the period	**0**	**0**	**-308**	**21,276**	**20,968**	**0**	**20,968**
Dividend distribution	0	0		-11,200	-11,200	0	-11,200
Shareholders' equity, 31 Dec 2006	**7,000**	**20**	**-750**	**54,887**	**61,157**	**0**	**61,157**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIC INFORMATION ON THE COMPANY

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

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

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

Ponsse Oyj's Board of Directors approved the disclosure of these financial statements at its meeting on 15 February 2008. According to the Finnish Companies Act, shareholders have the option to approve or reject the financial statements at a General Meeting of Shareholders to be held after the disclosure. The General Meeting of Shareholders may also amend the financial statements.

ACCOUNTING POLICIES

Basis of preparation

The consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRS), observing the IAS and IFRS standards as well as SIC and IFRIC interpretations valid on 31 December 2007. In the Finnish Accounting Act and regulations enacted by virtue of the Act, International Financial Reporting Standards refer to the standards approved for use in the European Union in accordance with the procedure specified in the EU regulation (EC) No 1606/2002. The notes to the financial statements are also in compliance with Finnish legislation concerning accounting and corporate law.

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

Since 1 January 2007, the Group has applied the following new and amended standards and interpretations:

– IFRS 7 *Financial Instruments: Disclosure and Presentation.* IFRS 7 requires the presentation of data regarding the impacts of financial instruments in the financial status of an entity and result as well as the nature and scope of the risks due to the financial instruments. The standard has increased the number of notes included in the Group's annual financial statement; the new information mainly refers to sensitivity analyses.

– An amendment to IAS 1 *Presentation of Financial Statements – Capital Disclosures.* The amended IAS 1 requires disclosures about an entity's level of capital and its management during the financial period. The regulations have increased the number of notes included in the Group's annual financial statement.

– IFRIC 8 *Scope of application of the IFRS 2.* IFRIC 8 is applied to business transactions in which equity-based instruments are granted and in which the received specified compensation falls short of the market value of the granted instruments. The Group had no arrangements that could be interpreted as such during this financial period or the periods before that.

– IFRIC 9 *Reassessment of Embedded Derivatives.* In accordance with the IFRIC 9, the reassessment of the separation of an embedded derivative from the main contract is not necessary unless the contractual terms have been revised so that the original cash flow from the main contract has clearly changed. The adoption of the interpretation has not had any impacts on the Group's financial statements.

– IFRIC 10 *Interim reports and depreciation.* This interpretation forbids restoration of impairment losses due to goodwill, equity-based instruments that are held for sale and equity-based non-listed instruments entered as acquisition costs in the balance sheet into subsequent interim reports. The adoption of the interpretation has not had any impacts on the Group's financial statements.

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

Subsidiaries

The consolidated financial statements include the parent company Ponsse Oyj and all of its subsidiaries. Subsidiaries are entities in which the Group exercises control. A position of control arises when the Group holds more than one half of the voting rights or otherwise controls the entity. Control refers to the right to define the principles of the finances and business operations of an entity in order to gain benefit from its operations.

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

Associates

Associates are entities in which the Group exercises significant power. Significant power arises when the Group holds more than 20% of the voting rights in an entity or the Group otherwise has significant power but no position of control. Associates are consolidated using the equity method. If the Group's share of an associate's loss exceeds the book value of the investment, the investment is recognised in the balance sheet at zero value and loss exceeding the book value is not consolidated unless the Group is committed to the fulfilment of the associate's obligations. An investment in an associate includes the goodwill arising from its acquisition. A share of associate profits corresponding to the Group's share of holding is presented as a separate item after operating profit.

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

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

Conversion of the financial statements of foreign Group companies
The income and expense items in the profit and loss accounts of non-Finnish consolidated companies have been converted into euro at the average exchange rate of the period, and their balance sheets have been converted at the exchange rate quoted on the balance sheet date. The different exchange rates applicable to the conversion of profit on the profit and loss account and balance sheet result in a translation difference recognised in shareholders' equity. Translation differences arising from the elimination of the acquisition cost of foreign subsidiaries, as well as translation differences in equity items accumulated after the acquisition, are recognised in shareholders' equity. When a subsidiary is divested in full or in part, accumulated translation differences are recognised on the profit and loss account as part of the sales gain or loss. In accordance with the exemption allowed by the IFRS 1 standard, translation differences incurred before 1 January 2004, which was the Group's IFRS transition date, have been recognised as accrued earnings in connection with the IFRS transition and will not be recognised on the profit and loss account in connection with any subsequent divestment of a subsidiary. Starting from the date of transition, any translation differences arising in connection with the preparation of the consolidated financial statements are presented as a separate item within shareholders' equity.

PROPERTY, PLANT AND EQUIPMENT

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

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

Buildings ....20 years
Machinery and equipment ....3 to 10 years

The residual value and useful life of asset items is reviewed upon each closing of the accounts and adjusted if necessary to reflect any changes in the expected economic benefit.

Depreciation on a property, plant or equipment item will be discontinued when the item is classified as available for sale in accordance with the standard IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Sales gains and losses arising from the decommissioning and transfer of property, plant and equipment items are included in other operating income or other operating expenses.

Borrowing costs
Borrowing costs are recognised as expenses in the period during which they have arisen.

Public subsidies
Public subsidies, such as government grants associated with the acquisition of property, plant and equipment items, are recognised as deductions in the book values of property, plant and equipment items when it is reasonably certain that the subsidies will be received and the Group fulfils the preconditions for receiving such subsidies. The subsidies will be recognised as income through reduced depreciation over the useful life of the item. Subsidies received as compensation for realised costs are recognised on the profit and loss account at the same time as the associated costs are recognised as expenses. Such subsidies are presented in other operating income.

INTANGIBLE ASSETS

Goodwill
Goodwill corresponds to the share of acquisition cost of an entity acquired after 1 January 2004 that exceeds the Group's share of the net fair value of the entity's identifiable assets, liabilities and conditional liabilities on the date of acquisition. The Group has not had any goodwill arising from business combinations carried out before 2004.

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

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

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

Other intangible assets
An intangible asset item is only recognised in the balance sheet at original cost if its acquisition cost can be reliably determined and it is probable that the expected economic ben-

efit from the item will be to the company's advantage.

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

The amortisation periods for intangible assets are the following:

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

INVENTORIES

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

LEASE CONTRACTS

Group as lessee
Leases on tangible assets in which the Group has a significant part of the risks and benefits characteristic of ownership are categorised as finance lease contracts. Asset items acquired on finance lease contracts are recognised in the balance sheet at the fair value of the leased item at the start of the lease period or at a lower present value of minimum rents. Asset items acquired on finance lease contracts are depreciated over the useful life of the item or the lease period, whichever is shorter. Leasing rents payable are divided into financing cost and reduction of debt over the lease period so that the interest rate on the debt remaining in each financial period is equal. Lease obligations are included in interest-bearing debt.

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

Group as lessor
The Group has not leased out any assets.

IMPAIRMENT

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

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

An impairment loss is recognised when the book value of an asset exceeds its recoverable amount. Impairment losses are immediately recognised on the profit and loss account. If an impairment loss is attributable to a cash-generating unit, it is first allocated to reduce the goodwill attributable to the cash-generating unit and then to reduce other asset items within the unit on a pro rata basis. In connection with the recognition of an impairment loss, the useful life of the asset subject to depreciation or amortisation is reassessed. Impairment losses on assets other than goodwill will be reversed if there is a change in the estimates used for determining the recoverable amount from the asset. However, any impairment loss reversal may not exceed the amount that would be the book value of the asset if the impairment loss were not recognised. Impairment losses recognised on goodwill are not to be reversed under any circumstances.

EMPLOYEE BENEFITS

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

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

Share-based payment plans
The Group has no option arrangements or any other share-based payment arrangements.

PROVISIONS

A provision is recognised when the Group has a legal or factual obligation based on a previous event, the realisation of a payment obligation is probable and the amount of the obligation can be reliably estimated. A guarantee provision is recognised upon the sale of a product subject to a guarantee condition. The amount of guarantee provision is based on empirical data on actual guarantee costs.

INCOME TAXES

The tax expenses on the profit and loss account comprise tax based on the taxable income for the financial period and deferred tax. Income tax costs are recognised on the profit and loss account with the exception of items recognised directly in equity, for which the tax effect is correspondingly recognised in equity. The tax based on the taxable income for the financial period is calculated on the basis of taxable income in accordance with the tax rate valid in each country. The tax is adjusted by any taxes associated with previous financial periods.

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

No deferred tax is recognised on goodwill that is not tax deductible, and no deferred tax is recognised on undistributed accrued profits of subsidiaries to the extent that the difference will probably not be eliminated during the foreseeable future.

The most substantial temporary differences arise from the depreciation of property, plant and equipment, as well as measurement at fair value upon acquisitions.

Deferred taxes are calculated at tax rates enacted by the balance sheet date.

Deferred tax receivables are recognised up to the probable amount of taxable income in the future against which the temporary difference can be utilised.

REVENUE RECOGNITION

Goods sold and services produced

Income from the sale of goods is recognised once the significant risks and benefits associated with the ownership of the goods have been transferred to the purchaser. At this time, the Group no longer has any power of control associated with the product. Generally, this refers to the time at which the goods have been delivered to the customer in accordance with the agreed delivery terms. Income from services is recognised in the financial period during which the service is rendered to the customer.

Turnover includes sales income adjusted by indirect taxes and discounts. Sales income arises from the sales of new products and second-hand machines, as well as maintenance services.

Interest and dividends

Interest income is recognised once the interest becomes vested, and dividend income is recognised once the dividend becomes vested.

FINANCIAL ASSETS AND LIABILITIES

Financial assets

In accordance with the standard IAS 39 *Financial Instruments: Recognition and Measurement,* the Group's financial assets are classified into the following groups: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and financial assets available for sale. The classification is based on the purpose of acquiring the financial assets and carried out upon original acquisition.

Financial asset items are classified as *Financial assets at fair value through profit or loss* if they are acquired for trading purposes or if they are categorised as assets to be recognised at fair value through profit or loss upon initial recognition. Derivatives that do not meet the IAS 39 criteria for hedge accounting are classified as assets held for trading. Derivatives held for trading are included in current assets and liabilities. The items within the group are measured at fair value. Both realised and unrealised gains and losses arising from changes in fair value are recognised on the profit and loss account for the financial period during which they arise.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity for which the Group has the positive intention and ability to hold to maturity. They are measured at original amortised cost and included in non-current assets. The Group has no such investments in the period being reported.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and not held for trading purposes. The basis for their measurement is amortised cost. On the balance sheet, they are included in trade receivables and other receivables, either under current or non-current assets: in the latter group if the time to maturity is more than 12 months.

Financial assets available for sale are those non-derivative financial assets that are designated as available for sale or are not classified in any other group. They are included in non-current assets unless the intention is to hold them for less than 12 months from the balance sheet date, in which case they are included in current assets. Financial assets available for sale consist of shares. They are measured at fair value or, if the fair value cannot be determined reliably, at acquisition cost. Changes in the fair value of financial assets available for sale are booked in the fair value reserve within shareholders' equity, taking the tax effect into account. Changes in fair value are transferred from shareholders' equity to the profit and loss account when the investment is sold or its value has reduced so that an impairment loss must be recognised.

Liquid assets

Liquid assets comprise cash, bank deposits withdrawable on demand, and other short-term, very liquid investments. Items classified as liquid assets have a maturity of no more than three months calculated from the date of acquisition.

