

Interim Report 1 January - 31 August 1999

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Market Situation

The market situation in Ponsse's main market areas remained stable during the period under review. Domestically, the uncertain market situation for wood had a slightly adverse effect on forest machine sales. The demand situation in Europe can be generally characterized as good. The market situation in North America remained difficult even though it picked up slightly at the end of the period under review. The high customs tariff leveled against forwarders exported to the United States of America partially hindered the export of the machines in question. The process to achieve a new tariff heading for lower customs treatment is underway. As a result of the market situation and high tariffs, Ponsse's Board of Directors decided to postpone the establishment of a subsidiary in Canada.

Orders Received and Order Book

At the beginning of the year, new orders were obtained in the amount of EUR 77.3 million, up by 34.9 % compared to the corresponding period for the previous year (1-8/1998, EUR 57.3 million). The order book developed favorably during the previous months and was EUR 21.8 million at the end of the period under review (31 August 1998, EUR 21.3 million). The order book equals approximately 2.5 months of production.

Turnover and Profit

The Group's turnover during the first eight months totaled EUR 72.9 million, up by 15.7 % compared to the corresponding period for the previous year (EUR 63.0 million). Export and foreign business operations accounted for 45.6 % (47.3 %) of turnover. The weak market situations in the United States of America and Sweden reduced the export percentage. The recently opened branches in Rovaniemi and Kouvola increased domestic sales.

Operating profit was EUR 4.3 million (EUR 7.7 million). The decline in profits resulted from increasingly stringent price competition and rising production and marketing costs. Cost-cutting measures have been initiated.

The Group's profit after extraordinary items was EUR 1.8 million (EUR 7.7 million). Retroactively demanded customs charges, as well as penalty duties totaling approximately USD 3.4 million (i.e. EUR 3.2 million) for forwarders exported to the United States of America during the period 1995 - 1998, have been entered as extraordinary expenses. In the financial statements for the year 1998, the expense in question has been estimated as an expenditure of FIM 2.3 million (i.e. EUR 0.4 million).

Capital Expenditure and Financing

Gross investments in fixed assets totaled EUR 2.9 million (EUR 4.0 million). Investments focused primarily on production-related machinery and equipment, as well as an operational control system, comprising all major marketing, manufacturing and financial administration functions, that will cover all Group companies.

The consolidated balance sheet total at the end of August was EUR 59.0 million (EUR 42.8 million). Interest-bearing debts totaled EUR 24.9 million (EUR 6.4 million). The equity ratio adjusted with deferred tax liability was 43.2 % in August (62.4 %). Cash assets totaled EUR 6.9 million (EUR 3.3 million).

The decrease in liabilities not shown on the balance sheet continued strongly during the period under review. The total amount of pledges, guarantees and repurchase commitments given as collateral for financing of forest machine sales was EUR 1.7 million (EUR 2.7 million).

Streamlining of Operations

The certification and classification society DNV Certification OY/AB certified Ponsse's new quality assurance system on 12 March 1999. In the new quality management system, quality is measured for all operations using several indicators, and information provided by these is used to control overall process operations.

During the coming autumn, Ponsse Oyj is streamlining its operations by trimming administration, outsourcing activities unrelated to core business functions, and laying off approximately 40 employees and clerical personnel for 90 days. In connection with the streamlining, part of the production staff will be transferred to strengthen product development and after sales. To improve profitability, production volumes will be slightly reduced to match the levels at the beginning of the year.

In early September, Ponsse Oyj and the Kajaani-based Sunit Mobile Oy agreed to combine their vehicle-mounted computer operations. The combination will be implemented so that Ponsse Oyj relinquishes the business operations in question to Sunit Mobile Oy and subscribes Sunit Mobile Oy's shares. After the subscription Ponsse Oyj will own 34.0 % of the shares. Ponsse's vehicle-mounted computer operations staff, approximately 10 persons, will become employees of Sunit Mobile Oy in conjunction with the combination. This will enable Ponsse to secure the further development of vehicle-mounted computer operations and channel its own product development resources more effectively towards the refinement of the Ponsse Opti, the company's main computer system for forest machines.

