Ferronordic Machines AB

Interim Report January - September 2011

Third Quarter 2011

- Sales revenues amounted to EUR 73.6m (29.8m).
- Operating loss amounted to EUR -1.6m (-1.8m).
- The Operating margin was -2.2% (-6.2%).
- EBITDA for the third quarter was EUR 2.3m (0.9m).
- The after-tax result amounted to EUR -2.8m (-2.1m).
- Excluding the amortization of acquisition related intangible assets, the after tax result was EUR -1.7m (-1.0m).
- Cash flow from operating activities amounted to EUR -24.4m (14.5m).

January – September 2011

- Sales revenues amounted to EUR 190.4m (33.6m).
- Operating profit amounted to EUR 2.6m (-3.7m)*.
- The Operating margin was 1.4% (-10.9%)*.
- EBITDA for the nine months amounted to EUR 9.5m (-0.5m)*.
- The after-tax result amounted to EUR -1.5m (15.1m).
- Excluding the amortization of acquisition related intangible assets and negative goodwill, the after tax result was EUR 1.9m (-2.0m).
- Cash flow used in operating activities amounted to EUR -29.9m (12.6m).

*2010 numbers exclude the effect of negative goodwill of 18.6m related to the takeover from Volvo in June 2010.

Erik Eberhardson, CEO, left, and Lars Corneliusson, COO

Erik Eberhardson, the CEO of Ferronordic Machines comments:

Continued expansion in a volatile growth environment

In Q3 2011, Ferronordic Machines continued its expansion, albeit with lower profitability than in Q2 2011. The main reasons for lower profitability are product and customer mix, shorter payment terms to Volvo and unrealized F/X losses. Further, some cumulative costs associated with sales were recorded in Q3, which are not projected to have additional impact on the results of Q4 and the full year 2011.
As of 30 September 2011, the company performed operations in almost 50 locations and had 480 employees. The consensus forecast for the GDP development of the Russian economy in 2011-12 remains one of the highest in Europe, driven by the continued demand for natural resources and metals from other emerging markets, but the financial instability in the Eurozone has still slowed down the strong growth of the Russian construction equipment market. For purposes of speed and cash preservation, the main strategy for network development is based on rented locations with select capital investments in real estate.
During the first nine months of 2011, we have sold 908 new machines and had revenues of EUR 190.4m, generating EBITDA of EUR 9.5m. The improved service network has allowed us to maintain and slightly grow market share in the segments in which we operate and we have achieved overall market leadership as measured by revenue year-to-date 2011. The slower than expected market development has however led to higher than forecasted inventory levels and puts increased pressure on working capital as well as prices, adversely affecting the overall profitability of the business. We are addressing this in a close dialogue with Volvo CE on pricing and inventory management as well as through efforts to advance our efficiency and capacity in machine sales, aftermarket service and parts sales. High stock levels may however elevate borrowing costs and may continue to weigh on the bottom line in Q4 2011.
In addition to inventory management, price management and cost control, the implementation of the company's strategy to increase profitability by growing parts and service revenues through continued expansion of the dealer network remain key focus areas for management. In addition, investments in improvements of processes and IT systems as well as training programs for personnel in sales, aftermarket and management in all areas of our business will allow us to achieve additional efficiencies.
Overall, we remain cautiously optimistic as we look forward into 2012, but continue to follow the key risks created by the international economic instability and the potential effects on business conditions in Russia.

The business

Ferronordic Machines AB (the "Company") together with its subsidiaries (the "Group") was created to acquire and operate, as its principal activity, the Volvo Construction Equipment ("Volvo CE") distribution business in Russia and became the exclusive Volvo CE dealer in Russia on 1 June 2010. Operation of the Volvo CE business consists of distribution, sales of new Volvo construction equipment, sales of used equipment, sales of other brand equipment, sales of parts and providing of services and technical support to customers.

Net sales

Consolidated revenues for the third quarter and the first nine months of 2011 were EUR 73.6m (29.8m) and EUR 190.4m (33.6m), respectively.