Financial assets are derecognised once the Group has lost its contractual right to the cash flow or it has transferred a significant portion of the risks and revenue out of the Group.

Financial liabilities

Financial liabilities are initially recognised at fair value. Financial liabilities are included in non-current and current liabilities and may be either interest-bearing or interest-free.

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

Impairment of financial assets

On each balance sheet date, the Group estimates whether there is objective evidence that the value of a financial asset item or financial asset group may have been impaired.

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

DERIVATIVE CONTRACTS AND HEDGE ACCOUNTING

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

DIVIDEND DISTRIBUTION

The dividend proposed by the Board of Directors to the General Meeting of Shareholders is recognised as a liability once the General Meeting of Shareholders has decided on the amount of dividend.

OPERATING PROFIT

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

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

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

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

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

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

Determining the fair value of assets acquired through business combinations
In connection with significant business combinations, the Group has used an external advisor in estimating the fair values of tangible and intangible assets. With regard to tangible assets, comparisons have been made to the market prices of similar assets, and the reduction in value due to age, wear and tear and other similar factors has been assessed. The determination of the fair value of intangible assets is based on estimated cash flows associated with the assets. More information on the measurement of intangible assets acquired through business combinations is presented in Note 3.

The management believes that the estimates and assumptions applied are precise enough to serve as the basis of fair value measurement. Furthermore, the Group reviews any indications of the impairment of tangible as well as intangible assets on each closing of the accounts as a minimum.

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

APPLICATION OF NEW AND AMENDED IFRS STANDARDS

IASB has published the following new or amended standards and interpretations that are not yet valid and that the Group has not yet applied. The Group will adopt these standards and interpretations starting on the effective date of the standard or interpretation or, if the effective date is not the first day of a financial period, starting at the beginning of the next financial period.

–IFRS 8 *Operating Segments* (in force for financial periods beginning after 1 January 2009). IFRS 8 replaces the standard IAS 14 Segment Reporting. In accordance with the new standard, segment reporting is based on internal reporting of the management and the calculation principles used there. IFRS 8 requires the presentation of information about the Group's products, services, geographical operations areas and major customers. Furthermore, an organisation must provide information about the definition principles used for the reported segments and the calculation principles applied in segment reporting. The standard also requires the presentation of a segment report matching calculation for certain profit and loss account items and balance sheet items. According to the Group's estimate, the introduction of IFRS 8 will mostly affect the segment notes to upcoming consolidated financial statements.

– An amendment to standard IAS 23 *Borrowing Costs* (in force for financial periods beginning after 1 January 2009). The revised standard requires the inclusion of immediate borrowing costs arising from purchasing, construction or manufacturing of an item meeting the requirements, such as a production plant, in the acquisition costs of the item. The Group has previously entered, as allowed, the borrowing costs as expenses for the financial period during which they were generated. The Group estimates, however, that the adoption of the new standard will not have any major impacts on future financial statements. The amended standard has not yet been approved for application in the EU.

– An amendment to standard IAS 1 *Capital Disclosures* (in force for financial periods beginning after 1 January 2009). The revised standard will change the way the calculations in the financial statements are presented. The Group estimates that the change will mainly have an impact in the presentation method of the profit and loss account and the reconciliation of capital and reserves. The calculation principles for earnings per share will remain the same. The amended standard has not yet been approved for application in the EU.

Other published standards, interpretations and amendments that will enter into force later are not significant for the Group.

1. Segment information

Segment information is presented in accordance with the Group's division into geographical and business segments. The Group's primary segment-reporting format is based on geographical segments. The geographical segments are based on the Group's internal organisational structure and internal financial reporting.

The products and services of geographical segments are produced in a specific economic environment with risks and profitability deviating from other geographical segments. Business segments comprise groups of assets and business operations that have risks and profitability associated with their products and services deviating from other business segments.

Pricing between segments is based on fair market price.

A segment's assets and liabilities refer to business items that the segment uses in its business operations or that can be allocated to segments on reasonable grounds. Unallocated sales refer to income from countries other than those included in segment reporting. Other unallocated items include tax and financial items, as well as items common to the entire company. Investments include increases in property, plant and equipment items, and intangible assets that are used during more than one period.

Geographical segment

Nordic countries
Rest of Europe
North and South America

Income from each segment is allocated in accordance with the location of the customer. Assets and liabilities are allocated in accordance with the location of the assets.

Business segment

Machine sales
Service

Geographical segments 2007

Eur 1,000	Nordic countries	Rest of Europe	North and South America	Elimination	Total
External sales					
Services	2,176	1,656	736		4,568
Sales of goods	144,033	125,535	31,007		300,575
External sales, total	146,209	127,191	31,743		305,143
Unallocated sales					4,910
Turnover	**146,209**	**127,191**	**31,743**		**310,053**
Operating profit of the segment	13,387	26,094	-626		38,855
Unallocated items					-1,774
Operating profit	**13,387**	**26,094**	**-626**		**37,080**
Shares of the result of associated companies	1,002				1,002
Minority interest					0
Unallocated items					-11,605
Net profit for the period					**26,477**

Geographical segments 2007					
Eur 1,000	Nordic countries	Rest of Europe	North and South America	Elimination	Total
Segment assets	136,706	26,907	27,586	-41,852	149,348
Shares of the result of associated companies	335			1,822	2,156
Unallocated assets				873	2,410
Total assets	**137,041**	**26,907**	**27,586**	**-39,157**	**153,914**
Segment liabilities	46,405	6,493	21,059	-37,983	35,974
Unallocated liabilities					37,066
Total liabilities	**46,405**	**6,493**	**21,059**	**-37,983**	**73,040**
Investments	**4,740**	**1,026**	**799**		**6,565**
Depreciation and amortisation	**3,847**	**280**	**143**		**4,270**

Geographical segments 2006					
Eur 1,000	Nordic countries	Rest of Europe	North and South America	Elimination	Total
External sales					
Services	2,193	540	497		3,231
Sales of goods	122,204	85,730	24,786		232,720
External sales, total	124,397	86,270	25,283		235,951
Unallocated sales					2,691
Turnover	**124,397**	**86,270**	**25,283**		**238,642**
Operating profit of the segment	13,828	14,481	305		28,613
Unallocated items					977
Operating profit	**13,828**	**14,481**	**305**		**29,590**
Shares of the result of associated companies	441				441
Minority interest					0
Unallocated items					-8,988
Net profit for the period					**21,042**
Segment assets	114,338	18,079	19,382	-29,061	122,737
Shares of the result of associated companies	335			993	1,328
Unallocated assets				951	951
Total assets	**114,672**	**18,079**	**19,382**	**-27,117**	**125,017**
Segment liabilities	27,944	7,790	15,742	-25,449	26,025
Unallocated liabilities					34,317
Total liabilities	**27,944**	**7,790**	**15,742**	**-25,449**	**60,343**
Investments	**4,690**	**246**	**382**		**5,318**
Depreciation and amortisation	**3,689**	**329**	**238**		**4,256**

Business segments 2007			
Eur 1,000	Machine sales	Service	Total
Turnover	272,259	37,794	310,053
Assets	130,406	23,508	153,914
Investments	6,289	276	6,565

Business segments 2006			
Eur 1,000	Machine sales	Service	Total
Turnover	210,509	28,133	238,642
Assets	107,263	17,754	125,017
Investments	4,709	609	5,318

2. Long-term assets held for sale, and discontinued operations

The Group does not have any of these items.

3. Acquired business operations

There were no acquisitions of business operations in 2007 and 2006.

4. Long-term projects

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

5. Other operating income		
Eur 1,000	2007	2006
Sales profits on property, plant and equipment	48	588
Public subsidies	468	347
Other	809	1,197
Total	**1,326**	**2,132**

6. Other operating expenses		
Eur 1,000	2007	2006
Voluntary employee expenses	1,391	1,211
Operating and maintenance expenses	4,541	3,991
Shipping and handling expenses	4,835	3,414
Rents	2,361	1,804
Marketing and representation expenses	4,981	4,187
Administrative expenses	5,833	4,571
R&D expenditure	769	500
Other	5,687	4,791
Total	**30,398**	**24,469**

6.1. Auditor's remunerations		
Eur 1,000	2007	2006
Ernst & Young		
Auditor's remunerations	96	96
Certificates and statements	0	0
Tax advice	47	15
Other remunerations	31	22
	175	134

Other organisations	50	62
Auditor's remunerations	0	0
Certificates and statements	17	19
Tax advice	17	14
Other remunerations	84	95
Total	**259**	**229**

7. Depreciation, amortisation and impairment

Intangible assets

Eur 1,000	2007	2006
Capitalised development expenditure	105	54
Patents	53	49
Intangible rights	47	73
Other intangible assets	338	306
Total	**543**	**482**

Property, plant and equipment		
Buildings	1,090	1,123
Machinery and equipment	2,637	2,651
Total	**3,727**	**3,774**

8. Expenditure on employment-related benefits

Eur 1,000	2007	2006
Wages and salaries	34,209	30,308
Pension expenditure - defined contribution plans	4,881	4,488
Other social security costs	3,448	2,816
Total	**42,538**	**37,612**

Average number of staff during the financial period

persons	2007	2006
Employees	504	456
White-collar employees	372	339
Total	**876**	**795**

Information on management's employment-related benefits is presented in Note 35, Related party transactions.

9. R&D expenditure

Eur 1,000	2007	2006
R&D expenditure was recorded as a cost item in the profit and loss account.	4,856	3,334

10. Financial income

Eur 1,000	2007	2006
Dividend income from financial assets available for sale	5	5
Interest income from loans and receivables	298	268
Exchange rate gains	5,797	5,434
Other financial income	103	68
Total	**6,203**	**5,775**

11. Financial expenses		
Eur 1,000	2007	2006
Interest expenses for financial loans	1,492	1,149
Exchange rate losses	6,362	5,994
Other financial expenses	47	161
Total	**7,902**	**7,304**

12. Income taxes		
Eur 1,000	2007	2006
Tax based on the taxable income for the period	10,462	8,079
Taxes from previous financial periods	260	91
Deferred taxes	-815	-707
Total	**9,907**	**7,463**

Reconciliation of tax expenses in the profit and loss account and taxes calculated at the Group's domestic tax rate (2007: 26%, 2006: 26%):		
Profit before tax	36,384	28,505
Tax calculated using the domestic tax rate	9,460	7,411
Effect of the different tax rates used in foreign subsidiaries	58	107
Tax-exempt income	-2	-2
Non-deductible expenses	153	103
Impairment of goodwill	0	0
Deferred taxes	-22	-247
Taxes for previous financial periods	260	91
Taxes in the profit and loss account	9,907	7,463

13. Earnings per share

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

	2007	2006
Profit for the financial period belonging to parent company shareholders (EUR 1,000)	26,477	21,042
Weighted average number of shares during the financial period (1000)	28,000	28,000
Undiluted earnings per share (EUR/share)	0,95	0,75

In the calculation of earnings per share adjusted for dilution, the weighted average number of shares includes the diluting effect of the conversion of all potential ordinary shares. The Group has no diluting instruments, which means that the EPS adjusted for dilution is equal to the undiluted EPS.

