

Strategic Report, Report of the Directors and

Audited Financial Statements

for the Year Ended 31 December 2019

for

Ponsse UK Limited

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for the Year Ended 31 December 2019**

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Ponsse UK Limited
Company Information
for the Year Ended 31 December 2019

DIRECTORS:

Juho Nummela
Tapio Mertanen
Petri Harkonen
Jarmo Vidgren
Tuomo Moilanen

SECRETARY:

Denton Secretaries Limited

REGISTERED OFFICE:

1 George Square
Glasgow
G2 1AL

REGISTERED NUMBER:

SC165729 (Scotland)

AUDITORS:

Gillespie & Anderson
Statutory Auditors
Chartered Accountants
147 Bath Street
Glasgow
G2 4SN

Strategic Report
for the Year Ended 31 December 2019

The directors present their strategic report for the year ended 31 December 2019.

REVIEW OF BUSINESS

The directors are satisfied with the performance of the company in the financial year under review which continue the positive results of recent years.

Turnover for the year rose to £24,899,261 (2018 - £24,032,378), principally due to machine sales to the UK market. Gross profits rose accordingly in real terms, with margins being maintained in line with the prior year

The company's investment in its workforce and exhibitions saw administrative expenses rise to £2,026,456 (2018 - £1,733,833). The main exhibition in the year was the Forestry Expo Scotland in August 2019 in which 19 Ponsse machines participated, although investment in trade fair attendance increased on the whole.

Interest payable has fallen with a reduction in the property loan taken out with the parent company to build the new premises, resulting in a pre-tax profit of £438,664 (2018 535,590).

Going forward, the directors are confident that the strong financial position at the year end as reflected in the Balance Sheet stands the company in good stead for the future. The market continues to present challenges going forward, along with uncertainties over Brexit and the time frame involved, which have undoubtedly caused issues (and will continue to do so). However, the directors feel that the company and its management are well placed to meet these demands, with the ongoing support of the Group as a whole.

Strategic Report
for the Year Ended 31 December 2019

PRINCIPAL RISKS AND UNCERTAINTIES

The company's approach to the detection and management of risks and uncertainties is based on the corporate governance statement for the Group, available in full on the parent company website. <https://www.ponsse.com/investors/corporate-info>

Risk management

Risk management means the systematic procedures that are built into the management system, the purpose of which are to identify and assess the risks associated with operations and to prepare for them. Risk management is vital to ensuring and safeguarding the company's economic operating conditions and performance. Risk management is a part of internal control, and so implementation of internal controls also promotes the implementation of risk management. Risk management should not be separated from internal control, since awareness of internal control practices is ultimately essential to risk prevention.

The overall purpose of risk management processes is to support the achievement of the goals that are set out in the company's strategy, to safeguard continuity of the company's financial development and business operations, and to maintain and develop a comprehensive and pragmatic system for risk management and reporting. Risk management emphasises prevention: the purpose of risk management processes is to help identify risks pre-emptively, and to minimise the likelihood of their realisation. The risk management process also includes evaluation and follow-up to keep track of business risks that may have an impact on the company's strategic and financial goals or the continuity of business operations.

The risk management process

A risk is any potential event or chain of events that manifests itself as uncertainty with regard to achieving the company's objectives, or that threatens the continuity of business operations. A deviation from the set goal, i.e. the realisation of the risk, may be negative, but could also be positive. In other words, risks can be both threats and opportunities. Risks are an inevitable part of business, and profitable business performance often requires thoughtful risk-taking. Although risks cannot be avoided entirely, it is possible to prepare for the potential realisation of harmful risks. Risk management is part of normal, day-to-day business operation, with risk management practices based on the company's values, and its strategic and financial goals.

Decisions on the necessary measures for preventing and responding to identified risks are made on the basis of evaluations. Risk assessment in any given case is based on the potential impact and probability of the risk. The primary means of risk management are avoidance, reduction and transferral of risks. Risks can also be controlled, and their effects can be minimised.

The key factors for effective risk management are

- Realistic and timely assessment
- Awareness: personnel must be aware of the principles of risk management so that they can act according to instructions;
- Comprehensiveness: risk management is part of every activity, but risk management processes are present to a particularly high degree in the vital processes of operation.

