

Corporate **governance** report

Ferronordic Machines AB (publ) is a Swedish public company domiciled in Stockholm. The company's ordinary shares are listed on Nasdaq Stockholm. The company's preference shares are listed on Nasdaq First North Premier.

Corporate governance comprises the Ferronordic's control and management systems. The aim is to ensure efficient decision-making by a clearly specified allocation of roles and responsibilities among shareholders, the Board and the management.

This corporate governance report has been prepared in accordance with the Annual Accounts Act and the Swedish Corporate Governance Code (the Code). The corporate governance report has been audited by the company's auditors.

SUMMARY OF FERRONORDIC'S CORPORATE GOVERNANCE MODEL

The shareholders make the ultimate decision on the company's direction by appointing the Board and the chairman of the Board. The AGM also elects the auditors and adopts the principles concerning the Nomination Committee. The task of the Board is to manage the company's affairs on behalf of the shareholders. The auditors report to the AGM on their scrutiny. The Board establishes work procedures for the Board, including instructions for the CEO. The Board appoints the CEO. The CEO in turn appoints the members of the executive management and the extended management team, including Ferronordic's regional directors.

MORE INFORMATION ON CORPORATE GOVERNANCE:

The following information is available at www.ferronordic.com:

- Ferronordic's Articles of Association
- Ferronordic's Code of Conduct
- Information on Ferronordic's General Meetings

The Swedish Corporate Governance Code is available at www.bolagsstyrning.se.

SWEDISH CORPORATE GOVERNANCE CODE

Companies whose shares are listed on Nasdaq Stockholm must apply the Code. This e.g. means that the company must prepare a corporate governance report in order to describe how the company applies the Code. Deviations from the Code are permitted, provided that the company explains how and why it has deviated from the Code, and explains the alternative solution chosen instead. This report has thus been prepared to describe how Ferronordic applies the Code.

In 2017, Ferronordic deviated from one Code provision as the chairman of the nomination committee, Håkan Eriksson, representing Skandinavkonsult i Stockholm AB, was also a member of the Board. As representative of the company's largest shareholder, the nomination committee deemed it appropriate to appoint Håkan Eriksson chairman even though he is also a member of the Board.

SHARE CAPITAL AND SHAREHOLDERS

At the end of 2017, the company had one shareholder controlling over 10% of the votes: Skandinavskonsult i Stockholm AB with 15.5%. Further information about Ferronordic's share capital and shareholders can be found on pages 34-37.

THE GENERAL MEETING

The general meeting is the company's highest decision-making body through which the shareholders exercise their right to make decisions regarding the company's affairs. The general meeting held within six months after the end of each financial year to adopt the annual report is called the annual general meeting (AGM). In addition to adopting the annual report, the AGM makes resolutions regarding dividends, election of Board members, election of auditors and other matters required by the Swedish Companies Act, the articles of association and the Code.

Notice convening a general meeting is published in the Swedish official gazette, Post- och Inrikes Tidningar, and on the company's website. The fact that a notice has been issued is also announced in Dagens Industri. Notices are also communicated to the market through press releases.

All shareholders are entitled to participate in the general meeting, either in person or by proxy, provided that they are recorded in the share register five working days prior to the general meeting and have given notice of their participation. All shareholders are entitled to have an item dealt with at the general meeting, provided that they inform the Board in writing early enough so that the item can be included in the notice. At the general meetings, shareholders also have the opportunity to ask questions to the Board and the management.

EGM March 2017

An extraordinary general meeting (EGM) took place on 22 March 2017 in Stockholm. The meeting resolved to pay dividends on the company's preference shares in an amount of SEK 55 per preference share, corresponding to a total dividend payment of SEK 27.5m. No dividends were to be paid on ordinary shares. At the meeting, 59.3% of the shares and 61.9% of the votes were represented in person or by proxy. The company's General Counsel, Henrik Carlborg was appointed chairman. The minutes of the EGM were made available on the company's website.

Annual general meeting 2017

The AGM 2017 took place on 19 May 2017 in Stockholm. At the meeting, 70.8% of the shares and 74.0% of the votes were represented in person or by proxy. The chairman of the Board, Per-Olof Eriksson was elected chairman. The CEO, the auditor, the chairman of the nomination committee and all Board members elected by the AGM were present. The minutes of the meeting were made available on the company's website.

