

PONSSE OYJ STOCK EXCHANGE RELEASE 17 OCTOBER 2006 9:00 AM

**PONSSE'S INTERIM REPORT 1 JANUARY - 30 SEPTEMBER 2006**

- Turnover: EUR 156.0 million (Q1-Q3/2005: EUR 158.3 million)
- Q3 turnover: EUR 47.4 million (Q3/2005: EUR 45.4 million)
- International business operations accounted for 65.0% of turnover (Q1-Q3/2005: 65.2%)
- Operating profit: EUR 19.4 million (Q1-Q3/2005: EUR 19.5 million)
- Operating profit accounted for 12.4% of turnover (Q1-Q3/2005: 12.3%)
- Q3 operating profit: EUR 6.1 million (Q3/2005: EUR 6.0 million)
- Earnings per share: EUR 0.45 (EUR 0.48)

The comparison figures are Ponsse's figures presented in the adjusted financial statement for the corresponding period in 2005. The Group interim report has been prepared in accordance with the valuation and accounting principles of International Financial Reporting Standards (IFRS). The reporting conforms to the standards valid at the time of the end of the period under review.

Arto Tiitinen, Ponsse's President and CEO, states the following at the time of the publication of the interim report:

- Our business has developed positively despite the difficult market situation. Machinery sales in the Nordic countries were slow at the beginning of the year, but picked up towards the end of the summer. The FinnMETKO forest machinery show held in Jämsänkoski at the end of August was the best show ever for our company in commercial terms. At the FinnMETKO show Ponsse launched a new harvester and a new forwarder, as well as a new crane family, that will significantly expand our product range and increase our competitive edge.
- In September Ponsse signed the largest retail agreements in the company's history in Brazil. The new distributors will provide full coverage of areas with the world's largest eucalyptus plantations. Our distribution network was also expanded to the Pacific Northwest of the United States, in areas where logging volumes are at about the same level as in Finland.
- The construction of new component manufacturing facilities was started at our Vieremä plant in the summer, and they are expected to be completed in early 2007. These additional facilities will allow us to double our production.

**TURNOVER**

Ponsse's turnover for the period under review amounted to EUR 156.0 million (EUR 158.3 million). International business operations accounted for 65.0% (65.2%) of the total turnover. Domestic sales accounted for 35.0% (34.8%) of the total turnover.

**PROFIT PERFORMANCE**

Ponsse recorded an operating profit of EUR 19.4 million (EUR 19.5 million) during the period under review. Operating profit remained at the previous year's level and accounted for 12.4% (12.3%) of the turnover. Return on investment (ROI) stood at 30.2% (37.5%).

Personnel costs for the period amounted to EUR 27.3 million (EUR 24.6 million) and other operating expenses to EUR 16.8 million (EUR 14.7 million). Net financial expenses were EUR -1.3 million (EUR -0.6 million). Income and expenses resulting from currency risk hedging were included in financial items. Six thousand euro was recorded as income under extraordinary items. No extraordinary items were recorded for the comparison period.



Profit for the period totalled EUR 12.7 million (EUR 13.5 million). Earnings per share were EUR 0.45 (EUR 0.48).

#### **BALANCE SHEET AND FINANCIAL POSITION**

At the end of the period under review the consolidated balance sheet total amounted to EUR 128.1 million (EUR 105.0 million). Stocks amounted to EUR 61.4 million (EUR 47.5 million). Interest-bearing liabilities totalled EUR 41.7 million (EUR 26.9 million), of which current creditors totalled EUR 22.0 million (EUR 3.2 million) and non-current creditors EUR 19.7 million (23.7 million). Net liabilities totalled EUR 32.2 million (EUR 18.4 million). Equity ratio stood at 41.4% (44.0%). Accounts receivable totalled EUR 19.8 million (EUR 15.5 million). Cash in hand and at bank amounted to EUR 8.8 million (EUR 8.1 million).

Cash flow from business operations totalled EUR -4.3 million (EUR 8.2 million), while that from investments totalled EUR -5.1 million (EUR -7.6 million).

#### **ORDER INTAKE AND ORDER BOOK**

Order intake for the period amounted to EUR 152.0 million (EUR 162.3 million), while the period-end order book stood at EUR 50.9 million (EUR 48.2 million). The order book includes dealers' minimum purchase commitments, based on previous practice.