14. Property, plant and equipment

Eur 1,000	Land and water	Buildings	Machinery and equipment	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2007	425	23,032	23,934	361	47,752
Increase	0	515	4,936	4,531	9,981
Decrease	0	-5	-1,587	-3,766	-5,357
Exchange rate difference	-9	-170	-76	0	-255
Acquisition cost 31 Dec 2007	417	23,372	27,207	1,126	52,121
Accumulated depreciation and impairment 1 Jan 2007	0	-7,748	-15,697	0	-23,445
Depreciation and amortisation	0	-1,090	-2,637	0	-3,727
Accumulated depreciation on decrease and transfers	0	3	832	0	835
Exchange rate difference	0	36	126	0	161
Accumulated depreciation and impairment 31 Dec 2007	0	-8,800	-17,376	0	-26,176
Book value 1 Jan 2007	425	15,284	8,237	361	24,307
Book value 31 Dec 2007	417	14,572	9,831	1,126	25,946

Eur 1,000	Land and water	Buildings	Machinery and equipment	Prepayments and unfinished acquisitions	Total
Acquisition cost 1 Jan 2006	434	18,848	22,331	3,529	45,142
Increase	0	4,335	5,061	1,971	11,367
Decrease	0	0	-3,396	-5,139	-8,536
Exchange rate difference	-9	-151	-62	0	-222
Acquisition cost 31 Dec 2006	425	23,032	23,934	361	47,752
Accumulated depreciation and impairment 1 Jan 2006	0	-6,642	-14,231	0	-20,873
Depreciation and amortisation	0	-1,123	-2,651	0	-3,773
Accumulated depreciation on decrease and transfers	0	0	1,183	0	1,183
Exchange rate difference	0	17	2	0	19
Accumulated depreciation and impairment 31 Dec 2006	0	-7,748	-15,697	0	-23,445
Book value 1 Jan 2006	434	12,207	8,100	3,529	24,270
Book value 31 Dec 2006	425	15,284	8,237	361	24,307

Financial lease contracts

Property, plant and equipment includes the following items rented on a finance lease contract:

Eur 1,000

31.12.2007	Buildings	Machinery and equipment	**Total**
Acquisition cost	762	2,682	3,444
Accumulated depreciation	-228	-1,113	-1,341
Book value	534	1,569	2,103

Eur 1,000			
31.12.2006	Buildings	Machinery and equipment	**Total**
Acquisition cost	762	2,393	3,155
accumulated depreciation	-190	-717	-907
Book value	572	1,677	2,249

The increases in the acquisition cost of property, plant and equipment include EUR 2.1 million of assets rented on finance lease in 2007 (EUR 2.2 million in 2006).

15. Intangible assets

Eur 1,000	**Development expenditure**	**Patent costs**	**Intangible rights**	**Other intangible assets**	**Prepayments and unfinished acquisitions**	**Yhteensä**
Acquisition cost 1 Jan 2007	856	530	80	3,138	1,570	6,174
Increase	958	19	177	85	1,248	2,487
Transfers between items	0	0	159	-159	0	0
Decrease	0	0	-84	-11	-1,290	-1,385
Acquisition cost 31 Dec 2007	1,814	549	332	3,053	1,528	7,276
Accumulated depreciation and impairment 1 Jan 2007	-199	-171	-80	-2,119	0	-2,569
Depreciation and impairment	-105	-53	-47	-338	0	-543
Accumulated depreciation on decrease and transfers	0	0	30	67	0	97
Accumulated depreciation and impairment 31 Dec 2007	-304	-224	-97	-2,390	0	-3,015
Book value 1 Jan 2007	657	359	0	1,019	1,570	3,605
Book value 31 Dec 2007	1,510	325	235	663	1,528	4,262

Eur 1,000	**Development expenditure**	**Patent costs**	**Intangible rights**	**Other intangible assets**	**Prepayments and unfinished acquisitions**	**Yhteensä**
Acquisition cost 1 Jan 2006	751	470	85	2,651	798	4,755
Increase	105	83	0	487	1,358	2,034
Decrease	0	-23	-5	0	-587	-615
Acquisition cost 31 Dec 2006	856	530	80	3,138	1,570	6,174
Accumulated depreciation and impairment 1 Jan 2006	-145	-138	-80	-1740	0	-2,103
Depreciation and amortisation	-54	-48	0	-379	0	-481
Accumulated depreciation on decrease and transfers	0	15	0	0	0	15
Accumulated depreciation and impairment 31 Dec 2006	-199	-171	-80	-2,119	0	-2,569
Book value 1 Jan 2006	607	332	5	911	798	2,653
Book value 31 Dec 2006	657	359	0	1,019	1,570	3,605

Goodwill and allocation of goodwill

Goodwill is allocated to the following cash-generating units:

Eur 1,000	2007	2006
Epec Oy	3,521	3,575
Lako Oy	216	216
Total	3,737	3,791

Impairment testing

For impairment testing, the recoverable amounts from Epec Oy have been determined on the basis of value in use. The cash flow forecast is based on three-year forecasts approved by management. The applicable discount rate before tax is 13%. The discount rate before tax is determined on the basis of weighted average cost of capital (WACC). Cash flows following the forecast period approved by management have been estimated by extrapolating with a steady growth factor of 1%. The growth factor applied does not exceed long-term realised growth of the sectors in question.

The essential variables used for the calculation of value in use are the following:
1. Budgeted operating margin – Determined on the basis of forecast operating margin for the next three years. The value of the variable is based on realised development.

2. Forecast residual value – Determined on the basis of the last budgeted year 2011 and a steady growth factor of 1%.
The residual value is not expected to change essentially as continuous product development and anticipated intensification of competition are considered.

3. Discount rate – Determined on the basis of the weighted average cost of capital (WACC) method representing the total cost of equity and liabilities taking into account any specific risks associated with the assets and the sector of business.

Sensitivity analysis for impairment testing

In testing the goodwill of Epec Oy, no reasonably estimated change in any essential variable would result in the recoverable amounts from a cash-generating unit falling below their book value.

16. Investment properties

The Group has no investment properties.

17. Holdings in associated companies

Eur 1,000	2007	2006
At beginning of financial period	1,328	1,013
Share of the result of the financial period	828	315
At end of financial period	2,156	1,328

Information concerning the Group's associated company, its assets, liabilities, turnover and profit/loss:

Associated company	2007	2006
Sunit Oy, Kajaani, Finland		
Assets	8,391	5,465
Liabilities	1,638	1,557
Turnover	17,802	11,310
Profit/loss	3,055	1,339
Share of ownership	34%	34%

Sunit Oy specialises in telematics and manufactures vehicle computers.

18. Other financial assets

Eur 1,000

Investments available for sale	Other shares and holdings
Acquisition cost 1 Jan 2007	26
Increase	75
Decrease	0
Acquisition cost 31 Dec 2007	101

	Other shares and holdings
Acquisition cost 1 Jan 2006	25
Increase	1
Decrease	0
Acquisition cost 31 Dec 2006	26

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

19. Receivables (non-current)

Eur 1,000	2007	2006
Loans receivable (loans and receivables)	349	107
Other receivables (loans and receivables)	27	13
Accrued income	54	58
Total	**430**	**178**

Receivables do not have any significant credit risk concentrations.

20. Deferred tax receivables and liabilities

Eur 1,000	31.12.2007	31.12.2006
Deferred tax assets:		
Inventories	873	895
Fixed assets	19	56
Provisions	0	0
Tax losses	793	0
Other temporary items	0	21
Total	**1,685**	**972**
Deferred tax liabilities:		
Goodwill	81	135
Inventories	92	77
Fixed assets	545	584
Other temporary items	50	73
Total	**768**	**869**

No deferred tax has been recognised through shareholders' equity.

21. Inventories		
	2007	2006
Raw materials and consumables	40,589	26,637
Work in progress	2,266	1,626
Finished products/goods	9,292	8,131
Other stocks	13,487	22,220
Total	**65,635**	**58,615**

EUR 610 thousand was recognised as an expense item, which was used to reduce the book value of stocks to correspond to the net realisable value (EUR 698 thousand in 2006).

22. Trade receivables and other receivables (current)		
Eur 1,000	2007	2006
Trade receivables (loans and other receivables)	29,276	20,715
Receivables from associated companies	0	0
Other receivables	5,456	1,732
Accrued income	630	515
	35,361	22,962
Derivative contracts held for trading	1,106	321
Total	**36,467**	**23,283**

The Group's credit losses for trade receivables amounted to EUR 283 thousand (EUR 39 thousand in 2006) during the financial period. Receivables do not have any significant credit risk concentrations. Balance sheet values best describe the amount of money that is the maximum amount of credit risk.

The essential items of accrued income are associated with public subsidies.

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

Trade receivables by age and items recognised as credit losses		
Eur 1,000	2007	2006
Non-matured	21,381	17,015
Matured		
Less than 30 days	10,222	3,758
30-60 days	1,835	744
61-90 days	1,358	861
More than 90 days	1,954	944
Credit losses	-283	-39
Total	**36,467**	**23,283**

23. Liquid assets		
Eur 1,000	2007	2006
Cash in hand and at banks	12,633	8,564
Total	**12,633**	**8,564**

24. Notes on shareholders' equity

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

	Number of shares (1,000)	Share own (EUR 1,000)	Other reserves (EUR 1,000)	Own shares	Total (EUR 1,000)
31.12.2005	14,000	7,000	20		7,020
Split 1:2	14,000	0	0		0
31.12.2006	28,000	7,000	20	0	7,020
Purchase of the company's own shares	0				0
31.12.2007	28,000	7,000	20	0	7,020

The maximum number of shares is 48 million (48 million in 2006). The nominal value of each share is EUR 0.25, and the Group's maximum share capital is EUR 12 million (EUR 12 million in 2006). The number of shares outstanding is 28 million (28 million in 2006). All issued shares have been paid in full.

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

Ponsse Oyj has no outstanding convertible notes, bonds with warrants or options. Neither the company nor its subsidiaries hold the company's own shares. Ponsse Oyj's Board of Directors is authorised, until 30 June 2008, to purchase a maximum of 250,000 of the company's own shares. Ponsse Oyj's Board of Directors is not currently authorised to increase the share capital or issue convertible notes or bonds with warrants.

Translation differences

The translation differences reserve comprises translation differences arising from the translation of financial statements of non-Finnish units.

Other reserves

Other reserves consist of the contingency funds of Ponsse AB and Ponssé S.A.S.

Dividends

The Board of Directors has proposed after the closing date that a dividend of EUR 0.50 per share be paid.

25. Share-based payment plans

The Group did not have any stock option schemes nor other share-based payment plans during the financial period

26. Defined benefit pension obligations

The Group did not have any pension obligations

27. Provisions

Eur 1,000	Guarantee provision
31.12.2006	3,517
Increase	1,336
Used provisions	-512
31.12.2007	4,341

Guarantee provision

Products are given a 12 month / 2000 hour guarantee. Any faults or errors noted in machines during the guarantee period will be repaired at the company's own expense according to the conditions of guarantee. Guarantee provisions at the end of 2007 amounted to EUR 4,341 thousand (EUR 3,517 thousand in 2006). The guarantee provision is based on failure history recorded in the previous years. The guarantee provisions are expected to be used during the next year.

28. Interest-bearing liabilities		
Eur 1,000	2007	2006
Non-current financial liabilities measured at original amortised cost		
Loans from financial institutions	14,499	20,172
Subordinated loan	65	65
Finance lease liabilities	2,153	2,171
Total non-current interest-bearing liabilities	**16,717**	**22,408**

Current financial liabilities measured at original amortised cost		
Loans from financial institutions	16,603	7,748
Finance lease liabilities	623	503
Arrangement for sales recognition	0	236
Total current interest-bearing liabilities	**17,225**	**8,487**

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

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

EUR 10,263 thousand of all liabilities have a fixed interest rate (EUR 6,039 thousand in 2006). Other loans are linked to Euribor EUR 22,900 thousand (EUR 23,771 thousand in 2006) or linked to Libor EUR 780 thousand (EUR 1,085 thousand in 2006).