The following resolutions were made at the AGM:

- the financial reports for the parent company and the Group were adopted
- it was decided to pay dividends on the preference shares in an amount of SEK 60 per preference share, amounting to a total dividend of SEK 30m (with record date 25 October 2017); no decision was made regarding the dividends on preference shares in April 2018
- no dividends were to be paid on ordinary shares
- the members of the Board and the CEO were discharged of liability with regard to the financial year 2016
- the number of Board members should be six, without deputies
- fees to the Board were established
- Magnus Brännström, Lars Corneliusson, Erik Eberhardson and Håkan Eriksson were reelected as Board members
- Annette Brodin Rampe and Staffan Jufors were elected new Board members instead of Per-Olof Eriksson and Kristian Terling
- Staffan Jufors was elected new chairman of the Board
- KPMG AB was re-elected as the company's auditor
- principles regarding the company's nomination committee were adopted
- the guidelines regarding remuneration of senior executives were approved
- a share-based long-term incentive program for certain senior executives was approved
- the Board was authorized to resolve on the issue of new ordinary shares and ordinary shares of series 2.

Annual General Meeting 2018

The annual general meeting in Ferronordic Machines AB will be held on 27 April 2018 at Radisson Blu Hotel, Nybrokajen 9 in Stockholm. More information is available at the company's website, www.ferronordic.com.

NOMINATION COMMITTEE

For the AGM 2017, the nomination committee consisted of Rune Andersson, representing Mellby Gård AB, Håkan Eriksson (chairman), representing Skandinavkonsult i Stockholm AB, Per-Olof Eriksson, representing Board members and employees of the Group, and Daniel Nyhrén, representing Creades AB. All members were independent of the company and the management. Except for Håkan Eriksson, all members were independent of the largest shareholder.

Shareholders were offered the opportunity to submit proposals to the nomination committee for the AGM 2017. One proposal was submitted. On 27 January 2017, the nomination committee's proposal to appoint Staffan Jufors new chairman of the Board instead of Per-Olof Eriksson was announced. The nomination committee's other proposals to the AGM 2017, together with motivated statements, were presented in the notice to the AGM on 19 April 2017. No compensation was paid to the members of the nomination committee.

Principles regarding the nomination committee

At the AGM 2017, the following principles were adopted regarding the nomination committee (in summary):

The nomination committee shall consist of four members.

The chairman of the Board shall in connection with the end of the third quarter contact each of the four largest shareholders in the company and encourage them to appoint their respective representatives for the nomination committee. Shareholders who are members of the Board and/or employed by the group shall in this regard be regarded as one shareholder. If a member of the nomination committee resigns, the shareholder appointing the resigning member shall be asked to appoint another member of the nomination committee.

The chairman of the nomination committee shall be the member appointed by the largest shareholder, unless the nomination committee agrees otherwise.

The nomination committee shall act in the interest of all shareholders. The duties of the nomination committee shall include to evaluate the Board's composition and work, and to make proposals for the AGM regarding:

- election of chairman for the AGM
- number of Board members
- election of the Board and the chairman of the Board
- election of auditor (in cooperation with the Board's audit committee)
- fees for the Board members, Board committees and auditors
- principles concerning the nomination committee for the next AGM.

The mandate of the nomination committee is valid until a new nomination committee has been constituted. In case of material changes in the ownership during the mandate period, the nomination committee shall ensure that a new large shareholder is given representation in the nomination committee. The constitution of the nomination committee shall be announced no later than six months before the AGM. The members of the nomination committee shall not receive any compensation from the company but are entitled to reimbursement for reasonable expenses.

Nomination committee for the AGM 2018

The nomination committee for the AGM 2018 consists of the following persons:

- Rune Andersson, representing Mellby Gård AB
- Håkan Eriksson (chairman), representing Skandinavkonsult i Stockholm AB
- Per-Olof Eriksson, representing shareholders who are members of the Board or employees of the Group
- John Hedberg, representing Creades AB.

Shareholders who wish to contact the nomination committee are invited to send an e-mail to henrik.carlborg@ferronordic.com (with "To the Nomination Committee" in the subject field) or a letter to "Ferronordic Nomination Committee, Henrik Carlborg, Ferronordic Machines AB, Hovslagargatan 5B, 111 48 Stockholm". At the time of this report, the nomination committee had received one proposal. The proposals of the nomination committee will be presented in connection with the notice for the AGM.

THE BOARD OF DIRECTORS

The board of directors (Board) is responsible for the company's organization and the management of the company's operations. The tasks of the Board include:

- establishing the company's objectives and strategy
- appointing, evaluating and, when needed, dismissing the CEO
- ensuring that there are effective systems to follow-up and control the company's operations
- ensuring that there is sufficient control over the company's compliance with laws and regulations
- ensuring that the company's information disclosure is characterized by transparency and is correct, relevant and reliable

The chairman of the Board ensures that the work of the Board is conducted effectively and that the Board fulfils its obligations.