Results from operating activities

The results from operating activities for the third quarter and the first nine months of 2011 were EUR -1.6m (-1.8) and EUR 2.6m (-3.7m)*, respectively.

Operating loss before income tax

The operating loss before income tax for the third quarter and first nine months of 2011 were EUR -3.2m (-2.3m) and EUR -0.6m (-4.4m*), respectively.

Profit for the period

Profit for the third quarter and first nine months of 2011 were EUR -2.8m (-2.1m) and EUR -1.5m (15.1m), respectively.

Cash flow

Cash flow from (used in) operating activities for the third quarter and first nine months of 2011 were EUR -24.4m (14.5m) and EUR -29,9m (12.6m), respectively. Net cash used in investing activities for the third quarter and first nine months of 2011 were EUR -3.4m (-0.8m) and EUR -4.2m (-21.0m), respectively. Net cash from financing activities for the third quarter and first nine months of 2011 were EUR 12.1m (0.0m) and EUR 34.7m (35.7m), respectively and the net increase in cash and cash equivalents for the third quarter and first nine months of 2011 were EUR -15.7m (13.7m) and EUR 0.6m (27.3m), respectively.

- **2010 year to date numbers exclude the effect of negative goodwill of 18.6m related to the takeover from Volvo in June 2010.*

Financial position

Consolidated cash and cash equivalents at 30 September 2011 and December 31, 2010 were EUR 19.8m and EUR 20.8m, respectively. At 30 September 2011 and December 31, 2010, the Group had interest-bearing liabilities of EUR 61.3m and EUR 26.3m, respectively.

In the end of June 2011, the Group has paid back in full, to the Investors, the loan amount of EUR 24.9 m that had been received via an Investor Loan Facility Agreement in May 2010.

Total equity at 30 September 2011 was EUR 19.2m and at 31 December 2010 was EUR 22.6m.

At 30 September 2011 and 31 December 2010 there were no undrawn facilities.

Material disputes

There have been no material disputes during the period in the Group.

Outlook

The management team continues to monitor and assess the global and Russian economic situation. Management recognizes the uncertainties in evaluating the impact of a potential recession and continuing instability in Western Europe and the US on the Russian economy and the company's market. Based upon the current analyses, the Group believes it can achieve the goals and objectives set forth in its short range and long range business plans.

Fixed income instruments ("the Bonds")

The Company issued bonds on 28 June 2011, with net proceeds amounting to EUR 42.4m (net of transaction costs of EUR 1.3m) on 28 June 2011. The Group has undertaken to apply for listing of the Bonds on the Corporate Bond List of NASDAQ OMX Stockholm. Nominal amount of the Bonds is SEK 400.0 million. The maturity date of the bonds is 28 June 2014.

For more details please review footnote 4 to condensed consolidated interim financial statements.

Warrants

In accordance with the Shareholders' decision of 7 June 2011, the Group has offered members of the Board of the Directors the option to acquire newly issued warrants in the Company. Each warrant grants the warrant holder a right, under certain conditions, to subscribe for new shares in Ferronordic Machines AB against payment of the exercise price. The fair market value of the warrants has been assessed by independent appraiser. The warrants were subscribed at market value.

Pledged assets and contingent liabilities

There have not been any significant changes to pledged assets and contingent liabilities during 2011.

Parent company

On 28 June 2011, the Parent company issued bonds amounting to EUR 43.7m. In addition, the Parent company repaid the existing Investor Loan Facility in the amount of EUR 24.9m on 29 June 2011. The parent company had two employees.

Revenue for the third quarter and first nine months of 2011 was EUR 125.0 thousand (125.0) thousand and 375.0 thousand (167.0) thousand, respectively.

Administrative and selling expenses for the third quarter and first nine months of 2011 was EUR 603.0 thousand (438.0) thousand and 1,495.0 thousand (556.0) thousand, respectively.