#### **RETAIL CHANNELS**

Ponsse Latin America Ltda signed co-operation agreements with Brazilian companies Linck S.A., Motiva S.A. and Tracbel S.A. in September. These companies operate in those areas of Brazil where the country's eucalyptus plantations are located. The agreements relate to the retail sales and maintenance of forest machinery and associated equipment manufactured at Ponsse's Finnish factories, and harvester heads manufactured at the company's Brazilian factories. All three partners have extensive experience in the field of heavy machinery sales.

Ponsse North America, Inc. and Clyde/West, Inc. signed an agreement on co-operation in the US states of Oregon, Washington and Idaho in September. Clyde/West, Inc. is a well-established reseller of heavy machinery in its operating region, and they are an authorised dealership for several leading brands.

The operations of Ponsse UK Ltd were consolidated and reorganised during the review period. In July 2006, Rory Longmore was appointed Managing Director of Ponsse UK Ltd.

#### **CAPITAL EXPENDITURE AND R&D**

Ponsse introduced a new harvester, a new forwarder, a new harvester head and two new harvester cranes in the third quarter.

The new models fall in the largest size-category in the PONSSE product range. The PONSSE Bear harvester is specifically designed for large clear cuts.

The PONSSE Elephant is a new forwarder in the 18-tonne class. It is designed for demanding operating conditions and requirements.

Capital expenditures totalled EUR 5.1 million (EUR 7.6 million). The expenditure was concentrated on the acquisition of machinery and equipment related to the construction and startup of the Brazilian plant, machinery and equipment for the Vieremä plant, the renovation of office premises in Vieremä and other maintenance

investments. In addition, the company has made significant investments in the development of its operations. This is why the level of provisions was reduced during the third quarter.

R&D expenses totalled EUR 2.8 million (EUR 2.9 million).

#### **PERSONNEL**

The Group had an average staff of 797 (723) during the review period, and employed 787 (763) people at the period-end.

#### **SHARE PERFORMANCE**

The trading volume of Ponsse Oyj shares for 1 January - 30 September 2006 totalled 2,806,744, accounting for 10.0% of the total number of shares. Total share turnover amounted to EUR 34.7 million, with the period's lowest and highest per-share prices amounting to EUR 10.89 and EUR 15.00 respectively.

At the end of the period the share closed at EUR 12.90 and the market capitalisation totalled EUR 361.2 million.

#### **ADMINISTRATION**

The company has adopted insider guidelines that comply with the insider regulations of the Helsinki Stock Exchange and operates in accordance with the administration and operation recommendations concerning listed companies (Corporate Governance). These Corporate Governance guidelines are available in the Investors area of our website.

#### **RISK MANAGEMENT**

The Group's risk management policy seeks to further develop and maintain an extensive monitoring system that supports the Group's operative functions. This includes systematic risk assessment for each function and unit, integration of risk management as part of business operations, continuous quality development and dissemination of information on best practices.

Internal supervision forms an integral part of the totality of risk management. The Group's Board of Directors is responsible for supervising the organisation and adequacy of the operations. The practical implementation of the actions is the responsibility of the company's CEO. The core internal supervision methods consist of internal guidelines, reporting and various technical systems relating to activities.

In the third quarter, Ponsse appointed Matti Pitkänen, M. Econ, M. Eng., as Group Internal Auditor.

#### **FUTURE PROSPECTS**

The Nordic market picked up towards the end of the review period. The European market has developed favourably and this trend is expected to continue. The distribution channel agreements signed in North and South America create further opportunities to increase sales volumes in future years. The increasing demand for the cut-to-length harvesting method will also contribute to the company's growth. Considering the business development initiatives and investments successfully completed, the company forecasts that the result of the current financial year will be better than that of the previous year, provided there are no significant changes in the market situation or the company's operating environment during the rest of the year.