Composition

During 2017, the Board consisted of six members without deputies, all elected at the AGM 2017 for the period until the AGM 2018. The AGM 2017 also elected Staffan Jufors as the chairman of the Board until the AGM 2018.

Detailed information about the Board members, including their shareholdings and other positions, can be found on pages 38-39.

The Group's CFO and General Counsel attend the meetings of the Board. The General Counsel is also the secretary of the Board.

Independence requirements

According to the Code, the majority of the Board shall be independent of the company and management, and at least two of the Board members who are independent of the company and management shall also be independent of major shareholders. The Board meets these requirements as four of the six Board members are independent of the company and its management, and three of these members are also independent of major shareholders.

Work procedures

Each year, the Board adopts procedures for its work. The procedures contain rules pertaining to the distribution of work between the Board members, the number of meetings, matters to be addressed at regular meetings and the duties of the chairman. The work procedures also contain provisions regarding the Board's committees. The Board has also issued written instructions on reporting of financial information, as well as defining the distribution of duties between the Board and the CEO.

Evaluation of the Board work

In accordance with the Code, the Board evaluates its work annually through a systematic and structured process to develop its working methods and efficiency. The process consists of a questionnaire that is filled out by each member anonymously. The result of the questionnaires is then compiled by the secretary of the Board and presented to the Board in its entirety. The result is then discussed and additional comments are added. The result of the evaluation is documented and presented to the nomination committee.

Board work in 2017

During 2017, the Board held fourteen meetings.

Over the year, the Board devoted particular focus to the following:

- earnings and financial position of the Group
- interim reporting
- development of the Russian economy and its effect on the market and the Group's financials
- corporate governance, risk management and internal control
- strategic issues and business development, in particular the cooperation with the Group's new suppliers
- financial matters
- evaluation of the work of the Board and the CEO.

During the year, the Board also dedicated considerable time to the listing of the company's ordinary shares on Nasdaq Stockholm and the capital raising and conversion of preference shares that were carried out in connection therewith.

The Board continuously evaluates the work of the CEO. At least once per year, the Board discusses the evaluation of the CEO's work without the presence of the CEO or anyone else from the management.

ATTENDANCE IN BOARD MEETINGS 2017

	Annette Brodin Rampe (from 19 May)	Magnus Brännström	Lars Corneliusson	Erik Eberhardson	Håkan Eriksson	Per-Olof Eriksson (until 19 May)	Staffan Jufors (from 19 May)	Kristian Terling (until 19 May)
17 February			•		•	•		•
3 April (telephone)		•	•	•	•	•		•
19 May		•	•	•	•	•		•
19 May (constituent)	•	•	•	•	•		•	
23 August (telephone)	•	•	•	•	•		•	
8 September (telephone)	•	•	•	•	•		•	
11 September	•	•	•	•	•		•	
29 September (telephone)	•		•	•	•		•	
16 October (telephone)	•	•	•	•	•		•	
26 October	•	•	•	•	•		•	
6 November (telephone)	•	•	•	•	•		•	
17 November (telephone)	•		•	•	•		•	
28 November	•	•	•	•	•		•	
12 December (telephone)	•		•	•	•		•	

REMUNERATION OF THE BOARD

As resolved at the AGM 2017, the remuneration of the Board amounts to SEK 1.5m, of which SEK 600,000 was paid to the chairman and SEK 300,000 to each of the other directors, except for Lars Corneliusson and Erik Eberhardson, who were employed by the Group (since the end of 2017, Erik Eberhardson is no longer employed by the Group). No additional compensation is paid for committee work.

BOARD COMMITTEES

The tasks of the Board's committees are described in the Board's working procedures. The main task of the committees is to prepare proposals and present them to the Board for resolutions.

Audit committee

The audit committee shall ensure the quality of the financial statements, maintain ongoing contacts with the auditors, monitor the independence and objectivity of the auditors, prepare the election of the auditors (in corporation with the nomination committee), monitor the internal control of the Group, as well as dealing with other related matters.

The audit committee consists of the following members:

- Annette Brodin Rampe
- Magnus Brännström (independent and qualified member)
- Håkan Eriksson (chairman)
- Staffan Jufors

All members of the audit committee are independent of the company and the management. Except for Håkan Eriksson, all members are independent of larger shareholders.