The Group's floating rate liabilities and their contractual repricing periods are:		
Eur 1,000	2007	2006
less than 12 months	12,221	10,432
1 to 5 years	11,459	14,424
Total	**23,680**	**24,856**

Due dates of finance lease liabilities		
Eur 1,000	2007	2006
Finance lease liabilities - total amount of minimum rents		
Within less than twelve months	726	629
Within one to five years	2,086	1,859
After more than five years	234	506
Total	**3,046**	**2,994**

Finance lease liabilities - present value of minimum rents		
Within less than twelve months	623	503
Within one to five years	1,940	1,706
After more than five years	213	465
Total	**2,776**	**2,674**

Financial expenses to be accrued in the future	270	320

Total finance lease liabilities	**3,046**	**2,994**

29. Trade creditors and other liabilities

Eur 1,000

Current financial liabilities measured at original amortised cost	2007	2006
Trade creditors (other financial liabilities)	23,158	17,591
Advances received	1,813	443
Advance invoicing	240	598
Other liabilities	1,225	1,376
Accruals and deferred income		
Accrued staff expenses	6,564	5,991
Interest accruals	168	139
Accruals and deferred income in respect of inventories	580	436
Other accruals and deferred income	4,422	1,842
Derivative contracts held for trading	132	87
Total	38,300	28,505

Non-current financial liabilities to be measured at original amortised cost		
R&D loan (other financial liabilities), France	30	74
Total	30	74

30. Management of financing risks

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

Foreign exchange risk

The Group operates internationally and is therefore exposed to transaction risks arising from different foreign exchange positions, as well as risks arising from the conversion of investments in different currencies to the parent company's operating currency. The most important currencies for the Group are the United States dollar (USD), the Swedish krona (SEK) and the pound sterling (GBP). Foreign exchange risks arise from commercial transactions, monetary balance sheet items and net investments in foreign subsidiaries.

The Group processes monetary items at net amounts and hedges them with forward exchange agreements. Hedging transactions are carried out in accordance with written risk management principles approved by Group management but hedge accounting in accordance with IAS 39 is not applied to these items (Notes 10 and 11).

The parent company's operating currency is the euro. Receivables and liabilities in a foreign currency at the exchange rates valid on the balance sheet date are as follows:

	2007			2006		
Nominal values	USD	SEK	GBP	USD	SEK	GBP
Eur 1,000						
Foreign currency receivables	19,081	7,104	3,511	16,893	7,406	4,752
Foreign currency liabilities	2,429	2,271	435	2,323	2,109	521
Foreign currency derivatives	18,422	3,847	2,754	11,475	4,360	3,037
Net position	-1,770	986	322	3,094	937	1,194

The following table is a presentation of the strengthening or weakening of the euro against the United States dollar, the pound sterling and the Swedish krona, with all other factors remaining unchanged. The change percentages reflect average volatility during the previous 12 months. The sensitivity analysis is based on foreign currency assets and liabilities on the balance sheet date. The sensitivity analysis also takes into consideration the effects of currency derivates, which set-off the effects of exchange rate changes.

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

Eur 1,000	2007		2006	
Euro exchange rate changes	Strengthening	Weakening	Strengthening	Weakening
	+10%	-10%	+10%	-10%
Effect on profit after tax				
USD	131	-131	-229	229
SEK	-73	73	-69	69
GBP	-24	24	-88	88
Total	34	-34	-387	387

Interest rate risk

The Group's short-term money market investments expose its cash flow to interest rate risk but the overall effect is not significant. The Group's income and operational cash flows are mainly independent of market interest rate fluctuations. The Group is mainly exposed to interest rate risk associated with the noncurrent loan portfolio. To some extent, the Group hedges the interest rate risk associated with future cash flows by interest rate swaps.

Sensitivity analysis for floating interest loans:

Eur 1,000	2007		2006	
Change percentage	+1%	-1%	+1%	-1%
Effect on profit after tax	-175	175	-184	184

Credit risk

The Group's policy defines creditworthiness requirements for customers, investment transactions and counterparties to derivatives, as well as investment principles. The Group does not have any significant concentrations of credit risk on receivables because its customer base is wide and geographically-diversified and because the Group only grants credit to enterprises with a flawless credit rating. The amount of credit losses recognised through profit or loss during the financial period was not significant. The Group's maximum credit risk corresponds to the book value of financial assets at period-end. Trade receivables are presented by age in Note 22.

Liquidity risk

The Group aims to continuously estimate and monitor the amount of financing required for business operations in order to maintain sufficient liquid assets for financing the operations and repaying any loans falling due. The Group's financing guidelines define the optimum size for the liquidity reserve for both cash and liquid investments.

The availability and flexibility of financing is ensured by maintaining unused credit facilities and using several banks and types of financing. The amount of unused credit facilities on 31 December 2007 was EUR 20 million (2006: EUR 20 million)

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

Eur 1,000	balance sheet value	cash flow *	Within less than one year	Within one to five years	After more than five years
31.12.2007					
Bank loans	33,943	37,260	19,234	17,673	353
Subordinated loan	65	78	2	8	67
Finance lease liabilities	2,776	3,046	726	2,086	234
Trade creditors and other liabilities	38,168	38,168	38,168		
Foreign currency derivatives					
Liabilities	132	132	132		

*) contractual cash flow from contracts cleared in gross values

Eur 1,000	balance sheet value	cash flow *	Within less than one year	Within one to five years	After more than five years
31.12.2006					
Bank loans	30,895	34,085	9,723	22,471	1,891
Subordinated loan	65	80	2	8	69
Finance lease liabilities	2,674	2,994	629	1,859	506
Trade creditors and other liabilities	28,417	28,417	28,417		
Foreign currency derivatives					
Liabilities	87	87	87		

*) contractual cash flow from contracts cleared in gross values

Capital management

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

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

The Group's interest-bearing net liabilities at the end of 2007 were EUR 21.3 million (31 Dec 2006: EUR 22.3 million) and gearing 27.8 per cent (31 Dec 2006: 36.5 per cent). For calculating gearing, interest-bearing net liabilities were divided by the amount of equity. Net liabilities include interest-bearing liabilities deducted by interest-bearing receivables and liquid assets.

Eur 1,000	2007	2006
Interest-bearing liabilities	33,943	30,895
Interest-bearing receivables	0	0
Liquid assets	-12,633	-8,564
Net liabilities	21,310	22,331
Total shareholders' equity	76,532	61,157
Gearing	27,8 %	36,5 %

31. Fair values of financial assets and liabilities

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

Eur 1,000	Note	Book value 2007	Fair value 2007	Book value 2006	Fair value 2006
Financial assets					
Other financial assets	18	101	101	26	26
Trade receivables and other receivables	22	36,467	36,467	23,283	23,283
Liquid assets	23	12,633	12,633	8,564	8,564
Forward exchange agreements	22	1,068	1,068	307	307
Interest rate swaps	22	38	38	14	14

Eur 1,000	Note	Book value 2007	Fair value 2007	Book value 2006	Fair value 2006
Financial liabilities					
Loans from financial institutions	28	31,102	27,174	27,921	27,174
Subordinated loan	28	65	65	65	65
Finance lease liabilities	28	2,776	2,590	2,673	2,590
Arrangement for sales recognition	28	0	0	236	236
Trade creditors and other liabilities	29	38,330	38,330	28,579	28,579
Forward exchange agreements	29	132	132	87	87

The nominal values of forward agreements were EUR 28.7 million in 2007 and EUR 21.2 million in 2006.

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

The book values of current financial assets and liabilities can be considered to correspond to their fair values.

Unquoted equity investments are measured at acquisition cost as they cannot be measured at fair value using the valuation methods. The fair value of the investments could not be determined reliably and estimates vary significantly, or the probabilities of different estimates within the range of variation cannot be reasonably determined and used for the assessment of fair value. The original book value of receivables corresponds to their fair value.

The fair values of forward exchange agreements are determined using the market prices for agreements of similar duration on the balance sheet date. The fair values of interest rate swaps have been determined using the method of present value of future cash flows, supported by market interest rates and other market information on the balance sheet date.

The fair values of interest-bearing liabilities have been calculated by discounting the cash flows associated with each liability at the market interest rate on the balance sheet date.

32. Joint ventures

The Group has no investments in joint ventures.

33. Other lease contracts

Group as lessee

Eur 1,000	2007	2006
Minimum rents due based on other non-cancellable leases:		
Within one year	334	294
After more than one year and within five years	724	1,315
After more than five years	0	0

The Group has leased some of the service facilities it has used. The average contract length is three to five years, usually with an option to continue the contract after its original expiration date. The profit and loss account for 2007 includes EUR 2,027 thousand of rent expenses paid on the basis of other lease contracts (EUR 1,510 thousand in 2006).

Group as lessor

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

34. Pledges given and contingent liabilities

Eur 1,000	2007	2006
Pledges given for own debt		
Mortgages given on land and buildings	0	0
Chattel mortgages granted	0	0
Other contingent liabilities		
Guarantees given on behalf of others	1,285	1,634
Repurchase commitments	1,802	2,164
Other commitments	1,059	0

35. Related party transactions

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

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

Name and domicile	Group and parent company share of shares and votes, %
Parent company Ponsse Oyj, Vieremä, Finland	
Ponsse AB, Västerås, Sweden	100,00
Ponsse AS, Kongsvinger, Norway	100,00
Ponssé S.A.S., Gondreville, France	100,00
Ponsse UK Ltd., Lockerbie, Great Britain	100,00
Ponsse North America, Inc., Rhinelander, United States	100,00
Ponsse Latin America Indústria de Máquinas Florestais Ltda, Mogi das Cruzes, Brazil	100,00
OOO Ponsse, St. Petersburg, Russia	100,00
Epec Oy, Seinäjoki, Finland	100,00
Ponsse Asia-Pacific Ltd., Hongkong	100,00
Ponsse China Ltd., Kiina	100,00
Povery S.A., Uruguay (owned by Ponsse Latin America)	100,00

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

Management's employment-related benefits	2007	2006
Eur 1,000		
Salaries and other short-term employment-related benefits	1,891	2,054
Benefits paid upon termination of employment	0	0
Total	1,891	2,054

Salaries and bonuses		
Eur 1,000	2007	2006
President and CEO	227	324
Members of the Board of Directors:		
Aarni-Sirviö Maarit	24	0
Hagman Nils	30	20
Kylävainio Ilkka	30	20
Remes Seppo	30	20
Ryynänen Mirja, former member of the Board of Directors	6	20
Vidgrén Juha	24	61
Vidgrén Einari	99	87
Total	241	228

The President and CEO's retirement age is 65 years. He is included in the performance-based bonus scheme. The bonus is based on a performance target approved by the Board of Directors. The President and CEO's period of notice is 18 months if service is terminated by the company, or 6 months if service is terminated by the President and CEO. The terms and conditions of the President and CEO's employment are defined in writing in a service contract approved by the Board of Directors.

No loans have been granted to management.

36. Events after the end of the financial period

There are no essential events concerning the Group after the end of the financial period.