PONSSE GROUP

CONSOLIDATED PROFIT AND LOSS ACCOUNT (EUR 1,000)

	IFRS 1-9/06	IFRS 1-9/05	IFRS 1-12/05
TURNOVER	155,971	158,271	226,095
Increase (+)/decrease (-) in stocks of finished goods and work in progress	10,134	5,138	730
Other operating income	1,103	1,017	1,326
Raw materials and services	-100,570	-103,044	-139,304
Staff costs	-27,283	-24,581	-34,317
Depreciation	-3,213	-2,567	-4,041
Other operating expenses	-16,790	-14,733	-21,437
OPERATING PROFIT	19,351	19,499	29,051
Share of results of associated companies	271	141	285
Financial income and expenses	-1,273	-552	-1,225
RESULT BEFORE EXTRAORDINARY ITEMS	18,350	19,088	28,111
Extraordinary items	6	0	-1
RESULT AFTER EXTRAORDINARY ITEMS	18,356	19,088	28,110
Income taxes	-5,692	-5,391	-8,480
Minority interest	0	-164	0
RESULT FOR THE FINANCIAL PERIOD	12,664	13,533	19,629

CONSOLIDATED PROFIT AND LOSS ACCOUNT (EUR 1,000)

	IFRS 7-9/06	IFRS 7-9/05
TURNOVER	47,415	45,400
Increase (+)/decrease (-) in stocks of finished goods and work in progress	3,202	613
Other operating income	300	300
Raw materials and services	-30,056	-27,700
Staff costs	-7,773	-7,150
Depreciation	-1,010	-879
Other operating expenses	-6,027	-4,603
OPERATING PROFIT	6,051	5,978
Share of results of associated companies	74	85
Financial income and expenses	-486	-267
RESULT BEFORE EXTRAORDINARY ITEMS	5,641	5,797
Extraordinary items	1	0
RESULT AFTER EXTRAORDINARY ITEMS	5,642	5,797
Income taxes	-1,882	-1,767
Minority interest	0	-61
RESULT FOR THE FINANCIAL PERIOD	3,759	3,968

In the financial statements for 2005 Ponsse Group changed the accounting policy concerning the purchase of used machines in connection with the sale of forest machinery. In accordance with the general IFRS principles (Chapter 35), the value adjustment made at the time of purchase of used machinery has been interpreted as actually being a discount on the sales price of forest machinery and, therefore, the change in value has been accounted for as an adjustment item in the consolidated turnover. Previously, until the end of Q3/2005, this type of change in value has been presented under the item 'Materials and services'. A corresponding adjustment has been made in the financial statement for 2005. Actual changes in the value of used machinery that are made after the time of sale will be handled as a write-down of inventory value in the same manner as before.

CONSOLIDATED BALANCE SHEET (EUR 1,000)

ASSETS	IFRS 30 Sep 2006	IFRS 30 Sep 2005	IFRS 31 Dec 2005
<b>FIXED AND OTHER NON-CURRENT ASSETS</b>			
Intangible assets	3,327	2,043	2,652
Goodwill	3,804	3,686	3,773
Property, plant and equipment	25,393	22,038	24,270
Financial assets	37	1,212	35
Holdings in associated companies	1,158	970	1,013
Non-current receivables	130	103	103
Deferred tax assets	1,442	1,278	537
<b>TOTAL FIXED AND OTHER NON-CURRENT ASSETS</b>	<b>35,292</b>	<b>31,330</b>	<b>32,383</b>
<b>CURRENT ASSETS</b>			
Stocks	61,354	47,544	45,161
Accounts receivable	19,806	15,509	14,782
Other current receivables	2,806	2,517	3,594
Current investments	2	0	2
Cash in hand and at bank	8,831	8,135	12,339
<b>TOTAL CURRENT ASSETS</b>	<b>92,800</b>	<b>73,705</b>	<b>75,879</b>
<b>TOTAL ASSETS</b>	<b>128,092</b>	<b>105,035</b>	<b>108,262</b>
<b>CAPITAL AND RESERVES, AND LIABILITIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	7,000	7,000	7,000
Other reserves	20	20	19
Translation differences	-647	-506	-442
Retained earnings	46,429	38,956	44,811
<b>CAPITAL AND RESERVES OWNED BY PARENT COMPANY SHAREHOLDERS</b>	<b>52,801</b>	<b>45,470</b>	<b>51,389</b>
Minority interest	0	582	0
<b>TOTAL CAPITAL AND RESERVES</b>	<b>52,801</b>	<b>46,052</b>	<b>51,389</b>
<b>NON-CURRENT CREDITORS</b>			
Interest-bearing liabilities	19,697	23,687	18,953
Deferred tax liabilities	921	612	1,142
Other non-current creditors	147	359	359
<b>TOTAL NON-CURRENT CREDITORS</b>	<b>20,765</b>	<b>24,658</b>	<b>20,453</b>
<b>CURRENT CREDITORS</b>			
Interest-bearing liabilities	22,026	3,163	5,444
Provisions	3,409	5,276	6,324
Tax liabilities for the period	2,214	2,586	1,216
Trade creditors and other current creditors	26,877	23,299	23,436
<b>TOTAL CURRENT CREDITORS</b>	<b>54,526</b>	<b>34,325</b>	<b>36,420</b>
<b>TOTAL CAPITAL AND RESERVES, AND LIABILITIES</b>	<b>128,092</b>	<b>105,035</b>	<b>108,262</b>