Risks are divided into four categories: strategic, operational, financial and accident-related risks. Strategic risk refers to the nature of the business operations, the choice of strategy, and the risk associated with the implementation of the strategy. If realised, strategic risks can significantly weaken the company's operating conditions. Examples of strategic risks are risks relating to competition, or to the regulation of business activities. Strategic risks can be realised, for example, in the context of significant investments and other business-related strategic decisions.

Operational risks relate to the company's internal processes, such as company management or personnel, or the company's business network and systems. If an operational risk materialises, it lowers the efficiency of the company's operations, and consequently harms the results and profitability of the company's operations.

Financial risks include risks relating to currencies, interest rates, credit, liquidity and capital management. The goal of financial risk management is to safeguard financial performance, cash flow, equity and liquidity from unfavourable fluctuations in financial markets.

Strategic Report
for the Year Ended 31 December 2019

PRINCIPAL RISKS AND UNCERTAINTIES (contd.)

Accident-related risks are a more concrete threat to the company's operations than the aforementioned types of risk. The emphasis in accident-related risk management and avoidance is on identifying risks. Accident-related risk factors include risks to work health and safety, environmental risks and property damage. Another area of emphasis with regard to this type of risk is prevention. A comprehensive insurance programme has been prepared for accident-related risks, and efforts are made to pre-emptively prevent risks through a safety and policy and guidelines, and by ensuring the safety of working methods and tools. The company is very attentive to hazardous situations, and is quick to respond to them. Increased attention is now being given to personnel safety matters. All accidents and near-misses are recorded in the monitoring system, and the necessary measures are taken to prevent hazardous situations. The company's goal is an accident-free working environment. Accident-related risks are regularly assessed by internal audits for the entire personnel.

Risk management organisation and division of responsibilities

The parent company's Board of Directors and management have the primary responsibility for defining the risk management policy and for organising risk management. They reinforce and define the risk management principles and risk management policy for the group as a whole, and also assesses the effectiveness of risk management. The Board of Directors also oversees the implementation of risk management policies and processes. However, the risks to business continuity are assessed regularly at all levels of Ponsse Group. Each employee of the group is required to contribute to anticipating risks and preventing them from materialising, for example by reporting risks to their supervisor.

The risk management process includes systematic risk mapping and risk assessment for each type of operation and unit, and making sure that they are reflected in the company's risk management plan. Risk management is systematically implemented and monitored as part of the daily business. The company promotes its risk management by increasing awareness of the significance of risk management and supporting shared risk management projects of the functions.

Each of the subsidiaries independently carry out risk management in accordance with Ponsse Group's risk management policy and guidelines, whilst every employee is obliged to take action to prevent risks, to comply with the company's operating instructions, and to report any risks they detect to their supervisor.

ON BEHALF OF THE BOARD:

Jarmo Vidgren - Director

19 August 2020

Report of the Directors
for the Year Ended 31 December 2019

The directors present their report with the financial statements of the company for the year ended 31 December 2019.

PRINCIPAL ACTIVITY

Ponsse UK Limited is a company limited by shares, incorporated and domiciled in Scotland, with its principal place of business at 4 Annan Business Park, Annan. The principal activity of the company in the year under review was that of the sale, service and repair of forestry machines.

DIVIDENDS

No dividends will be distributed for the year ended 31 December 2019.

FUTURE DEVELOPMENTS

The company has no specific plans with regard to future developments.

DIRECTORS

The directors shown below have held office during the whole of the period from 1 January 2019 to the date of this report.

Juho Nummela
Tapio Mertanen
Petri Harkonen
Jarmo Vidgren
Tuomo Moilanen

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Strategic Report, the Report of the Directors and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Report of the Directors
for the Year Ended 31 December 2019

AUDITORS

The auditors, Gillespie & Anderson, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

Jarmo Vidgren - Director

19 August 2020

Report of the Independent Auditors to the Members of
Ponsse UK Limited

Opinion

We have audited the financial statements of Ponsse UK Limited (the 'company') for the year ended 31 December 2019 which comprise the Profit & Loss Account, Balance Sheet, Statement of Changes in Equity and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The directors are responsible for the other information. The other information comprises the information in the Strategic Report and the Report of the Directors, but does not include the financial statements and our Report of the Auditors thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Report of the Independent Auditors to the Members of
Ponsse UK Limited