In 2017, the audit committee held four meetings. The audit committee convenes regularly to review drafts of the Group's interim reports and to make recommendations to the Board and clarify potential questions in advance. The Group's CFO and General Counsel are usually present at these meetings.

Remuneration committee

The remuneration committee prepares matters concerning remuneration principles, remuneration and other employment terms of the CEO and other members of the executive management. The remuneration committee consists of the following members:

- Annette Brodin Rampe
- Magnus Eriksson
- Håkan Eriksson
- Staffan Jufors (chairman)

All members of the remuneration committee are independent of the company and the management. Except for Håkan Eriksson, all members are independent of the larger shareholders. The members are deemed to have appropriate knowledge and experience of matters relating to executive remuneration.

The remuneration committee held one formal meeting in 2017. In addition, the committee had a continuous informal discussion through the year by email and telephone, and in connection with the meetings of the Board.

AUDITORS

Ferronordic's auditors are elected at the AGM. The current auditor is KPMG AB, re-elected at the AGM 2017 for the period until the AGM 2018. Mattias Lötborn is the auditor-in-charge. The compensation paid to KPMG is described in Note 30.

CEO AND EXECUTIVE MANAGEMENT

The CEO and President, Lars Corneliusson, is appointed by the Board and is responsible for the day-to-day management of the Group.

The executive management convenes on a regular basis and deals with the Group's financial development, company-wide development projects, business development, recruitment and other strategic issues.

In addition to the CEO, in 2017, the executive management consisted of Nadezhda Arzumanova, HR Director, Anders Blomqvist, CFO (also responsible for Investor Relations), Henrik Carlborg, General Counsel, Onur Gucum, Commercial Director, Alexander Shmakov, Director Mining, and Anton Zhelyapov, Director Trucks. Since September, the executive management also includes the Group's local CFO in Russia, Jonathan Tubb. Information on the CEO and the other members of executive management, including their age, main education, professional experience, shareholdings in the company, etc., can be found on pages 40-41.

For certain matters, the executive management is supplemented by the regional directors and certain other Group functions (Extended Management Team).

The Group has established functions that are responsible for Group-wide activities, such as financial reporting, treasury, IT, communications, legal, HR, purchasing, logistics, real estate, etc.

Operationally, Ferronordic is divided into seven regions: Northwest (with regional hub in St. Petersburg), Central (with regional hub in Moscow), Volga (with regional hub in Kazan), South (with regional hub in Krasnodar), Urals (with regional hub in Ekaterinburg), Siberia (with regional hub in Krasnoyarsk) and Far East (with regional hub in Khabarovsk). Each region has its own regional director. The regional directors are responsible for the business, as well as the coordination and implementation of company-wide policies and processes, in their respective regions. Each region also has a regional board, comprising the relevant regional director and certain members of the executive management.

REMUNERATION OF SENIOR EXECUTIVES

For information regarding remuneration and other benefits to the executive management, please refer to Note 29.

The AGM 2017 adopted the following principles regarding remuneration to the company's executives:

Basic principles

Remuneration to executives shall be based on market terms in the markets where Ferronordic operates and the environment in which the individual executive is working. In addition, remuneration shall be competitive in order to enable Ferronordic to attract and retain competent executives.

Fixed salaries

Fixed salaries are established individually based on the criteria specified above, as well as the individual executive's areas of responsibility and performance. For expatriates with salaries in rubles, the fixed salaries can be adjusted to reflect changes in foreign exchange rates.

Variable salaries

Executives may receive variable salaries in addition to fixed salaries. Variable salaries shall be paid upon fulfilment of predetermined and measurable performance criteria, primarily based on the development of the Group as a whole or the development of the part of the Group for which the individual in question is responsible. The variable salary may, as regards the CEO, amount to not more

than 100% of the fixed salary, and, as regards other executives, not more than 50% of the fixed salary.

Non-monetary and other benefits

Executives are entitled to customary non-monetary benefits such as company cars and company health insurance. In addition to these benefits, company housing and other benefits can be offered on an individual basis, such as housing allowances and school/kindergarten allowances for expatriates.

Pension benefits

In addition to those pension benefits that executives are entitled to according to law, executives may be offered pension benefits that are competitive in the country where the individual in question is or has been a resident or to which the individual has a relevant connection. Pension plans shall be defined contribution plans without guaranteed level of pension.

Severance pay

Severance pay shall not exceed 12 months' salary.

