

# Corporate **governance** report

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

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

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 reviewed by the company's auditors.

## SUMMARY OF FERRONORDIC MACHINES' 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 Ferronordic Machines' 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 and extended management, including the regional directors.

## MORE INFORMATION ON CORPORATE GOVERNANCE:

The following information is available at [www.ferronordic.com](http://www.ferronordic.com):

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

The Swedish Corporate Governance Code is available at [www.bolagsstyrning.se](http://www.bolagsstyrning.se).

## SHAREHOLDERS' AGREEMENT

In addition to applicable external and internal regulations, the corporate governance of Ferronordic Machines is also regulated by a shareholders' agreement between the holders of the company's ordinary shares. The Shareholders' Agreement includes provisions regarding:

- payment of dividends on ordinary shares;
- right of certain shareholder groups to designate a certain number of Board members;
- right of investors holding over 20% of the shares and votes to appoint Board observers; and
- reserved matters that require approval either by all Board members appointed by the investors or by at least half of the votes held by the investors at the general meeting.

The shareholders' agreement will terminate upon a listing of the company's ordinary shares on NASDAQ OMX Stockholm or another regulated market.

## SWEDISH CORPORATE GOVERNANCE CODE

Companies listed on First North Premier are not required to apply the Code. However, as part of its ambition to list its shares on a regulated market in Sweden, Ferronordic Machines anyway acts as if the Code already applied to it. This report has therefore been prepared to describe how Ferronordic Machines has applied the Code.

### IMPORTANT EVENTS IN 2014:

- Tom Jörning resigned as Board member due to new obligations within the Volvo Group
- The executive and extended management teams were reduced to make the work more efficient

*During 2014 Ferronordic Machines has deviated from the Code as follows:*

- More than one member of the Board is also a member of the Group's executive management. Currently both Lars Corneliusson (CEO) and Erik Eberhardson (Head of Business Development) are members of the Board. This has been deemed appropriate and in the best interest of the company and the shareholders since both of them possess unique experience relevant to the Board. Their Board memberships are also motivated by the fact that they are both large shareholders in the company.
- The audit committee has not kept separate minutes of its meetings (minutes for the audit committee are included in the general minutes for the Board meetings).
- The vesting period of the company's existing warrants program for key employees is less than three years. This has been deemed appropriate in order to recruit and retain competent key personnel, which is in the best interest of the company and the shareholders.

### SHARE CAPITAL AND SHAREHOLDERS

At the end of 2014, three shareholders controlled more than ten percent of the voting rights in Ferronordic Machines; Erik Eberhardson (through companies) with 26.5%, Russian CE Distribution Investors AB with 22.7% and Lars Corneliusson (through companies) with 20.1%. The shareholding in the company is partly dependent on the financial performance of the company and could therefore change in the coming years. Further information about Ferronordic Machines' share capital and shareholders can be found on pages 24-26.

### GENERAL MEETINGS

The general meeting of shareholders is Ferronordic Machines' 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 in order to adopt the annual report is called the annual general meeting (AGM). The AGM also makes resolutions regarding dividends, election

### COMPLIANCE WITH REGULATIONS

Ferronordic Machines' corporate governance is based on both external and internal regulations and internal control documents.

#### EXAMPLES OF EXTERNAL REGULATIONS:

- the Swedish Companies Act
- the Swedish Bookkeeping Act
- the Swedish Annual Accounts Act
- the rules of NASDAQ OMX concerning First North Premier
- the Swedish Corporate Governance Code

#### EXAMPLES OF INTERNAL REGULATIONS:

- the Articles of association
- the work procedures of the Board, including the instructions to the CEO and the Board's reporting instructions
- Code of Conduct
- Other internal policies such as Information Policy, Internal Control Policy, guidelines and manuals

of Board members, election of the company's auditors and other matters required by the Swedish Companies Act, the articles of association, and the Code.

Notices convening general meetings are 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.

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 notified Ferronordic Machines of their participation as specified in the notice. All shareholders are also 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 for the meeting. At the general meetings shareholders also have the opportunity to present questions to the Board and the management.