The after tax loss for the third quarter and first nine months of 2011 was EUR -1,800.0 thousand (-174.0) thousand and -2,358.0 thousand (-204.0) thousand, respectively.

Noteworthy risks and uncertainties

There have been no changes to what was stated by the Group in its Annual Report for 2010 under financial instruments and risk management (pages 48 – 54). Management continues to monitor any potential effects of the recent volatility in the international financial markets.

Changes in Group management

Anders Blomqvist was appointed Chief Financial Officer on 30 September 2011.

Employees

The number of employees at the end of September totalled 480 which is an increase of 154 people since the start of the year.

Events after the balance sheet date

After the end of the reporting period the following events have occurred.

A merger plan for the Company and Ferronordic Machines Russia AB was establish on 8 July 2011. Work is continuing to accomplish the planned merger and it is expected to be completed by year end. See footnote 6 to the condensed consolidated financial statements.

The Group has contracted to acquire the land, building, inventory and equipment of a sub-dealer in the North West Region. The total transaction amount is EUR 1,959 thousand of which EUR 1,567 thousand is committed for 2011 and EUR 392 thousand is committed for 2012. It is anticipated that the final closing of the transaction will occur in the second quarter of 2012.

Accounting principles

See note 1 page 11. Unless otherwise specified in the interim report all statements refer to the Group. Figures in parentheses indicate the outcome for the corresponding period in the previous year.

Condensed consolidated statement of comprehensive income	Note	For the three months ended 30 Sept 2011 Unaudited	For the three months ended 30 Sept 2010 Unaudited	For the nine months ended 30 Sept 2011 Reviewed	For the nine months ended 30 Sept 2010 Reviewed
		EUR '000	EUR '000	EUR '000	EUR '000
Revenue	2	73,601	29,764	190,395	33,601
Cost of sales		(64,964)	(25,751)	(163,465)	(28,940)
Gross profit		8,637	4,013	26,930	4,661
Administrative and selling expenses		(7,622)	(4,880)	(21,482)	(6,798)
Negative goodwill		-	-	-	18,609
Other income		6	-	46	-
Other expenses		(2,667)	(968)	(2,915)	(1,539)
Results from operating activities		(1,646)	(1,835)	2,579	14,933
Finance income		79	159	138	170
Finance costs		(1,589)	(623)	(3,320)	(872)
Net finance costs		(1,510)	(464)	(3,182)	(702)
Profit before income tax benefit (expense)		(3,156)	(2,299)	(603)	14,231
Income tax benefit (expense)		332	205	(915)	839
Profit for the period		(2,824)	(2,094)	(1,518)	15,070
Other comprehensive income					
Exchange differences on translating to presentation currency		(1,867)	(1,656)	(1,930)	(1,696)
Other comprehensive income for the period, net of income tax benefit		(4,691)	(3,750)	(3,448)	13,374
Total comprehensive income for the period		(4,691)	(3,750)	(3,448)	13,374
Profit attributable to:					
Owners of the Company		(2,824)	(2,094)	(1,518)	15,070
Non-controlling interests		-	-	-	-
Profit for the period		(2,824)	(2,094)	(1,518)	15,070
Total comprehensive income attributable to:					
Owners of the Company		(4,691)	(3,750)	(3,448)	13,374
Non-controlling interests		-	-	-	-
Total comprehensive income for the period		(4,691)	(3,750)	(3,448)	13,374