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities set out on page five, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a Report of the Auditors that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our Report of the Auditors.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alun Johnstone BAcc CA (Senior Statutory Auditor)
for and on behalf of Gillespie & Anderson
Statutory Auditors
Chartered Accountants
147 Bath Street
Glasgow
G2 4SN

19 August 2020

Profit & Loss Account
for the Year Ended 31 December 2019

	Notes	2019 £	£	2018 £	£
TURNOVER	3		24,899,261		24,032,378
Cost of sales			<u>22,201,081</u>		<u>21,386,641</u>
GROSS PROFIT			2,698,180		2,645,737
Distribution costs		96,572		141,419	
Administrative expenses		<u>2,026,456</u>		<u>1,733,833</u>	
			<u>2,123,028</u>		<u>1,875,252</u>
			575,152		770,485
Other operating income			<u>63,626</u>		<u>23,350</u>
OPERATING PROFIT	5		638,778		793,835
Interest payable and similar expenses	6		<u>200,114</u>		<u>258,245</u>
PROFIT BEFORE TAXATION			438,664		535,590
Tax on profit	7		<u>117,910</u>		<u>57,499</u>
PROFIT FOR THE FINANCIAL YEAR			320,754		478,091
OTHER COMPREHENSIVE INCOME			<u>-</u>		<u>-</u>
TOTAL COMPREHENSIVE INCOME					
FOR THE YEAR			<u>320,754</u>		<u>478,091</u>

Ponsse UK Limited (Registered number: SC165729)

Balance Sheet
31 December 2019

	Notes	2019 £	£	2018 £	£
FIXED ASSETS					
Tangible assets	8		3,149,132		3,311,792
CURRENT ASSETS					
Stocks	9	5,029,483		3,182,158	
Debtors	10	1,445,523		887,314	
Cash at bank and in hand		<u>175,905</u>		<u>158,576</u>	
		6,650,911		4,228,048	
CREDITORS					
Amounts falling due within one year	11	<u>7,392,419</u>		<u>5,072,619</u>	
NET CURRENT LIABILITIES			<u>(741,508)</u>		<u>(844,571)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			2,407,624		2,467,221
CREDITORS					
Amounts falling due after more than one year	12		(400,000)		(800,000)
PROVISIONS FOR LIABILITIES	15		<u>(58,975)</u>		<u>(39,326)</u>
NET ASSETS			<u>1,948,649</u>		<u>1,627,895</u>
CAPITAL AND RESERVES					
Called up share capital	16		50,000		50,000
Retained earnings	17		<u>1,898,649</u>		<u>1,577,895</u>
SHAREHOLDERS' FUNDS			<u>1,948,649</u>		<u>1,627,895</u>

The financial statements were approved by the Board of Directors and authorised for issue on 19 August 2020 and were signed on its behalf by:

Jarmo Vidgren - Director

The notes form part of these financial statements

Statement of Changes in Equity
for the Year Ended 31 December 2019

	Called up share capital £	Retained earnings £	Total equity £
Balance at 1 January 2018	50,000	1,099,804	1,149,804
Changes in equity			
Total comprehensive income	-	478,091	478,091
Balance at 31 December 2018	<u>50,000</u>	<u>1,577,895</u>	<u>1,627,895</u>
Changes in equity			
Total comprehensive income	-	320,754	320,754
Balance at 31 December 2019	<u>50,000</u>	<u>1,898,649</u>	<u>1,948,649</u>

The notes form part of these financial statements

Notes to the Financial Statements
for the Year Ended 31 December 2019

1. STATUTORY INFORMATION

Ponsse UK Limited is a private company, limited by shares, registered in Scotland. The company's registered number is SC165729 and its registered office can be found on the company information page.

The presentation currency of the financial statements is the Pound Sterling (£) which is the functional currency of the company.

2. ACCOUNTING POLICIES

Basis of preparing the financial statements

These financial statements have been prepared in accordance with Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

The directors consider it appropriate to prepare the financial statements on the going concern basis, in spite of the ongoing impact of the Covid-19 virus on the business.