FINANCIAL INDICATORS

	IFRS 2007	IFRS 2006	IFRS 2005	IFRS 2004	FAS 2003
Extent of operations					
Turnover (EUR 1,000)	310,053	238,642	226,095	177,934	166,034
Change, %	29.9	5.5	27.1	7.2	23.2
R&D expenditure					
capitalised, (EUR 1,000)	851	808	461	329	19
expensed, (EUR 1,000)	4,856	3,334	3,218	3,382	3,011
R&D expenditure, total (EUR 1,000)	5,708	4,142	3,679	3,711	3,030
as % of turnover	1.7	1.7	1.6	2.1	1.8
Gross investments in fixed assets (EUR 1,000)	6,565	5,318	11,220	9,029	4,500
as % of turnover	2.1	2.2	5.0	5.1	2.7
Average number of employees	876	795	729	607	553
Turnover per employee (EUR 1,000)	354	300	310	293	300
Order stock, EUR million	110.1	59.2	54.9	44.4	33.7
Profitability					
Operating profit (EUR 1,000)	37,080	29,590	29,051	19,700	14,253
as % of turnover	12.0	12.4	12.8	11.1	8.6
Profit before tax (EUR 1,000)	36,384	28,505	28,111	19,172	13,050
as % of turnover	11.7	11.9	12.4	10.8	7.9
Profit for the period (EUR 1,000)	26,477	21,042	19,629	13,532	9,139
as % of turnover	8.5	8.8	8.7	7.6	5.5
Return on equity, % (ROE)	38.5	37.4	45.4	34.7	22.4
Return on capital employed, % (ROCE)	37.4	35.5	40.5	31.1	22.9
Financing and financial position					
Current ratio	2.0	2.3	2.1	2.0	2.9
Equity ratio, %	50.3	49.1	47.6	36.0	55.7
Gearing, %	27.8	36.5	23.5	47.4	16.7
Interest-bearing liabilities (EUR 1,000)	33,943	30,895	24,398	32,291	17,767
Non-interest-bearing liabilities (EUR 1,000)	43,439	32,964	32,476	30,205	17,339

PER-SHARE DATA[1)]

	IFRS 2007	IFRS 2006	IFRS 2005	IFRS 2004	FAS 2003
Earnings per share (EPS), EUR	0.95	0.75	0.70	0.47	0.33
Equity per share, EUR	2.73	2.18	1.84	1.24	1.54
Nominal dividend per share, EUR	0.50[(2]	0.40	0.40	0.10	0.75
Dividend per share adjusted for share issues, EUR	0.50[(2]	0.40	0.40	0.10	0.75
Dividend per earnings, %	42.3	53.2	57.0	21.1	229.8
Effective dividend yield, %	2.8	3.1	3.6	1.4	18.2
Price/earnings ratio (P/E)	15.0	17.3	15.9	15.1	12.6
Share performance					
Lowest trading price	11.27	10.89	7.25	4.12	4.75
Highest trading price	19.40	15.00	11.65	8.00	9.50
Closing price	14.20	13.00	11.15	7.15	4.11
Average price	15.31	12.43	9.05	5.23	6.51
Market capitalisation, EUR million	397.6	364.0	312.1	200.2	115.2
Dividends paid, EUR million	14.0[(2]	11.2	11.2	2.8	21.0
Shares traded	3,812,860	3,576,975	4,370,432	7,490,584	4,623,036
Shares traded, %	13.6	12.8	15.6	26.8	16.5
Weighted average number of shares during					
the period, adjusted for share issues	28,000,000	28,000,000	28,000,000	28,000,000	28,000,000
Number of shares on the closing date,					
adjusted for share issues	28,000,000	28,000,000	28,000,000	28,000,000	28,000,000

1) Per-share data has been adjusted to reflect the number of shares after the increase in 2006 (split 1:2).

2) Board of Directors' proposal to the General Meeting of Shareholders to be held on 29 April 08.

FORMULAE FOR FINANCIAL INDICATORS

RETURN ON EQUITY (ROE), %	=	$\frac{\text{Profit for the period}}{\text{Shareholders' equity + minority interest (average during the year)}}$ x 100
RETURN ON CAPITAL EMPLOYED (ROCE), %	=	$\frac{\text{Profit before tax + financial expences}}{\text{Balance sheet total – interest-free liabilities (average during the year)}}$ x 100
EQUITY RATIO, %	=	$\frac{\text{Shareholders' equity + minority interest}}{\text{Balance sheet total – advances received}}$ x 100
GEARING, %	=	$\frac{\text{Interest-bearing liabilities – cash in hand and at bank and financial securities}}{\text{Shareholders' equity + minority interest}}$ x 100
AVERAGE NUMBER OF PERSONNEL DURING THE FINANCIAL YEAR	=	Average of the numbers of personnel at the end of each month. The calculation has been adjusted for part-time employees.
EARNINGS PER SHARE (EPS)	=	$\frac{\text{Profit before tax – taxes (incl. change in deferred taxes) -/+ minority interest}}{\text{Weighted average number of shares during the period, adjusted for share issues}}$
EQUITY PER SHARE	=	$\frac{\text{Shareholders' equity}}{\text{Number of shares on balance sheet date, adjusted for share issues}}$
DIVIDEND PER SHARE, ADJUSTED FOR SHARE ISSUES	=	$\frac{\text{Dividend per share}}{\text{Adjustment factors for share issues after the financial period}}$
DIVIDEND PER EARNINGS, %	=	$\frac{\text{Dividend per share}}{\text{Earnings per share}}$ x 100
EFFECTIVE DIVIDEND YIELD, %	=	$\frac{\text{Dividend per share, adjusted for share issues}}{\text{Last trading price for the period, adjusted for share issues}}$ x 100
PRICE/EARNINGS RATIO (P/E)	=	$\frac{\text{Last trading price for the period, adjusted for share issues}}{\text{Earnings per share}}$
MARKET CAPITALISATION	=	Number of shares at end of the financial year multiplied by the closing price on the last trading day of the financial year adjusted for share issues
SHARE TRADED, %	=	$\frac{\text{Shares traded during the period}}{\text{Average number of shares during the period}}$ x 100

PROFIT AND LOSS ACCOUNT

Eur 1,000	Note[1]	2007	2006
Turnover	2	**256,029**	**196,270**
Increase (+)/decrease (-) in stocks of finished goods and work in progress		1,299	1,161
Other operating income	3	878	822
Raw materials and services	4	-173,282	-129,200
Staff costs	5, 6, 7	-29,215	-25,014
Depreciation and value adjustments	8	-2,875	-2,688
Other operating expenses		-23,039	-18,130
Operating profit		**29,796**	**23,221**
Financial income and expenses	10	-1,727	117
Result before extraordinary items		**28,069**	**23,338**
Extraordinary items		5,000	1,700
Result after extraordinary items		**33,069**	**25,038**
Appropriations	11	306	153
Direct taxes	12	-9,147	-6,560
Profit for the period		**24,227**	**18,630**

1) The note refers to the Notes to the Accounts on pages 83-91.

BALANCE SHEET

Eur 1,000

ASSETS	Note[1]	2007	2006
Non-current assets			
Intangible assets	13	3,251	2,857
Tangible assets	13	19,992	19,095
Financial assets	14	12,432	13,901
Total non-current assets		**35,675**	**35,853**
Current assets			
Stocks	15	39,866	30,768
Non-current receivables	16	809	210
Current receivables	16	64,822	46,424
Cash in hand and at banks		2,926	4,161
Total current assets		**108,423**	**81,563**
Total assets		**144,097**	**117,415**

Eur 1,000

LIABILITIES	Note[1]	2007	2006
Shareholders' equity	17, 18		
Share capital		7,000	7,000
Retained earnings		39,561	32,131
Profit for the period		24,227	18,630
Total shareholders' equity		**70,788**	**57,761**
Appropriations	19	**1,574**	**1,880**
Provisions for liabilities and charges	20	**4,341**	**3,517**
Creditors			
Non-current creditors	21	14,517	19,730
Current creditors	22	52,877	34,528
Total creditors		**67,394**	**54,258**
Total liabilities		**144,097**	**117,415**

1) The note refers to the Notes to the Accounts on pages 83-91.

CASH FLOW STATEMENT

Eur 1,000	2007	2006
Business operations:		
Operating profit	29,796	23,221
Depreciation and value adjustments	2,875	2,688
Unrealised exchange gains and losses	1,010	977
Change in provisions	824	-2,796
Cash flow before change in working capital	34,505	24,090
Change in working capital:		
Increase(-)/decrease(+) in current non-interest-bearing receivables	-19,646	-12,149
Increase(-)/decrease(+) in stocks	-9,098	-6,909
Increase(+)/decrease(-) in current non-interest-bearing liabilities	7,522	9,742
Cash flow from operations before financial items and income taxes	13,283	14,773
Interest received	1,305	1,489
Interest paid	-1,472	-1,157
Dividends received	274	226
Other financial items	-616	-436
Income taxes paid	-7,678	-7,109
Cash flow before extraordinary items	5,095	7,787
Net cash flow from extraordinary items in business operations	5,000	1,700
Net cash flow from business operations (A)	**10,095**	**9,487**
Investments:		
Investments in tangible and intangible assets	-3,883	-5,353
Proceeds from tangible and intangible assets	0	0
Investments in other assets	0	0
Cash outflow from investing activities (B)	-3,883	-5,353
Financing:		
Withdrawal of current loans	9,564	2,033
Repayment of current loans		
Increase(-)/decrease(+) in current interest-bearing receivables	0	0
Increase (+)/decrease (-) in non-current loans	-5,212	4,409
Increase (-)/decrease (+) in non-current receivables	-599	47
Dividends paid and other distribution of profit	-11,200	-11,200
Net cash outflow from financing (C)	**-7,447**	**-4,711**
Increase (+)/decrease (-) in liquid assets (A+B+C)	-1,235	-577
Liquid assets on 1 January	4,161	4,738
Liquid assets on 31 December	**2,926**	**4,161**

NOTES TO THE PARENT COMPANY'S ACCOUNTS

1. ACCOUNTING POLICIES

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

NON-CURRENT ASSETS

Non-current assets are recognised in the balance sheet at immediate cost less planned depreciation and amortisation. Planned depreciation and amortisation has been calculated on a straight-line basis over the useful life of the assets. The depreciation and amortisation periods are:

Intangible rights.................................5 years
Other capitalised long-term expenses......................................3 to 5 years
Buildings and structures..................20 years
Machinery and equipment........ 3 to 10 years

STOCKS

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

GUARANTEE PROVISION

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

RECOGNITION OF SALES

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

LEASING EXPENSES

Leasing payments have been recognised as expenses.

R&D EXPENDITURE

Development costs that fulfil the capitalisation requirements of Chapter 5, Section 8 of the Accounting Act have been booked under intangible assets in the balance sheet and are subject to amortisation. Research costs are recognised directly as annual expenses. The method for booking R&D expenses was changed in 2003.

PENSIONS

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

DERIVATIVES

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

INCOME TAXES

Income taxes have been recognised according to Finnish tax legislation.

FOREIGN CURRENCY ITEMS

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

COMPARABILITY WITH THE PREVIOUS YEAR

The data for the financial year 1 January to 31 December 2007 are comparable with the previous year.