### ANNUAL GENERAL MEETING 2014

The AGM 2014 took place on 20 May 2014 in Stockholm. At the meeting, 78.9% of the shares and 82.3% of the votes were represented in person or by proxy. Attorney-at-law Fredrik Palm was elected chairman of the AGM.

The CEO, the auditors, the chairman of the Nomination Committee, and all Board members elected by the AGM were present.

The minutes of AGM have been made available on Ferronordic Machines' website. The resolutions passed included the following:

- dividends of SEK 100 per preference share were to be paid on the preference shares, divided in two payments of SEK 50 each,
- no dividends were to be paid for the 2013 financial year with regard to ordinary shares,
- re-election of Magnus Brännström, Lars Corneliusson, Erik Eberhardson, Per-Olof Eriksson, Marika Fredriksson, Tom Jörning, Martin Leach and Kristian Terling as Board members,
- re-election of Per-Olof Eriksson as chairman of the Board
- fees to the Board and remuneration of the auditor re-election of the auditor
- adoption of principles regarding the company's nomination committee;
- adoption of a remuneration policy for senior executives;
- resolution that the company should offer holders of warrants 2011/2016 to repurchase the issued warrants for a price equal to what the holders paid for the relevant warrants; and
- authorizations to the Board to decide upon an issue of new ordinary shares and new ordinary shares of series 2.

### ANNUAL GENERAL MEETING 2015

Ferronordic Machines's AGM 2015 will be held on 19 May 2015 at Radisson Blu Strand Hotel in Stockholm. More information is available at [www.ferronordic.com](http://www.ferronordic.com).

### NOMINATION COMMITTEE

The nomination committee acts in the interest of all shareholders. The duties of the nomination committee are to evaluate the Board's constitution and work and to make proposals to the AGM concerning:

- chairman of the AGM
- Board members and the chairman of the Board
- auditors (in cooperation with the auditing committee)
- remuneration of the Board members, Board committees and auditors

The constitution of the nomination committee is announced not later than six months before the AGM. For the AGM 2014, the nomination committee consisted of Mikael Brantberg (chairman), representing Russian CE Distribution Investors AB, Rune Andersson, representing Mellby Gård AB, and Stefan Charette, representing Creades AB. All members were independent of the company, the company's management as well as the company's largest shareholder, measured by number of votes. Shareholders were offered the opportunity to submit proposals to the nomination committee. No proposals

were submitted for the AGM 2014. The nomination committee's proposals to the AGM 2014, together with motivated statements, were presented in the notice to the AGM on 16 April 2014. No compensation was paid to the members of the nomination committee.

At the AGM 2014 the following principles were adopted regarding the nomination committee: The nomination committee shall consist of four members. The chairman of the Board shall in connection with the end of the third quarter 2014 contact each of the four largest shareholders in the company and encourage them to appoint their respective representatives for the nomination committee. As regards the appointment of representatives for the nomination committee, shareholders who are members of the Board or employed by the Group shall be regarded as one shareholder. If a shareholder chooses not to appoint a representative for the nomination committee, the right to appoint a member of the nomination committee shall transfer to the next largest shareholder (provided such shareholder has not already appointed or is entitled to appoint a member of the nomination committee). 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 does not agree otherwise (though not a person employed by the group or a member of the Board).

The mandate of the nomination committee is valid until a new nomination committee has been constituted. In case of material ownership changes during the mandate period of the nomination committee, 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 not later than six months before the annual general meeting. The members of the nomination committee shall not receive any compensation from the company but are entitled to reimbursement for reasonable expenses.

The current nomination committee comprises:

- Mikael Brantberg (chairman), Russian CE Distribution Investors AB
- Rune Andersson, Mellby Gård AB
- Per-Olof Eriksson, chairman of the Board, representing the shareholders who are employed by the Group or are members of the Board
- Daniel Nyhrén, Creades AB

Shareholders have been able to submit proposals to the nomination committee for the AGM 2015. No proposals have been submitted.