CONSOLIDATED CASH FLOW STATEMENT (EUR 1,000)

	IFRS 1-9/06	IFRS 1-9/05	IFRS 1-12/05
<b>BUSINESS OPERATIONS:</b>			
Profit for the period	12,664	13,533	19,629
<b>Adjustments:</b>			
Financial income and expenses	1,273	552	1,225
Share of the result of associated companies	-271	-141	-285
Depreciation	3,213	2,567	4,041
Deferred taxes	-831	-853	22
Income taxes	6,523	6,244	8,458
Other adjustments	214	221	256
Cash flow before change in working capital	22,785	22,123	33,346
<b>Change in working capital:</b>			
Increase (-)/decrease (+) of non-interest-bearing receivables	-4,157	1,894	1,501
Increase (-) / decrease (+) of stocks	-16,193	-11,435	-9,052
Increase (-)/ decrease (+) of non-interest-bearing creditors	2,973	1,202	1,279
Change in provisions for liabilities and charges	-2,915	1,123	2,171
Interest received	129	131	277
Interest paid	-750	-809	-932
Other financial items	-482	-63	-656
Income taxes paid	-5,653	-5,950	-9,517
<b>NET CASH FLOW FROM BUSINESS OPERATIONS (A)</b>	<b>-4,263</b>	<b>8,216</b>	<b>18,417</b>
<b>INVESTMENTS</b>			
Investment in tangible and intangible assets	-5,082	-6,388	-11,209
Investment in other assets	0	0	-11
Repayment of loan receivables		-1,187	0
Dividends received	0	0	101
<b>CASH OUTFLOW FROM INVESTING ACTIVITIES (B)</b>	<b>-5,082</b>	<b>-7,575</b>	<b>-11,119</b>
<b>FINANCING</b>			
Withdrawal/repayment of current loans	16,824	-4,698	-2,677
Increase (-) / decrease (+) in current interest-bearing liabilities	-2	0	0
Withdrawal/repayment of non-current loans	485	-227	-4,961
Payment of finance lease liabilities	-243	-491	-231
Increase (-) / decrease (+) in non-current receivables	-27	4	4
Paid dividends	-11,200	-2,800	-2,800
<b>NET CASH OUTFLOW FROM FINANCING (C)</b>	<b>5,837</b>	<b>-8,212</b>	<b>-10,665</b>
Increase (-) / decrease (+) in liquid assets (A+B+C)	-3,508	-7,571	-3,367
Liquid assets 1 Jan.	12,339	15,706	15,706
Liquid assets 30 Sep/31 Dec	8,831	8,135	12,339

RECONCILIATION OF CAPITAL AND RESERVES (EUR 1,000)

A = Share Capital  
 B = Share premium and other reserves  
 C = Translation differences  
 D = Retained earnings  
 E = Minority interest  
 F = Total capital and reserves