2. Turnover by market area		
EUR 1,000	2007	2006
Nordic countries	118,952	103,711
Rest of Europe	112,110	74,138
North and South America	23,219	18,071
Other countries	1,749	350
Total	256,029	196,270

3. Other operating income		
EUR 1,000	2007	2006
Sales profits on property, plant and equipment	27	29
Public subsidies	447	296
Other	404	498
Total	878	822

4. Raw materials and services		
EUR 1,000	2007	2006
Raw materials and consumables		
Purchases during the accounting period	177,464	132,570
Increase (-)/decrease (+) in stocks	-7,061	-5,947
External services	2,879	2,576
Raw materials and services, total	173,282	129,200

5. Average number of staff		
persons	2007	2006
Workers	356	332
Salaried employees	219	194
Total	575	526

6. Staff costs		
EUR 1,000	2007	2006
Wages and salaries	23,741	20,273
Pension costs	3,773	3,395
Other social security costs	1,701	1,346
Total	29,215	25,014

7. Management salaries and remunerations		
EUR 1,000	2007	2006
Managing directors	0	0
Members of the Board of Directors	241	228
Total	241	228

8. Depreciation and value adjustments		
EUR 1,000	2007	2006
Depreciation according to plan	2,875	2,688
Total	2,875	2,688

9. Auditor's remunerations		
Eur 1,000	2007	2006
Ernst&Young Oy		
Auditor's remunerations	60	58
Tax advice	47	11
Other remunerations	8	9
Total	115,132	77,979

10. Financial income and expenses		
Eur 1,000	2007	2006
Dividend income		
From Group companies	100	100
From associated companies	174	126
From others		
Total	274	226
Other interest and financial income		
From Group companies	1,132	1,367
Interest income		
From others	5,984	5,571
Total	7,290	1,489
Other interest and financial income, total	7,116	6,938
Total	7,390	7,164
Value adjustments of financial securities	1,187	5
Interest expenses and finance costs		
To Group companies	215	98
Interest expenses		
To others	7,715	6,944
Total	1,503	1,159
Interest expenses and finance costs, total	7,930	7,042
Total	9,117	7,047
Financial income and expenses, total	-1,727	117
The item Interest and financial income includes exchange rate losses (net)	640	451

11. Appropriations		
Eur 1,000	2007	2006
Difference between depreciations according to plan and depreciations in taxation	306	153

12. Income taxes		
Eur 1,000	2007	2006
Income taxes from actual operation	9,147	6,560
Change in deferred tax receivable	-	-
Total	9,147	6,560

13. Intangible and tangible assets

Eur 1,000 **Intangible assets 2007**	**Development costs**	**Patent costs**	**Intangible rights**	**Other capitalised long-term expenses**	**Prepayments and unfinished acquisitions**	**Total**
Acquisition cost on 1 January	162	509	0	2,834	1,454	4,959
Increase	836	16	80	55	1,059	2,047
Decrease	0	0	0	0	-1,214	-1,214
Acquisition cost on 31 December	998	525	80	2,890	1,299	5,792
Accumulated depreciation on 1 January	-33	-150	0	-1,919	0	-2,102
Accumulated depreciation on decrease and transfers	0	0	0	0	0	0
Depreciation for the accounting period	-49	-53	-2	-335	0	-439
Accumulated depreciation on 31 December	-82	-203	-2	-2,254	0	-2,541
Book value on 31 December	916	322	79	636	1,299	3,251
Book value on 31 December 2006	128	359	0	915	1,454	2,857

Eur 1,000 **Tangible assets 2007**	**Land and water**	**Buildings and structures**	**Machinery and equipment**	**Other tangible assets**	**Prepayments and unfinished acquisitions**	**Total**
Acquisition cost on 1 January	350	20,092	14,582	0	213	35,237
Increase	0	159	2,342	7	4,564	7,072
Decrease	0	0	-140	0	-3,767	-3,907
Transfers between items	0	0	0	0	0	0
Acquisition cost on 31 December	350	20,251	16,784	7	1,010	38,402
Accumulated depreciation on 1 January	0	-6,972	-10,011	0	0	-16,983
Accumulated depreciation on decrease and transfers	0	0	159	0	0	159
Depreciation for the accounting period	0	-973	-1,455	0	0	-2,428
Accumulated depreciation on 31 December	0	-7,945	-11,307	0	0	-19,252
Revaluations	0	841	0	0	0	841
Book value on 31 December 2007	350	13,147	5,477	7	1,010	19,992
Book value on 31 December 2006	350	13,961	4,572	0	213	19,095

Book value of operating machinery and equipment						
31.12.2007			3,902			
31.12.2006			3,134			

A revaluation of TEUR 841 was made on 31 August 1994 of the parent company's business premises at Vieremä. Depreciation has not been applied to the revaluation. The revaluation includes a deferred tax liability of TEUR 244. The revaluation was made on the basis of legislation then in effect because the likely sales price of the premises is permanently and substantially higher than the acquisition cost.

14. Financial assets

Eur 1,000 **Financial assets 2007**	**Shares in Group companies**	**Shares in associated companies**	**Shares Other**	**Receivables from Group companies**	**Receivables Other**	**Total**
Acquisition cost on 1 January	15,808	335	18	525	0	16,685
Increase	290	0	74	0	27	392
Decrease	0	0	0	-456	0	-456
Acquisition cost on 31 December	16,098	335	92	69	27	16,621
Accumulated write-downs 1 January	-2,785	0	0	0	0	-2,785
Decrease	-218	0	0	0	0	-218
Write-downs	-1,187	0	0	0	0	-1,187
Revaluations	0	0	0	0	0	0
Book value on 31 December	11,909	335	92	69	27	12,432

Write-down includes the acquisition cost of Ponsse NA Inc.

Group companies

Name and domicile	Share of ownership %
Ponsse AB, Västerås, Sweden	100,00
Ponsse AS, Kongsvinger, Norway	100,00
Ponssé S.A.S., Gondreville, France	100,00
Ponsse UK Ltd., Lockerbie, United Kingdom	100,00
Ponsse North America, Inc., Rhinelander, United States	100,00
Ponsse Latin America Indústria de Máquinas Florestais Ltda, Mogi das Cruzes, Brazil	100,00
OOO Ponsse, St. Petersburg, Russia	100,00
Epec Oy, Seinäjoki, Finland	100,00
Ponsse Asia-Pacific Ltd., Hongkong	100,00
Ponsse China Ltd., Kiina	100,00
Povery S.A., Uruguay (owned by Ponsse Latin America)	100,00

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

Associates

Name and domicile	Share of ownership %
Sunit Oy, Kajaani, Finland	34,00

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

15. Inventories

Eur 1,000	2007	2006
Raw materials and consumables	30,011	19,112
Work in progress	1,627	1,110
Finished products/goods	2,759	1,593
Other stocks	5,468	8,953
Total	39,866	30,768

16. Receivables

Non-current receivables

Eur 1,000	2007	2006
Receivables from Group companies		
Loans receivable	809	173
Loans receivable	0	37
Other receivables	0	0
Non-current receivables, total	809	210

Current receivables

Eur 1,000	2007	2006
Trade receivables	13,976	10,951
Receivables from Group companies		
Trade receivables	46,299	34,139
Other receivables	3,078	595
Accrued income		
Grants receivable	328	144
Income tax receivable	0	237
Other accrued income	1,141	357
Total	1,469	738
Current receivables, total	64,822	46,424
Receivables, total	65,631	46,634

17. Shareholders' equity

Eur 1,000	2007	2006
Equity employed		
Share capital on 1 January	7,000	7,000
Scrip issue	0	0
Share capital on 31 December	7,000	7,000
Share premium account on 1 January	0	0
Scrip issue	0	0
Share premium account on 31 December	0	0
Equity employed, total	7,000	7,000
Shareholders' surplus		
Retained earnings on 1 January	50,761	43,331
Dividend distribution	-11,200	-11,200
Retained earnings on 31 December	39,561	32,131
Profit for the period	24,227	18,630
Shareholders' surplus, total	63,788	50,761
Total shareholders' equity	70,788	57,761

18. Distributable funds

Eur 1,000	2007	2006
Profit for previous accounting periods	39,561	32,131
Profit for the period	24,227	18,630
Total	63,788	50,761

Ponsse Oyj's registered share capital on 31 December 07 was EUR 7,000,000 divided into 28,000,000 shares each having a nominal value of EUR 0.25. All shares are of the same series and each share entitles its holder to one vote at shareholder meetings and gives an equal right to a dividend.

Ponsse Oyj has no outstanding convertible notes, bonds with warrants or options. Neither the company nor its subsidiaries hold the company's own shares. Ponsse Oyj's Board of Directors is authorised, until 30 June 2008, to purchase a maximum of 250,000 of the company's own shares. Ponsse Oyj's Board of Directors is not currently authorised to increase the share capital or issue convertible notes or bonds with warrants.

19. Accumulated appropriations

Eur 1,000	2007	2006
Depreciation difference	1,574	1,880

20. Provisions for liabilities and charges

Eur 1,000	2007	2006
Guarantee provision	4,341	3,517
Other compulsory provisions	0	0
Total	4,341	3,517

21. Non-current creditors

Eur 1,000	2007	2006
Loans from financial institutions	14,517	19,730
Pension loans	0	0
Non-current creditors, total	14,517	19,730

Debts falling due in more than five years

	2007	2006
Loans from financial institutions	65	3,611
Pension loans	0	0
Total	65	3,611

22. Current creditors

Eur 1,000	2007	2006
Loans from financial institutions	16,535	6,970
Pension loans	0	0
Advances received	729	417
Accounts payable	20,548	15,318
Liabilities to Group companies		
Intra-Group accounts payable	2,313	1,278
Other intra-Group liabilities	3,529	3,598
Accruals and deferred income	0	0
Liabilities to Group companies, total	5,842	4,876
Advance invoicing	240	767
Other creditors	755	767
Accruals and deferred income		
Accrued staff expenses	4,209	3,746
Interest accruals	168	138
Income tax liability	1,232	0
Accruals and deferred income in respect of stocks	921	878
Other accruals and deferred income	1,698	650
Total	8,228	5,412
Current creditors, total	52,877	34,528

23. Pledges given, contingent and other liabilities

Eur 1,000

23.1 For own debt

Debts for which mortgages have been pledged as collateral	2007	2006
Loans from financial institutions	0	0
Mortgages given on land and buildings	0	0
Chattel mortgages granted	0	0
Mortgages pledged as collateral, total	0	0

23.2 Leasing commitments

Leasing payments payable under leasing agreements	2007	2006
Leasing payments payable during the next accounting period	690	550
Leasing payments payable thereafter	1,323	1,193
Total	2,013	1,743

23.3 Contingent liabilities on behalf of Group companies

	2007	2006
Guarantees given on behalf of companies within the group	715	797

The parent company has issued a written collateral to protect the outside debts of the three subsidiaries.

23.4 Other contingent liabilities	2007	2006
Guarantees given on behalf of others	4	127
Repurchase commitments	1,802	2,164
Other commitments	1,059	0
Total	2,865	2,291

23.5 Derivative liabilities

Forward exchange agreements	2006
Fair value	219
Value of underlying asset	21,189

Interest rate derivatives	2007	2006
Fair value	38	15
Value of underlying asset	4,500	4,500

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

SHARE CAPITAL AND SHARES

Ponsse Oyj's share capital is EUR 7,000,000 divided into 28,000,000 shares. The nominal value of each share is EUR 0.25. Under the Articles of Association, the minimum and maximum share capital is EUR 3,000,000 and EUR 12,000,000 respectively, within which limits the share capital may be increased or decreased without amending the Articles of Association. All shares are of the same series and each share entitles its holder to one vote at shareholders' meetings and gives an equal right to dividends.

Ponsse Oyj has no outstanding convertible notes, bonds with warrants or options.

TREASURY SHARES

Neither the company nor its subsidiaries own the company's own shares. Ponsse Oyj's Board of Directors is authorised, until 30 June 2008, to purchase a maximum of 250,000 of the company's own shares.