Discussions are ongoing within the company to ensure continuing compliance with all relevant Government guidance and ensure the health and well-being of staff, customers and suppliers. In addition, the company's management continue to monitor all national & local government-backed support for which the company will be eligible, with a view to accessing any funding which will be necessary to mitigate the financial effects of this period of disruption. The company are in constant communication with management in the parent company and in fellow subsidiaries to utilise group resources and facilities, and to secure the future viability of operations.

Should this support be withdrawn or unavailable, the company may be unable to realise its assets and discharge its liabilities in the normal course of business, whilst adjustments would have to be made to reduce the value of assets to their recoverable amounts and to provide for any further liabilities which may arise.

The company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 4 Statement of Financial Position paragraph 4.12(a)(iv);
- the requirements of Section 7 Statement of Cash Flows;
- the requirement of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 26 Share-based Payment paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirement of Section 33 Related Party Disclosures paragraph 33.7.

Significant judgements and estimates

In preparing the financial statements, management are required to make judgements, estimates and assumptions, based on historical experience and other relevant factors. Actual results may differ from these best estimates, which are reviewed on an ongoing basis.

The items in the financial statements where these judgements are required (and the factors in play) include trade debtors (likelihood of non-payment), stock (impairment losses, particularly on trade-in machines), fixed assets (depreciation rates) and contingent liabilities (warranty claims).

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES - continued

Turnover

Turnover represents net sales of goods and services, excluding value added tax, recognised when the company becomes entitled to the income and when the outcome of the transaction can be reliably measured.

For turnover involving the sale of goods, this occurs when:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company no longer retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- it is probable that the economic benefits associated with the transaction will flow to the company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, machine sales are recognised at the signing of the sales contract and parts sales at the successful completion and fulfilment of the order.

For turnover involving the rendering of services, this occurs by reference to the stage of completion of the transaction at the end of the reporting period and where the outcome of a transaction can be estimated reliably, with the following conditions being satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Specifically, service sales are recognised at the completion of the service work whilst sales under service agreements are reflected evenly over the term of the contract.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life.

Freehold property	- 5% on cost
Plant and machinery	- 20% on cost
Fixtures and fittings	- 20% on cost
Motor vehicles	- 20% on cost

Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual reporting date. If such indicators are present, the company will review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life, accounting for such revisions as a change in an accounting estimate in accordance with FRS 102.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items (cost is calculated on the weighted-average basis for parts stock and on the actual basis for new and second hand machines).

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES - continued

Financial instruments

The company has no complex financial instruments but does hold basic financial instruments of; cash at bank, debtors and creditors.

Cash and cash equivalents comprise cash at bank and on hand, foreign currency on hand, demand deposits with banks and other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. A bank overdraft would be shown within current liabilities.

Trade and other debtors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less losses for bad debts except where the effective of discounting would be immaterial. In such cases, trade and other debtors are stated at cost less losses for bad debts.

Trade and other creditors are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate unless the effect of discounting would be immaterial. In such cases, trade and other creditors are stated at cost.

Taxation

Taxation for the year comprises current and deferred tax. Tax is recognised in the Profit & Loss Account, except to the extent that it relates to items recognised in other comprehensive income or directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

Current tax is recognised at the amount of tax payable using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date.

Timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements. Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year end and that are expected to apply to the reversal of the timing difference.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Foreign currencies

Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. Any monetary assets or liabilities denominated in a foreign currency at balance sheet date are translated at the exchange rate in force at the year end. Exchange differences are taken into account in arriving at the operating result.

Hire purchase and leasing commitments

Rentals paid under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

Pension costs and other post-retirement benefits

The company operates a defined contribution pension scheme. Contributions payable to the company's pension scheme are charged to profit or loss in the period to which they relate.

Employee benefits

The total cost of employee benefits to which employees have become entitled as a result of service rendered to the entity during the reporting period are recognised and charged to the profit and loss account in the period to which they relate.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

2. ACCOUNTING POLICIES - continued

Provision for liabilities

A provision is initially recognised when there is an obligation at the balance sheet date as the result of a past event, it is probable that there will be the transfer of funds in settlement and the amount of the obligation can be estimated reliably. The provision is subsequently measured by placing a charge against the provision only for expenditure for which the provision was originally recognised.

3. TURNOVER

The turnover and profit before taxation are attributable to the one principal activity of the company.