Personnel

During the first eight months of the financial year, the average number of staff employed by the Group was 489 persons (374 persons). The Group employed 518 staff on 31 August 1999 (424 persons).

Effective 1 May 1999, MSc. (Eng.) Tommi Lindbom (29) was named the new President of Ponsse AB. Equivalently, MSc. (For.) Hannu Tuukkala (33) was named as President of Ponsse UK Ltd., effective from the same date.

Following the end of the period under review, Ponsse Oyj's Vice President Tapio Nikkanen resigned from the company to become an independent entrepreneur.

Annual General Meeting

The Annual General Meeting decided on 22 March 1999 that a dividend of FIM 5.00 (i.e. EUR 0.84) per share would be paid to shareholders. Dividends totaling FIM 17.5 (i.e. EUR 2.9) were paid on 1 April 1999.

Einari Vidgrén, Martti Huttunen, Ilkka Kylävainio, Veikko Lesonen, Harri Sutari and Mika Vidgrén were elected as members of the Board of Directors.

Shares

The par value of Ponsse Oyj's share is FIM 5 (i.e. EUR 0.84) and the shares are registered in the book-entry securities system.

Share trading from 1 January to 31 August 1999 totaled 111,926 shares, accounting for 3.20 % of the total number of shares. The value of share trading amounted to EUR 2.5 million. The lowest quotation during the period under review was EUR 18.02 and the highest was EUR 30.45 per share. The average share price on the last trading day was EUR 21.24. Market capitalization was EUR 74.3 million on 31 August 1999.

During the period under review, the company filed one report pertaining to Section 9 of Chapter 2 of the Securities Market Act. According to the report, the percentage of votes and share capital owned by the estate of the late Esa Ilmari Vidgrén was, as of 1 April 1999 when the change in Section 9 of Chapter 2 of the Securities Market Act went into effect, 198,902 shares, representing 5.68 % of the votes and share capital for the company's single share type. The percentage of votes and the company's share capital owned by the estate of the decedent fell under 5 % on 13 April 1999, at which time the shares owned by the decedent's estate were distributed so that Mari, Minna and Jonna Vidgrén each received 49,725 shares, representing 1.42 % of the votes and share capital, and Mikko Vidgrén received 49,727 shares, representing 1.42 % of the votes and share capital.

Year 2000

Ponsse products currently in production require no adjustments for the year 2000. Year 2000 upgrades for changes required by products no longer in production have progressed as planned and the aim will be to carry out the final upgrades at the end of the year. Ponsse's information systems servicing will however be on standby in a heightened state of readiness at the change of millennium.

The achievement of Year 2000 compliance for the Ponsse Group's computer systems is important because the Group's business operations rely largely on information technology. Y2K assessments and plans of action began in the spring of 1997.

Embedded systems in the Group's production plants are fully Year 2000 compliant. Properties' embedded systems are almost Year 2000 compliant. The Group's data systems for product development, production, marketing, financial administration and after-sales services are fully Y2K compliant, as are the operating systems and databases used by the Group. All essential personal data processing applications are Y2K ready. Upgrades for achieving Y2K compliance for the remaining personal data processing applications are in progress. The Group's computer equipment is millennium-ready.

During the coming autumn, Ponsse intends to complete the study, currently in progress, whose goal is to verify the Y2K compliance of all major co-operating partners and ensure the uninterrupted flow of their goods and services at the change of the millennium.

It is believed that full Y2K compliance for the Group will be achieved during the current fall. The project has no substantial cost effects.

Outlook for the Remainder of the Year

Assuming that the market situation improves, and because of implemented cost-cutting measures, it is expected that profitability at the end of the year will be at a higher level than it was at the beginning of the year. As a result of cuts in production volumes, the Group's turnover will exceed the previous year's turnover only slightly. Profits before and after extraordinary items will remain at a lower level compared to the previous year.