INCREASES IN SHARE CAPITAL 1994 - 2007

Subscription period	Method of increase	Nominal value EUR	Number of new shares	Increase in share capital EUR	New share capital EUR
31.8.1994	Scrip issue	0.84	1,300,000	1,093,221.52	2,489,181.31
9.–22.3.1995	Scrip issue	0.84	148,000	124,459.07	2,613,640.38
9.–22.3.1995	Rights issue targeted at the general public	0.84	392,000	329,648.34	2,943,288.71
16.3.2000	Split 1: 2	0.42	-	0.00	2,943,288.71
16.3.2000	Scrip issue	0.50	-	556,711.29	3,500,000.00
29.11.2004	Scrip issue	0.50	7,000,000	3,500,000.00	7,000,000.00
29.3.2006	Split 1: 2	0.25	-	0.00	7,000,000.00

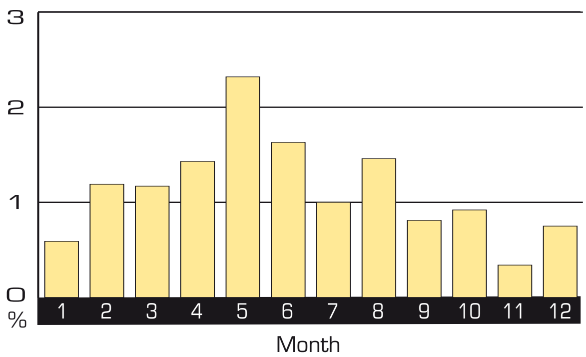
AUTHORISATION TO INCREASE SHARE CAPITAL

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

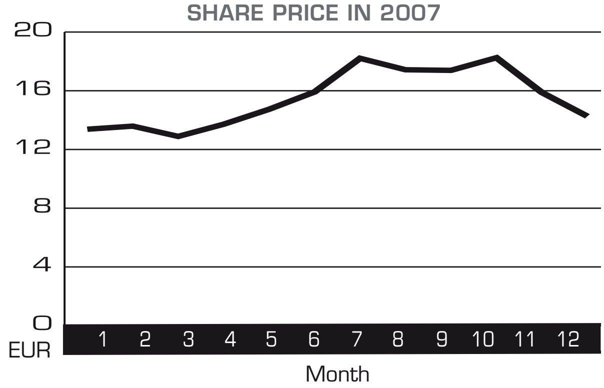
SHARE TRADING VOLUME 1 JANUARY - 31 DECEMBER 2007 - 31.12.2007

Month	Share trading value, EUR	Number of shares traded	Low, EUR	High, EUR	Weighted average, EUR	Closing price, EUR	Market capitalisation, EUR	Number of shares	Relative share trading volume, %
1	2,203,387	164,884	12.75	14.10	13.38	13.95	390,600,000	28,000,000	0.59
2	4,520,825	332,033	11.27	14.00	13.59	12.72	356,160,000	28,000,000	1.19
3	4,217,095	327,068	12.06	13.20	12.89	13.00	364,000,000	28,000,000	1.17
4	5,483,770	399,581	12.52	14.90	13.72	14.24	398,720,000	28,000,000	1.43
5	9,593,523	650,681	13.70	15.17	14.74	15.05	421,400,000	28,000,000	2.32
6	7,292,911	457,431	14.50	17.80	15.92	17.25	483,000,000	28,000,000	1.63
7	5,097,185	280,304	17.06	18.60	18.21	18.55	519,400,000	28,000,000	1.00
8	7,153,916	409,413	15.11	18.55	17.43	17.37	486,080,000	28,000,000	1.46
9	3,938,939	226,664	16.50	18.00	17.39	18.00	504,000,000	28,000,000	0.81
10	4,679,128	258,101	16.56	19.40	18.25	17.50	490,000,000	28,000,000	0.92
11	1,519,887	95,511	14.62	17.98	15.88	15.75	441,000,000	28,000,000	0.34
12	2,916,889	211,189	13.03	15.60	14.26	14.20	397,600,000	28,000,000	0.75
Total	**58,617,455**	**3,812,860**	**11.27**	**19.40**	**15.47**			**28,000,000**	**13.62**

MONTHLY RELATIVE SHARE TURNOVER IN 2007



WEIGHTED AVERAGE MONTHLY SHARE PRICE IN 2007



SHAREHOLDER PROFILE ON 31 DECEMBER 2007

	Number of shareholders pcs	Percentage of shares and votes. %	Nominee-registered pcsl	Nominee-registered %	Percentage of share-holders pcs	Percentage of votes. %
Enterprises	774,947	2.768	910	0.003	775,857	2.771
Financial institutions and insurance companies	2,004,209	7.158	1,199,987	4.286	3,204,196	11.444
Public sector entities	1,581,900	5.65	0	0	1,581,900	5.65
Households	21,807,770	77.885	0	0	21,807,770	77.885
Non-profit organisations	619,655	2.213	0	0	619,655	2.213
Foreign holding	9,948	0.036	674	0.002	10,622	0.038
Total	**26,798,429**	**95.709**	**1,201,571**	**4.291**	**28,000,000**	**100.000**

ANALYSIS OF SHAREHOLDERS ON 31 DECEMBER 2007

Shares/ shareholder	Number of shareholders pcs	Percentage of shareholders %	Shares total pcs	Percentage of shares and votes, %
1-100	949	23.438	57,379	0.205
101-500	1,570	38.775	439,617	1.57
501-1,000	676	16.695	526,396	1.88
1,001-5,000	664	16.399	1,490,116	5.322
5,001-10,000	93	2.297	681,729	2.435
10,001-50,000	68	1.679	1,362,877	4.867
50,001-100,000	6	0.148	509,446	1.819
100,001-500,000	18	0.445	4,666,847	16.667
over 500,000	5	0.123	18,265,593	65.234
Total	**4,049**	**100.000**	**28,000,000**	**100.000**

SHAREHOLDERS ON 31 DECEMBER 2007

No.	Name	Number of shares	Percentage of shares	Percentage of votes
1	Vidgrén Einari	13,261,456	47.36	47.36
2	Vidgrén Juha	2,711,500	9.68	9.68
3	Varma Mutual Pension Insurance Company	864,000	3.09	3.09
4	OMXBS/Skandinaviska Enskilda Banken Ab, nominee-registered	749,137	2.68	2.68
5	Tapiola Mutual Pension Insurance Company	679,500	2.43	2.43
6	OP-Suomi Pienyhtiöt mutual fund	455,605	1.63	1.63
7	Vidgrén Mikko	395,416	1.41	1.41
8	Einari Vidgrén Foundation	388,000	1.39	1.39
9	Randelin Mari	382,080	1.36	1.36
10	Aktia Capital mutual fund	345,746	1.23	1.23
11	Fondita Nordic Small Cap Placfond	336,000	1.20	1.20
12	Vidgrén Minna	290,000	1.04	1.04
13	Vidgrén Jukka Tuomas	271,760	0.97	0.97
14	Nordea Bank Finland plc	270,136	0.96	0.96
15	Thominvest Oy	256,600	0.92	0.92
16	Heikkinen Jonna	231,658	0.83	0.83
17	Svenska Handelsbanken AB	173,132	0.62	0.62
18	Vidgrén Jarmo	161,920	0.58	0.58
19	Vidgrén Janne	160,320	0.57	0.57
20	OP-Focus special mutual fund	152,809	0.55	0.55
21	Nordea Foresta mutual fund	148,588	0.53	0.53
22	OP-Pohjola Pienyhtiöt mutual fund	132,997	0.47	0.47
23	Tiitinen Arto	114,080	0.41	0.41
24	Mäkinen Tommi	100,000	0.36	0.36
25	Nordea Bank Finland plc	100,000	0.36	0.36
26	Mandatum Finland mutual fund, growing share	98,606	0.35	0.35
27	Lindbom Curt	92,840	0.33	0.33
28	Laakkonen Mikko	60,000	0.21	0.21
29	Tapiola Finland mutual fund	58,000	0.21	0.21
30	Olvi Foundation	46,800	0.17	0.17
	Other shareholders	4 511 314	16.11	16.11
	Total	28,017,005	100.00	100.00

At year-end 2007, Ponsse Oyj had 4,049 shareholders (4,305 on 31 December 2006).

Management holdings

Members of the Board of Directors, President and CEO, companies under their control and their underage children held a total of 16,130,536 Ponsse Oyj shares on 31 December 2007, corresponding to 57.6 per cent of shares and votes in the company.

BOARD OF DIRECTORS' PROPOSAL FOR THE DISPOSAL OF PROFIT

The parent company's distributable funds total EUR 63,787,603.43.

Ponsse Oyj's Board of Directors proposes that the distributable funds be disposed of as follows:

- Dividend of EUR 0.50 per share to be paid to shareholders, totalling	EUR 14,000,000.00 euroa
- To be retained in shareholders' equity	EUR 49,787,603.43 euroa
	EUR 63,787,603.43 euroa

The record date for the payment of the dividend is 5 May 2008, and payments will be made on 12 May 2008.

Vieremä, 15 February 2008

Einari Vidgrén Juha Vidgrén Maarit Aarni-Sirviö Nils Hagman Ilkka Kylävainio Seppo Remes

Arto Tiitinen, President and CEO

AUDITOR'S REPORT

To the shareholders of Ponsse Oyj

We have audited the accounting, the financial statements and the corporate governance of Ponsse Oyj for the accounting period from 1 January to 31 December 2007. The Board of Directors and the President and CEO have prepared the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and the parent company's financial statements in accordance with prevailing regulations in Finland, including the parent company's balance sheet, income statement, cash flow statement and notes to the financial statements. Based on our audit, we express an opinion on the consolidated financial statements, the parent company's financial statements, the Board of Directors' report and corporate governance.

We have conducted the audit in accordance with Finnish Standards on Auditing. Those standards require that we perform the audit to obtain reasonable assurance about 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 and significant estimates made by the management 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 President and CEO of the parent company have legally complied with the rules of the Companies Act.

Consolidated financial statements

In our opinion, the consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the EU give a true and fair view, as referred to in these standards and defined in the Finnish Accounting Act, of the consolidated result of operations as well as of its financial position.

Parent company's financial statements, Board of Directors' report and corporate governance

In our opinion, the parent company's financial statements have been prepared in accordance with the Finnish Accounting Act and other rules and regulations governing the preparation of financial statements in Finland. The financial statements give a true and fair view, as defined in the Finnish Accounting Act, of the parent company's result of operations as well as of its financial position. The Board of Directors' report has been prepared in accordance with the Finnish Accounting Act and other rules and regulations concerning its preparation. The Board of Directors' report is consistent with the financial statements and gives a true and fair view, as defined in the Accounting Act, of the consolidated group's and the parent company's result of operations as well as of its financial position.

The consolidated financial statements and the parent company's financial statements can be adopted and the members of the Board of Directors and the President and CEO of the parent company can be discharged from liability for the period audited by us. The proposal by the Board of Directors regarding the disposal of profit is in compliance with the Companies Act.