An analysis of turnover by class of business is given below:

	2019 £	2018 £
Sale of goods	24,078,891	23,072,328
Rendering of services	820,370	960,050
	<u>24,899,261</u>	<u>24,032,378</u>

An analysis of turnover by geographical market is given below:

	2019 £	2018 £
United Kingdom	21,159,676	18,697,057
Europe	3,739,585	5,335,321
	<u>24,899,261</u>	<u>24,032,378</u>

4. EMPLOYEES AND DIRECTORS

	2019 £	2018 £
Wages and salaries	1,026,409	903,495
Social security costs	108,664	95,840
Other pension costs	38,531	35,285
	<u>1,173,604</u>	<u>1,034,620</u>

The average number of employees during the year was as follows:

	2019	2018
Employees (excluding directors)	<u>26</u>	<u>26</u>

	2019 £	2018 £
Directors' remuneration	<u>-</u>	<u>-</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

5. OPERATING PROFIT

The operating profit is stated after charging/(crediting):

	2019	2018
	£	£
Hire of plant and machinery	30,969	11,671
Depreciation - owned assets	253,066	250,566
Profit on disposal of fixed assets	(10,424)	(6,391)
Auditors' remuneration	8,925	10,000
Taxation compliance services	2,620	2,592
Other non- audit services	1,785	1,238
Foreign exchange differences	<u>(687)</u>	<u>5,477</u>

6. INTEREST PAYABLE AND SIMILAR EXPENSES

	2019	2018
	£	£
Interest paid to ultimate parent company	199,424	258,148
Other interest	<u>690</u>	<u>97</u>
	<u>200,114</u>	<u>258,245</u>

7. TAXATION

Analysis of the tax charge

The tax charge on the profit for the year was as follows:

	2019	2018
	£	£
Current tax:		
UK corporation tax	102,000	115,000
Overprovision in prior year	<u>(3,739)</u>	<u>(587)</u>
Total current tax	98,261	114,413
Deferred tax	<u>19,649</u>	<u>(56,914)</u>
Tax on profit	<u>117,910</u>	<u>57,499</u>

UK corporation tax has been charged at 19% (2018 - 19%).

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

7. TAXATION - continued

Reconciliation of total tax charge included in profit and loss

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2019 £	2018 £
Profit before tax	<u>438,664</u>	<u>535,590</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2018 - 19%)	83,346	101,762
Effects of:		
Expenses not deductible for tax purposes	6,889	1,900
Depreciation in excess of capital allowances	15,444	11,338
Adjustments to tax charge in respect of previous periods	(3,739)	(587)
Deferred tax	19,649	(56,914)
Tax underprovided in the current year	<u>(3,679)</u>	<u>-</u>
Total tax charge	<u>117,910</u>	<u>57,499</u>

8. TANGIBLE FIXED ASSETS

	Freehold property £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Totals £
COST					
At 1 January 2019	3,232,175	131,780	64,243	330,987	3,759,185
Additions	-	17,676	9,764	73,059	100,499
Disposals	-	(3,040)	-	(65,832)	(68,872)
At 31 December 2019	<u>3,232,175</u>	<u>146,416</u>	<u>74,007</u>	<u>338,214</u>	<u>3,790,812</u>
DEPRECIATION					
At 1 January 2019	181,573	66,812	23,688	175,320	447,393
Charge for year	156,383	22,590	12,924	61,169	253,066
Eliminated on disposal	-	(861)	-	(57,918)	(58,779)
At 31 December 2019	<u>337,956</u>	<u>88,541</u>	<u>36,612</u>	<u>178,571</u>	<u>641,680</u>
NET BOOK VALUE					
At 31 December 2019	<u>2,894,219</u>	<u>57,875</u>	<u>37,395</u>	<u>159,643</u>	<u>3,149,132</u>
At 31 December 2018	<u>3,050,602</u>	<u>64,968</u>	<u>40,555</u>	<u>155,667</u>	<u>3,311,792</u>

Freehold property relates to the company's new premises, construction of which was completed in 2018. It includes the land itself which was acquired for £117,550 initially under a long term ground lease with an option to purchase following on from the completion of the building work thereon, which has been exercised.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

9. STOCKS

	2019	2018
	£	£
Raw materials and consumables	1,340,065	1,054,129
Finished goods	<u>3,689,418</u>	<u>2,128,029</u>
	<u>5,029,483</u>	<u>3,182,158</u>