Vieremä 5 October 1999

BOARD OF DIRECTORS

Consolidated Profit and Loss Account	1-8/1999	1-8/1998	1-12/1998
	TEUR	TEUR	TEUR
Turnover	72,874	62,968	103,379
Increase or decrease in stocks of finished goods and in work in progress	1,087	2,492	843
Other operating income	326	213	427
Raw materials and services	-49,331	-42,121	-67,212
Staff expenses	-12,121	-9,214	-15,853
Depreciation	-1,570	-996	-1,619
Other operating charges	-6,927	-5,656	-8,988
Operating profit	4,338	7,686	10,977
Financial income and expenses	-252	-77	-130
Result before extraordinary items	4,086	7,609	10,847
Extraordinary items			
Extraordinary expenses	-3,213	0	0
Income taxes	900	0	0
Result after extraordinary items	-1,773	7,609	10,847
Income taxes	-2,372	-2,477	-3,132
Change in deferred tax liability	28	0	-252
Result for the period under review	-571	5,132	7,463
Consolidated Balance Sheet	31 August 1999	31 August 1998	31 December 1998
	TEUR	TEUR	TEUR
Assets			
Non-current assets			
Intangible assets	2,066	1,659	1,735
Tangible assets	15,926	11,340	14,953
Investments	22	22	22
Current assets			
Stocks	25,296	19,841	22,474
Receivables	8,837	6,646	8,214
Cash in hand and at banks	6,893	3,330	4,993
Total	59,040	42,838	52,391
Liabilities			
Capital and reserves			
Share capital	2,943	2,943	2,943
Other equity	22,556	23,809	26,134
Creditors			
Non-current creditors	25,202	7,018	10,361
Current creditors	8,339	9,068	12,953
Total	59,040	42,838	52,391

Non-current creditors on 31 August 1999 contain a deferred tax liability of EUR 1,223 thousand (EUR 999 thousand on 31 August 1998; EUR 1,251 thousand on 31 December 1998).

Contingent liabilities

	31 August 1999	31 August 1998	31 December 1998
	TEUR	TEUR	TEUR
1. For own debt			
Debts for which mortgages have been pledged as collateral			
Loans from credit institutions	16,058	1,252	3,005
Given mortgages on land and buildings	3,777	2,854	2,232
Given chattel mortgages	2,557	2,355	1,211
Mortgages given as pledges total	6,334	5,209	3,443
2. Leasing commitments	553	296	382
3. Other contingent liabilities			
Guarantees given on behalf of others	670	590	610
Repurchase commitments	1,019	2,124	1,779
Total	1,689	2,714	2,389

4. Other liabilities

There is no liability caused by derivative contracts.

Key Indicators	31 August 1999	31 August 1998	31 December 1998
Research and development expenditure, EUR million	1.3	1.0	1.9
Gross capital expenditure on fixed assets, EUR million	2.9	4.0	8.5
% of turnover	4.0	6.4	8.3
Average number of staff	489	374	394
Order stock, EUR million	21.8	21.3	17.5
Equity ratio, %	43.2	62.4	55.5
Earnings per share, EUR	0.50	1.47	2.13
Shareholders' equity per share, EUR	7.29	7.64	8.31

Taxes corresponding to profit for the period under review have been included as income taxes in the Profit and Loss Account and in earnings per share.

Orders Received	1-8/1999	1-8/1998	1-12/1998
	TEUR	TEUR	TEUR
Ponsse Group	77,303	57,312	93,982

Information by Four-Month Period	5-8/1998	9-12/1998	1-4/1999	5-8/1999
	TEUR	TEUR	TEUR	TEUR
Turnover	30,459	40,411	36,581	36,293
Operating profit	2,721	3,291	1,459	2,879
Result before extraordinary items	2,662	3,238	1,394	2,692
Result after extraordinary items	2,662	3,238	-871	2,644

PONSSE GROUP

The Ponsse Group consists of Ponsse Oyj, the parent company, as well as the foreign subsidiaries Ponsse AB in Sweden, Ponsse AS in Norway, Ponsse S.A. in France, Ponsse UK Ltd. in the United Kingdom and Ponsse USA, Inc. in the United States of America. The Group designs, manufactures and markets forest machines based on the environmentally friendly and effective cut-to-length harvesting method, as well as computer technology related to wood harvesting.



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