## BOARD OF DIRECTORS

The Board of Directors is responsible for the company's organization and the management of the company's operations. The tasks of the Board include, inter alia:

- establishing the company's objectives and strategy
- appointing, evaluation and, when needed, dismissing the CEO
- ensuring that there are effective systems for follow-up and control of the company's operations
- ensuring that there is sufficient control over the company's compliance with laws and other rules applicable to the company's operations
- 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 Board's work is carried out efficiently and that the Board fulfils its obligations.

### *Composition*

Until 30 September 2014 the Board consisted of eight members without deputies. On 30 September Tom Jörning announced his resignation from the Board due to new obligations within the Volvo Group. After this the Board has consisted of seven members without deputies. All Board members were elected at the AGM 2014 for the period until the AGM 2015. The AGM 2014 also re-elected Per-Olof Eriksson as chairman of the Board for the period until the AGM 2015. Detailed information about the Board, including shareholdings and various appointments, can be found on page 28.

According to the shareholders' agreement, investors holding over 20% of the ordinary shares and votes may appoint a representative to attend, observe and speak, but not vote, at the meetings of the Board. Russian CE Distribution Investors AB has utilized this right and appointed Mikael Brantberg as its observer on the Board.

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

### *Independence requirements*

The Code stipulates that the majority of the Board shall be independent of the company and the company's management, and at least two of the Board members who are independent of the company and its management shall also be independent of the company's major shareholders. The Board meets these requirements as five of the seven Board members are deemed independent of the company, its management and the major shareholders.

The Code also stipulates that only one Board member may work in the company's management. The company deviates from this requirement since the Board includes two members of the Group's management, i.e. Lars Corneliussen and Erik Eberhardson.

### *Work procedures*

Each year the Board adopts procedures for the Board's work. The procedures contain rules pertaining to the distribution of work between the Board members, the number of Board meetings, matters to be addressed at regular meetings and the duties of the Board chairman. In addition, the work procedures contain directives concerning the tasks of the Board's committees. The Board has also issued written instructions specifying how financial information should be reported to the Board, as well as defining the distribution of duties between the Board and the CEO.

### *Evaluation of the Board work*

To ensure that the Board meets with required standards, a systematic and structured process has been developed to evaluate the work of the Board. The evaluation is made annually and the result of the evaluation is presented to the nomination committee.

### *Board work in 2014*

During 2014 the Board held 11 meetings, including meetings held by telephone or per capsulam. Over the year the Board devoted particular focus to the following issues:

- The Group's earnings and financial position
- Interim reports
- Development of the geopolitical and economic situation in Russia and its affect on the Group
- Corporate governance, risk management and internal control
- Strategy matters
- The financing of the Group, including preparations for a potential listing of the ordinary shares
- Remuneration to the CEO and other executives
- Evaluation of the work of the Board and the CEO

The work of the CEO is evaluated by the Board continuously. 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 company's management.

## REMUNERATION OF THE BOARD

As resolved at the AGM 2014, the total remuneration of the Board amounts to SEK 2,300,000 of which SEK 600,000 is paid to the chairman, SEK 500,000 to the vice chairman, and SEK 300,000 to each of the other directors, except for the two directors who are employed by the Group. No additional compensation is paid for committee work.

## BOARD COMMITTEES

The tasks of the Board's committees are stipulated in the Board's working procedures. The Board committees' main task is to prepare issues 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, in cooperation with the Nomination Committee prepare the election of the auditors, monitor the internal control within the Group, as well as dealing with other related matters.

The audit committee consists of the following five members: Magnus Brännström, Per-Olof Eriksson, Marika Fredriksson (independent and qualified member), Martin Leach (chairman), and Kristian Terling. All members of the audit committee are independent of the company, the company's management and the largest shareholders.

In 2014 the audit committee held two meetings in connection with the physical meetings of the Board. Minutes from these meetings are included in the minutes for the relevant Board 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 three members: Per-Olof Eriksson (chairman), Martin Leach and Kristian Terling. All members of the remuneration committee are independent of the company, the company's management and the company's larger shareholders. The members are deemed to have appropriate knowledge and experience of matters relating to executive remuneration, as required by the Code.