	CAPITAL AND RESERVES OWNED BY PARENT COMPANY SHAREHOLDERS					
	A	B	C	D	E	F
CAPITAL AND RESERVES 1 JAN 2005	7,000	20	-838	28,425	419	35,025
Translation differences	0	0	333	-202	0	131
NET INCOME RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	0	0	333	-202	0	131
Net profit for the period	0	0	0	13,533	0	13,533
TOTAL RECOGNISED INCOME AND EXPENSES	0	0	333	13,331	0	13,664
Dividend distribution	0	0	0	-2,800	0	-2,800
Change in minority interest	0	0	0	0	163	163
CAPITAL AND RESERVES 30 SEP 2005	7,000	20	-505	38,956	582	46,052
CAPITAL AND RESERVES 1 JAN 2006	7,000	20	-442	44,811	0	51,389
Translation differences	0	0	-206	154	0	-52
NET INCOME RECOGNISED DIRECTLY IN CAPITAL AND RESERVES	0	0	-206	154	0	-52
Net profit for the period	0	0	0	12,664	0	12,664
TOTAL RECOGNISED INCOME AND EXPENSES	0	0	-206	12,818	0	12,612
Dividend distribution	0	0	0	-11,200	0	-11,200
Change in minority interest	0	0	0	0	0	0
CAPITAL AND RESERVES 30 SEP 2006	7,000	20	-648	46,429	0	52,801

SEGMENT INFORMATION (EUR 1,000)

GEOGRAPHICAL SEGMENTS

	1-9/06	1-9/05	1-12/05
TURNOVER			
Nordic countries	105,731	117,755	154,017
Rest of Europe	59,959	44,184	71,758
North and South America	18,873	24,376	33,775
Elimination	-30,394	-28,729	-34,697
Unallocated	1,802	685	1,242
GROUP TOTAL	155,971	158,271	226,095
OPERATING PROFIT			
Nordic countries	11,039	13,744	18,825
Rest of Europe	8,031	5,454	10,761
North and South America	-106	1,697	2,027
Unallocated	388	-1,396	-2,562
GROUP TOTAL	19,351	19,499	29,051

PLEDGES GIVEN, CONTINGENT AND OTHER LIABILITIES (EUR 1,000)

	30 Sep 2006	30 Sep 2005	31 Dec 2005
1. FOR OWN DEBT			
Debts for which mortgages have been pledged as collateral			
Loans from financial institutions	0	0	0
Mortgages given on land and buildings	0	790	101
Chattel mortgages given	0	483	336
MORTGAGES GIVEN AS PLEDGES, TOTAL	0	1,273	437
2. LEASING COMMITMENTS (EUR 1,000)	2,189	443	1,996
3. CONTINGENT LIABILITIES ON BEHALF OF GROUP COMPANIES (EUR 1,000)			
Guarantees given on behalf of Group companies	827	860	884
4. LIABILITIES BASED ON DERIVATIVE CONTRACTS (EUR 1,000)			
4.1 Nominal values			
Currency derivatives			
Forward contracts	21,249	16,162	14,690
4.2 Market values			
Currency derivatives			
Forward contracts	-26	-281	-70
5. OTHER CONTINGENT LIABILITIES (EUR 1,000)			
Guarantees given on others' behalf	1,534	1,105	1,289
Repurchase commitments	2,849	8,735	7,163
Other liabilities	2,947	0	0
Total	7,330	9,840	8,452
KEY FIGURES AND RATIOS	30 Sep 2006	30 Sep 2005	31 Dec 2005
R&D expenditure, MEUR	2.8	2.9	3.7
Capital expenditure, MEUR	5.1	7.6	11.2
% of turnover	3.3	4.8	5.0
Average number of staff	797	723	729
Order book, MEUR	50.9	48.2	54.9
Equity ratio, %	41.4	44.0	47.6
Earnings per share, EUR	0.45	0.48	0.70
Equity per share, EUR	1.89	1.62	1.84

Per-share figures have been adjusted with the split share.

Income taxes based on profit for the financial period are included in the Profit and Loss Account and earnings per share.

ORDER INTAKE, MEUR	1-9/06	1-9/05	1-12/05
Ponsse Group	152.0	162.3	236.9

Ponsse Group has applied International Financial Reporting Standards (IFRS) to its financial reporting as of 1 January 2005. The first IFRS-compliant annual financial statement was drawn up for the accounting period 2005. Prior to the adoption of IFRS, Ponsse Oyj's consolidated financial statements have been prepared according to Finnish Accounting Standards (FAS).

The above figures have not been audited.

The above figures have been rounded and so may differ from those given in the official financial statements.

Vieremä, 17 October 2006

Arto Tiitinen  
President and CEO

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