10. DEBTORS

	2019	2018
	£	£
Amounts falling due within one year:		
Trade debtors	1,381,492	849,965
Amounts owed by group undertakings	4,248	1,854
Other debtors	14,953	3,312
Prepayments	<u>40,930</u>	<u>26,324</u>
	<u>1,441,623</u>	<u>881,455</u>

Amounts falling due after more than one year:
Other debtors

3,900 5,859

Aggregate amounts

1,445,523 887,314

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2019	2018
	£	£
Trade creditors	647,429	111,656
Tax	46,000	60,376
Social security and other taxes	32,007	27,479
VAT	320,169	442,766
Amounts due to group undertakings	6,233,270	4,357,833
Accrued expenses	<u>113,544</u>	<u>72,509</u>
	<u>7,392,419</u>	<u>5,072,619</u>

12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2019	2018
	£	£
Amounts due to group undertakings	<u>400,000</u>	<u>800,000</u>

13. LEASING AGREEMENTS

Minimum lease payments under non-cancellable operating leases fall due as follows:

	2019	2018
	£	£
Between one and five years	<u>1,458</u>	<u>1,958</u>

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

14. SECURED DEBTS

Nordea Bank Finland Plc hold a guarantee & indemnity dated September 2013 from the parent company in relation to the company's liabilities.

15. PROVISIONS FOR LIABILITIES

	2019 £	2018 £
Deferred tax		
Accelerated capital allowances	<u>58,975</u>	<u>39,326</u>
		Deferred tax £
Balance at 1 January 2019		39,326
Provided during year		<u>19,649</u>
Balance at 31 December 2019		<u>58,975</u>

16. CALLED UP SHARE CAPITAL

Allotted, issued and fully paid:			2019 £	2018 £
Number:	Class:	Nominal value:		
50,000	Ordinary	£1	<u>50,000</u>	<u>50,000</u>

The ordinary shares currently in issue rank equally in terms of all rights, preferences and restrictions, including voting, distribution of dividends and repayment of capital.

17. RESERVES

	Retained earnings £
At 1 January 2019	1,577,895
Profit for the year	<u>320,754</u>
At 31 December 2019	<u>1,898,649</u>

18. PENSION COMMITMENTS

The company operates a defined contribution pension scheme, the assets of which are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable to the fund and amounted to £38,531 in the year (2018 - £35,285).

19. ULTIMATE PARENT COMPANY

The directors regard Ponsse OYJ, a company incorporated in Finland, as the ultimate parent company and the ultimate controlling party, by virtue of its ownership of the company's entire share capital.

According to the register kept by the company Ponsse OYJ has a 100% interest in the equity capital of Ponsse UK Limited at 31 December 2019. Copies of the parent's consolidated financial statements may be obtained from the registered office of Ponsse OYJ, 74200 Vierema, Finland.

Notes to the Financial Statements - continued
for the Year Ended 31 December 2019

20. CAPITAL COMMITMENTS

	2019	2018
	£	£
Contracted but not provided for in the financial statements	<u>34,615</u>	<u>-</u>

21. RELATED PARTY DISCLOSURES

The company has taken advantage of exemption, under the terms of Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland', not to disclose related party transactions with wholly owned subsidiaries within the group.

22. SHARE-BASED PAYMENT TRANSACTIONS

The parent company introduced a new share-based incentive scheme in the previous year for key employees within the group, involving shares in the parent company.

This involves those qualifying employees from the company firstly purchasing shares in the parent company at market value and subsequently receiving the equivalent amount of free shares in the parent as a bonus incentive, with Ponsse UK Limited meeting all taxes arising on the award of this employee bonus. Shares awarded as bonuses may not be transferred during the restriction period ending on 12 December 2021, whilst the qualifying employees must remain within the employment of the group until that date to receive full entitlement of the shares awarded.

The award in the prior year saw four company employees receive a total of 351 parent company shares valued at £9,171. The cost of these shares (and the associated tax liability thereon which will be met by the company) will be spread evenly over the course of the three-year restriction period ending in December 2021. No cost is therefore reflected in this year's profit and loss account.

No such distributions were made under the previous scheme to the sole qualifying employee of Ponsse UK Limited.

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