Vieremä 15 February 08

Ernst & Young Oy
Authorised Public Accountants

Eero Huusko
Authorised Public Accountant

CORPORATE GOVERNANCE AT PONSSE OYJ

1. GROUP STRUCTURE

The Ponsse Group designs, manufactures, markets and services environmentally friendly and efficient forest machines based on the cut-to-length method and information technology related to wood harvesting. The Ponsse Group includes the parent company Ponsse Oyj and its wholly-owned subsidiaries Ponsse AB, Sweden; Ponsse AS, Norway; Ponssé S.A.S. France; Ponsse UK Ltd., Great Britain, Ponsse North America, Inc., the United States of America; Ponsse Latin America Ltda, Brazil; OOO Ponsse Russia; Ponsse Asia-Pacific Ltd., Hongkong; Ponsse China Ltd., China; Povery S.A., Uruguay and Epec Oy, Seinäjoki, Finland. In addition, the Group includes Sunit Oy, located in Kajaani, Finland, which is Ponsse Oyj's associated company with a holding of 34 per cent.

2. APPLICABLE LEGISLATION AND OTHER PROVISIONS

Ponsse Oyj (hereinafter "the Company") is a Finnish limited company. Its decision-making and administration are governed by the Finnish Companies Act, other provisions governing listed companies and Ponsse Oyj's Articles of Association. In addition, the Company complies with the Recommendation for the corporate governance of listed companies issued in 2003.

3. GENERAL MEETING

The highest decision-making body of the Company is the general meeting, whose duties and procedures are defined in the Finnish Companies Act and the Company's Articles of Association. The general meeting is responsible for, e.g., making decisions on amending the Articles of Association, on increasing and decreasing share capital, on granting stock options and electing the Board of Directors and auditors.

The Annual General Meeting shall be held each year before the end of June on a date to be specified by the Board of Directors. At the Annual General Meeting, the Company's financial statements and the consolidated financial statements shall be presented; the adoption of the profit and loss account, the balance sheet, the consolidated profit and loss account and the consolidated balance sheet, and dividends or actions warranted by the profit or loss shown in the adopted profit and loss account shall be decided on; and the discharge of liability of the Board of Directors and the President and CEO shall be decided on. In addition, the Annual General Meeting decides on the number of and the remuneration for Board members, the auditor's fee and the compensation for travel expenses. The Annual General Meeting also elects the members of the Board of Directors and the auditor.

Shareholders are entitled to submit matters for consideration by the general meeting by notifying the Board of Directors thereof in writing well enough in advance so that the matter can be included in the notice of the meeting. Proposals on matters involving the election of Board members and auditors, and other proposals submitted by the Board to the general meeting may be countered at the meeting as each point on the agenda is being dealt with. Voting takes place in accordance with the voting procedure adopted by the meeting and all shareholders present at the meeting are entitled to vote.

In order to attend a general meeting, shareholders must inform the Company of their intention to do so by the date given in the notice. The given date may be no earlier than five (5) days prior to the meeting.

All shareholders who are entered as such in the Company's shareholder register kept by the Finnish Central Securities Depository ten (10) days prior to the meeting are entitled to attend the general meeting.

Holders of nominee-registered shares may be temporarily entered in the shareholder register for the purpose of attending a general meeting. Shareholders may exercise their rights at the meeting either in person or through a representative, in addition to which they are entitled to avail themselves of counsel at the meeting.

Extraordinary meetings of shareholders shall be convened whenever the Board deems it necessary. Likewise, an extraordinary meeting of shareholders shall be convened for the purpose of dealing with a matter specified by them if the auditor or shareholders holding at least one-tenth of all shares issued so request in writing.

4. BOARD OF DIRECTORS

A Board of Directors consisting of no fewer than five and no more than eight members is responsible for the proper organisation of the Company's administration and operations. The Annual General Meeting elects Board members for a term of office expiring at the end of the Annual General Meeting following their election. The Board elects a Chairman and a Deputy Chairman from among themselves. In 2007 the Company's Board of Directors consisted of six members.

Persons elected to the Board of Directors shall have the necessary competence for their duties. Members shall be elected to represent a diverse range of expertise as well as the viewpoint of the Company's owners. Under the Articles of Association, no upper age limit applies to Board members.

The majority of Board members shall be independent of the Company, in addition to which no fewer than two of the Board members belonging to the above-mentioned majority shall be independent of any of the Company's major shareholders. Board members shall submit sufficient information to assess their competence and independence, and report any changes in such information. Notice of independence is given in the Annual Report and on the Company's website. The Board of Directors considers Board members Maarit Aarni-Sirviö, Nils Hagman, Ilkka Kylävainio and Seppo Remes to be independent of the Company and its major shareholders.

The Board members are presented in the Annual Report and on the Company's website at www.ponsse.com.

The Annual General Meeting held on 12 April 2007 decided that the annual remuneration payable to members of the Board of Directors should be EUR 32,000. No remuneration is paid to members in the employment of the Company, with the exception of the Chairman of the Board. In 2007 the Board held eight meetings, four of which were telephone meetings. The average attendance rate of Board members was 95.8 per cent.

If shareholders controlling more than 10 per cent of the Company's voting rights should notify the Company's Board of Directors of their proposal on the number and identity of Board members and the identity of the auditor, which matters shall be decided on at the

Annual General Meeting, this information shall be noted in the notice of the meeting. Any proposals on candidates made after the notice of the meeting has been published shall be made public separately.

In addition to the duties specified in the Companies Act and the Articles of Association, the Board is responsible for the Company's operations, result and development, confirms the long-term strategy and the Group's financial risk management policy, approves the budget and decides on corporate acquisitions and property deals, strategically important business expansions, equity-based investments, the development of investments and significant investments. The Board appoints the Company's President and CEO and confirms the appointments of other Management Team members, decides on the grounds for remuneration payable to highest management and evaluates the activities of management on an annual basis.

The President and CEO or his/her nominee, who shall be a Company executive, shall present matters at meetings of the Board of Directors.

5. COMMITTEES OF THE BOARD OF DIRECTORS

Duties and responsibilities have not been specifically divided among members and the Chairman of the Board of Directors, nor has the Board appointed any specific working groups or committees.

6. PRESIDENT AND CEO AND THE MANAGEMENT TEAM

The President and CEO is appointed by the Board of Directors. The President and CEO manages the Company's day-to-day business affairs in accordance with the guidelines and instructions issued by the Board of Directors. His duties include, e.g., operational management, informing the Board, presenting matters over which the Board has the power of decision, implementing the decisions of the Board and ensuring the legality of the business operations. The President and CEO is assisted by a Management Team consisting of the President and CEO as Chairman and the executives appointed to the Team by the Board of Directors. The Management Team meets approximately once a month and also convenes whenever necessary to address, e.g., business plans for the following year and strategy in the longer term.

Each member of the Management Team is responsible for a distinct sphere of operations based on focal Company functions. Management Team members report to the President and CEO. Each member's areas of responsibility are noted in more detail in the Annual Report.

Under the agreement concluded between the Company and its President and CEO, both parties may terminate the agreement with six (6) months' notice. Should the Company terminate the agreement, it shall pay the President and CEO a sum equal to 12 months' salary in addition to salary and other benefits accruing during the period of notice.

Arto Tiitinen, MBA, has acted as President and CEO since 1 April 2004. In 2007 he was paid a salary and other benefits of EUR 226,671.60.

The Company's Management Team consists of the following members: Arto Tiitinen, President and CEO, who is also Chairman; Pasi Arajärvi, Director of Purchasing and Logistics; Tapio Ingervo, Vice President and President and CEO of Ponssé S.A.S.; Jari Mononen, Communications Director; Juhani Mäkynen, Service Director; Juho Nummela, Factory Director; Paula Oksman, Director Human Resources and Principal of Ponsse Academy; Mikko Paananen, CFO and CEO's deputy; Seppo Taatila, Technology and R&D Director; and Jarmo Vidgrén, Vice President and Sales Director. The Company management has regular directors' and officers' liability insurance.

The Company has no option schemes or other share-based incentive systems in place. The Company management is covered by a bonus system based on the Company's operational targets. In 2007 bonuses paid to the management and other staff were EUR 0.8 million in the parent company and EUR 1,1 million in the group.

As necessary, the Management Team monitors and revises the Company's internal principles and procedures, which involve, e.g., reporting, financial administration, investments, risk management, insurance policies, information systems, general procurement, industrial property rights, management of contractual risks, human resources administration, quality management issues, environmental issues, occupational safety and health, insider guidelines and communications.

7. INSIDERS AND INSIDER MANAGEMENT

The Board of Directors has adopted insider guidelines that comply with the insider regulations of the Helsinki Stock Exchange (OMX) that entered into force on 1 January 2006. Pursuant to the Securities Markets Act, Board members, the President and CEO, and his/her deputy, as well as the auditors, are considered permanent insiders due to their position in the Company. In addition to these, pursuant to a decision taken by the Company, the members of the Management Team and specifically named persons, who, by virtue of their duties, regularly deal with non-public information having an impact on the value of the Company's share are also considered permanent insiders. Even though a person is not an insider, he/she may be temporarily entered in a project-specific insider register, which the Company may employ in extensive or otherwise significant projects. Insiders may not trade in the Company's shares during a period of two (2) weeks prior to the publication of the Company's Annual Report or interim report. A stock exchange bulletin is issued annually to notify the publication dates of these reports in advance.

The shareholding of insiders is available for inspection at the insider register maintained by the Finnish Central Securities Depository. Information on the shareholding of permanent insiders may be viewed on the Company's website and the office of the Finnish Central Securities Depository at Urho Kekkosen katu 5 C, Helsinki, Finland. Insiders are obliged to inform the person in charge of managing insider matters within the Company of any changes in the information entered in the insider register without delay.

8. AUDITS AND INTERNAL SUPERVISION

The primary purpose of statutory audits is to verify that the financial statements give a true and fair view of the Group's result and financial position for the financial period. Ponsse Oyj's financial period is the calendar year.

The auditor is responsible for auditing the Company's accounts and financial statement to verify that they are free of material misstatement. The auditor shall also submit a report on the audit performed to the general meeting. In addition, under Finnish law, the auditor also audits the company's corporate governance for compliance with relevant legislation. Normally, the auditor reports to the Board of Directors once a year.

The Company has one auditor, which shall be a public accounting firm authorised by the Central Chamber of Commerce. The auditor is elected by the Annual General Meeting for a term of office that expires at the end of the Annual General Meeting following election.

The auditing procedures of the foreign subsidiaries within the Ponsse Group have been organised in the manner required by each country's legislation and other regulations. In 2007, Ernst & Young Oy acted as the Company's auditor, with Eero Huusko, Authorised Public Accountant, as the principal auditor.

In 2007 the Group's auditing costs amounted to EUR 155,641.

Internal supervision

The methods of internal supervision include internal guidelines, reporting and various technical systems related to activities. An internal auditor is responsible for the company's internal supervision in practice, and he/she reports to the Board of Directors.

9. SHAREHOLDER AGREEMENTS

The Company is not aware of its shareholders having entered into shareholder agreements.

10. DIVIDEND POLICY

The Company has adopted a dividend policy whereby dividends are paid in accordance with the Company's long-term performance and capital requirements.

11. REDEMPTION OBLIGATION CLAUSE

Under Article 14 of the Company's Articles of Association, a shareholder who, either alone or jointly with other shareholders, acquires a holding that is equal to or exceeds either 33 1/3 per cent or 50 per cent of all the Company's shares or the votes conferred by the shares, is, on request, obliged to redeem the shares of other shareholders and other securities entitling thereto under the Companies Act, subject to the more detailed terms and conditions provided in Article 14 of the Articles of Association.

12. RISK MANAGEMENT

The Group's risk management policy seeks to maintain and further develop a practical and comprehensive system for the management and reporting of risks. This entails systematic risk assessment for each function and unit, heightening risk management awareness and quality, disseminating information on best practices and supporting risk management projects involving more than one Company function.

OUR GLOBAL NETWORK

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