The remuneration committee held two telephone meetings in 2014. In addition the members of the remuneration committee have had an informal continuous discussion throughout the year per email and telephone, and in connection with the meetings of the Board.

## AUDITORS

Ferronordic Machines' auditors are elected at the AGM. The current auditor is KPMG AB, which was re-elected at the AGM 2014 for the period until the AGM 2015. Mattias Lötborn is the auditor-in-charge. The compensation paid to KPMG is indicated in Note 30.

## ATTENDANCE IN BOARD MEETINGS IN 2014

	Magnus Brännström	Lars Corneliusson	Kristian Terling	Erik Eberhardson	Per-Olof Eriksson	Marika Fredriksson	Tom Jörning	Martin Leach
30 January	•	•	•	•	•	•	•	•
21 February	•	•	•	•	•	•	•	•
25 March	•	•	•	•	•	•	•	•
24 April	•	•	•	•	•	•	•	•
13 May	•	•	•	•	•	•	•	•
20 May	•	•	•	•	•	•	•	•
20 May	•	•	•	•	•	•	•	•
7 August	•	•	•	•	•	•	•	•
30 September	•	•	•	•	•	•	•	•
13 October	•	•	•	•	•	•	•	•
14 November		•	•	•	•	•		•



## CEO AND EXECUTIVE MANAGEMENT

The CEO is appointed by the Board and is responsible for the day-to-day management of the Group. The current CEO, Lars Corneliusson, is also the General Director of Ferronordic Machines LLC, the Group's main operating entity in Russia.

The executive management is convened on a regular basis, about once a month, and deals with the Group's financial development, company-wide development projects, leadership and competence sourcing, and other strategic issues.

In addition to the CEO, the executive management comprises Nadezhda Arzumanova, HR Director; Anders Blomqvist, CFO; Henrik Carlborg, General Counsel; Erik Eberhardson, Head of Business Development; Olga Galashevskaya, Marketing and Corporate Communications Director (until November 2014); Onur Gucum, Commercial Director; Andrey Romanov, Head of Trucks Business (until November 2014); and Anton Varekha, Financial Director Ferronordic Machines LLC. The members of the executive management report to the CEO.

In November 2014 the executive management was reduced to seven members, including the CEO, to make the work more efficient.

Information on the CEO and the other members of executive management, including their age, main education and shareholdings in the company, etc., can be found on page 29.

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

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

Operationally Ferronordic Machines is divided into seven regions, corresponding to the Federal Districts of the Russian Federation, i.e. North West (with regional hub in St. Petersburg), Central (with regional hub in Moscow), Volga (with regional hub in Kazan), South (including North Caucasus) (with regional hub in Krasnodar), Ural (with regional hub in Yekaterinburg), Siberia (with regional hub in Krasnoyarsk) and Far East (with regional hub in Khabarovsk). Each region has its own regional director, except Ural and Siberia which currently have a shared 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 the executive management.

## REMUNERATION OF SENIOR EXECUTIVES

Remuneration and other benefits payable to the CEO and the other members of the executive management can be found on Note 29 (e).

The AGM 2014 adopted the following principles regarding remuneration to the company's executives:

Remuneration to executives shall be based on the market conditions in which Ferronordic Machines operates and the environment in which the individual executive works. In addition, remuneration shall be competitive and enable Ferronordic Machines to attract and retain competent executives.

### *Fixed salaries*

Fixed salaries and benefits are established individually based on the criteria outlined above and the executive's individual responsibilities and performance.

### *Variable salaries*

Executives may receive variable salaries in addition to fixed salaries. Variable salaries shall be paid upon completion of predetermined and measurable performance criteria, primarily based on the performance of Group as a whole or the development of the part of the Group for which the relevant executive 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. An exception may be made regarding Erik Eberhardson whose maximum variable salary may not exceed 150% of the fixed salary (according to an agreement made in connection with a decrease of the fixed salary).