The Board's preparation and decision-making on issues concerning remuneration and other terms of employment

The remuneration committee is responsible for:

- 1) preparing the Board's decisions on issues concerning principles of remuneration, remuneration and other terms of employment for executives
- 2) monitoring and evaluating programs for variable remuneration, both ongoing and those who end during the year
- 3) monitoring and evaluating the application of these guidelines
- 4) monitoring and evaluating current remuneration structures and levels in the group

The remuneration committee prepares and the Board resolves on:

- 1) the remuneration and terms of employment of the CEO and any potential deputy CEO
- 2) the principles for remuneration (including pension and severance pay) for the other executives

The remuneration committee is further responsible for reviewing and recommending to the Board share-related incentive programs to be decided by the AGM.

Authority to decide on deviations from these guidelines

The Board may deviate from these guidelines if there are specific reasons to do so in an individual case.

Information on earlier decisions on remuneration that has not become due for payment at the time of the AGM's consideration of these guidelines

Decisions on remuneration that will not have become due at the time of the AGM 2017 fall within the frames of these guidelines.

REPORT ON INTERNAL CONTROL

According to the Swedish Companies Act and the Code, the Board is responsible for ensuring that the company has good internal control. The Board shall also see to it that the company has formalized routines to ensure that established principles for financial reporting and internal control are complied with, and that the company's financial reports are prepared in accordance with law, applicable accounting standards and other requirements for listed companies.

Control environment

The control environment constitutes the basis for the internal control as well as the corporate culture that exists in the Group and within which the Group's management and employees are operating. The control environment is built around the Group's policies and procedures, as well as the Group's divisions of responsibilities and authority. The Code of Conduct, which was updated in 2017, is an important document that aims to ensure that the organization is characterized by integrity and good ethics and morals. Important documents for internal control over financial reporting include, *inter alia*, the financial handbook, with instructions on accounting and reporting, and the financial policy. The division of responsibilities and authority is established in the Board's instructions to the CEO, as well as the Group's signature policy, including authorization and approval levels for different areas. The insider policy regarding insider matters and the information policy regarding external communication and press releases are other important policies and guidelines that aim to ensure good internal control.

Risk assessment

Ferronordic has established an annual process for reviewing and assessing risks relating to financial reporting. The risk assessment also include risks related to fraud and irregularities, as well as the risk of loss or misappropriation of assets. Identified risks are prioritized and actions to manage and mitigate the identified risks are established. The risk assessment also forms the basis for the Board's annual plan for the internal audit. Risks relating to financial

reporting are evaluated on an ongoing basis within the framework of the internal audit. Policies and procedures regarding financial reporting are evaluated continuously, based on the risk assessment. The Board is updated continuously on material risks as well as actions planned or taken to manage and mitigate such risks.

Control activities

The purpose of the control activities is to identify and prevent errors and thus guarantee the quality of the financial reporting. Based on the risk assessment, various control activities have been established. These aim to ensure that the requirements on the external financial reporting are fulfilled. The activities are both manual and automatic, and include e.g. reviews and approvals of different types of transactions, analysis of key ratios, verification of accounts and checklists, as well as application of controls for financial information in the IT systems used for the financial reporting. In addition, the Board and its audit committee, as well as the executive management and the Group's internal audit function, constitute general control bodies that carry out different control activities.

Information and communication

Information on the policies and procedures regarding financial reporting is given to all relevant employees at the beginning of their employment. Subsequent updates of applicable policies and procedures are communicated to all relevant employees. Policies and instructions regarding financial reporting are also available at the Group's intranet, available to all employees. The Board regularly receives financial updates and reports. Financial information can only be communicated by the CEO or the CFO.

Monitoring

The company's financial development is reviewed at every Board meeting. All interim reports are reviewed and approved by the Board before they are made public. The annual report and the directors' report are reviewed and approved by the Board. The efficiency of the assessment and management of risks is followed up at different levels within the Group, for example at the executive management meetings and the regional board meetings, as well as within the internal audit process. The monitoring includes both formal and informal processes, e.g. comparisons between result and budget, monthly reviews of overdue accounts receivable, etc.

Internal audit

Ferronordic has established an internal audit function. The role of the internal audit function is to independently and objectively assess and improve the efficiency of Ferronordic's internal control, risk management and governance processes. The head of internal audit reports functionally to the audit committee and administratively to the CEO. The internal audit function carries out regular reviews based on an annual internal audit plan, established by the Board based on the Group's risk assessment.

Stockholm, March 2018

The Board of Directors

More information on Ferronordic's corporate governance work can be found in the section on Corporate Governance at www.ferronordic.com.