### *Benefits*

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

### *Pension benefits*

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

*Routines for establishing remuneration*

The remuneration committee prepares and the Board decides on the terms of employment and remuneration of Lars Corneliussen and Erik Eberhardson. As regards the other executives, the remuneration committee prepares and the Board of Directors decides on the principles on which the terms of employment and remuneration should be decided. Based on these principles, the CEO decides the remuneration for the other executives, after consultation with the remuneration committee.

**INTERNAL CONTROL OF FINANCIAL REPORTING**

Internal control regarding financial reporting is intended to provide reasonable assurance of the reliability of external financial reporting, including interim reports, press releases and annual reports. It shall also ensure that the external financial reports comply with laws and applicable accounting standards.

According to the Code, the Board has to ensure that the company has adequate internal control and formalized procedures to ensure compliance with approved principles for financial reporting and internal control. The Board also has to ensure that the company's financial reports are produced in compliance with legislation, applicable accounting standards and other requirements applicable to companies listed on NASDAQ OMX First North Premier.

*Control environment*

The control environment at Ferronordic Machines consists of a number of corporate policies, guidelines and supporting frameworks related to financial reporting. These include, inter alia, the financial handbook with instructions for accounting and reporting, the financial policy, the signatory policy with instructions concerning decision levels and authorization levels for various areas, the insider policy concerning insider issues, the information policy regarding external communications, and the Code of Conduct regarding ethical and integrity matters. The guidelines are monitored and updated regularly and are communicated to all employees involved in financial reporting.

*Risk assessment*

Ferronordic Machines has implemented an annual risk-assessment process and, based on this assessment, the significant risks impacting the internal control of financial reporting are identified and evaluated. This risk assessment provides the foundation for managing risks through an improved control environment and also results in prioritized areas to be improved.

The main risks related to the internal control of financial reporting are:

- Insufficient control over standardized internal procedures for compiling consolidated financial statements under IFRS;
- Insufficient control over the related closing procedures;
- Inconsistency between the methods applied by the Group internally;
- Lack of internal control over intergroup elimination entries;
- Sufficient control over review procedures of non-routine transactions is not implemented (IFRS adjustments).

To address the possible weaknesses relating to the IFRS reporting function, the company has re-evaluated its internal regulations on IFRS accounting and improved the training of employees involved with IFRS reporting.

*Control activities*

The main purpose of Ferronordic Machines' control activities is to discover and prevent errors and thereby ensure the quality of financial reporting. Based on the risk assessment, control activities within the identified processes have been implemented. These processes ensure that the fundamental requirements of the external financial reporting are met. The activities are both manual and automated large-scale control activities that include the review and approval of various types of accounting transactions, analysis of key figures and ratios, reconciliation of accounts and checklists, as well as application controls for financial information in IT systems supporting financial reporting.

*Information and communication*

Ferronordic Machines' communication shall be correct, transparent, timely and available to all stakeholders simultaneously. All communication must be provided in accordance with the rules of NASDAQ OMX applicable to companies with shares listed on First North Premier. The Board has adopted an information policy regulating the manner in which the company discloses information. Information is disclosed regularly to third parties through press releases and [www.ferronordic.com](http://www.ferronordic.com). The Board regularly receives financial updates and reports. The Board reviews and approves interim reports and the annual report at regular meetings prior to publication. Financial information about the company may only be communicated by the CEO and the CFO (also responsible for investor relations).

*Monitoring*

The Board and the executive management continuously evaluate the information supplied. The company re-assessed the risk over the internal control of financial reporting after the recommendations received from external auditors. Weaknesses caused by identified risk are mitigated and followed up in the following year.

*Internal audit*

Since April 2014 the Group has established an internal audit function. The internal auditor reports to the Financial Director of Ferronordic Machines LLC with regard to reporting matters and to the General Counsel with regard to compliance matters. The internal auditor also reports to the audit committee on matters relating to internal control.

Stockholm, April 2015

The Board of Directors

More information on Ferronordic Machines' corporate governance work can be found in the section on Corporate Governance at [www.ferronordic.com](http://www.ferronordic.com).