Condensed consolidated statement of financial position	Note	30 Sept 2011 Reviewed	31 December 2010 Audited
		EUR '000	EUR '000
ASSETS			
Non-current assets			
Intangible assets		20,019	24,877
Property, plant and equipment		9,646	4,116
Total non-current assets		29,665	28,993
Current assets			
Inventories		54,286	28,921
Other investments		-	744
Trade and other receivables		23,459	15,374
Prepayments		152	87
Other assets		-	4
Cash and cash equivalents		19,763	20,776
Total current assets		97,660	65,906
Total assets		127,325	94,899
EQUITY AND LIABILITIES			
Equity			
Non-restricted share capital		95	95
Additional paid in capital	3	10,579	10,537
Retained earnings		11,258	12,776
Translation reserve		(2,754)	(824)
Total equity attributable to equity holders of the Company		19,178	22,584
Total equity		19,178	22,584
Non-current liabilities			
Loans and borrowings	4	41,859	24,766
Deferred income		268	172
Deferred tax liabilities		3,169	3,333
Long-term portion of finance lease liabilities		2,120	1,258
Total non-current liabilities		47,416	29,529
Current liabilities			
Loans and borrowings	4	16,130	-
Trade and other payables		39,098	40,818
Deferred income		237	688
Provisions		4,045	998
Short-term portion of finance lease liabilities		1,221	282
Total current liabilities		60,731	42,786
Total liabilities		108,147	72,315
Total equity and liabilities		127,325	94,899
Pledged Assets and Contingent Liabilities			
Pledged Assets		19,675	20,800
Contingent Liabilities		627	613

Consolidated statement of changes in equity

EUR ’000

	Share capital	Additional paid in capital	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2011	95	10,537	12,776	(824)	22,584
Total comprehensive income for the period					
Profit/(loss) for the period	-	-	(1,518)	-	(1,518)
Other comprehensive income					
Exchange differences on translating to presentation currency	-		-	(1,930)	(1,930)
Total other comprehensive income	-		-	(1,930)	(1,930)
Total other comprehensive income for the year	-		(1,518)	(1,930)	(3,448)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Share capital contribution	-	-	-	-	-
Warrant issue	-	42	-	-	42
Total contributions by and distributions to owners	-	42	-	-	42
Balance at 30 September 2011	95	10,579	11,258	(2,754)	19,178

EUR ’000

	Attributable to equity holders of the Company				
	Share capital	**Additional paid in capital**	**Retained earnings**	**Translation reserve**	**Total equity**
Balance at 1 January 2010	-	-	-	-	-
Total comprehensive income for the year					
Profit for the period	-	-	15,070	-	15,070
Other comprehensive income					
Exchange differences on translating to presentation currency	-	-	-	(1,696)	(1,696)
Total other comprehensive income	-	-	-	(1,696)	(1,696)
Total comprehensive income for the period	-	-	15,070	(1,696)	13,374
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Share capital contribution	95	-	-	-	95
Additional capital paid	-	10,537	-	-	10,537
Total contributions by and distributions to owners	-	-	-	-	10,632
Balance at 30 September 2010	95	10,537	15,070	(1,696)	24,006

Consolidated cash flow statement

	For the three months ended 30 September 2011 Unaudited	For the three months ended 30 September 2010 Unaudited	For the nine months ended 30 September 2011 Reviewed	For the nine months ended 30 September 2010 Reviewed
	EUR '000	EUR '000	EUR '000	EUR '000
Cash flows from operating activities				
Profit before income tax	(3,156)	(2,299)	(603)	14,231
Adjustments for:				
Depreciation and amortisation	1,717	1,251	4,520	1,667
Negative goodwill	-	-	-	(18,609)
Loss from write off of receivables	76	-	359	-
Profit on disposal of property, plant and equipment	(34)	-	(98)	-
Finance costs	1,589	623	3,320	872
Finance income	(79)	(159)	(138)	(170)
Foreign exchange losses less gains	2,070	1,916	2,035	1,905
Cash flows from (used in) operating activities before changes in working capital and provisions	2,183	1,332	9,395	(104)
Change in inventories	(10,108)	(11,029)	(29,388)	(10,796)
Change in trade and other receivables	(976)	(2,284)	(10,006)	(9,419)
Change in prepayments for current assets	(62)	308	(76)	(47)
Change in trade and other payables	(17,730)	26,903	154	33,017
Change in provisions and employee benefits	3,626	(146)	3,026	804
Change in deferred income	206	-	(316)	-
Change in tax liabilities	(384)	-	-	-
Cash flows from operations before interest paid	(23,245)	15,084	(27,211)	13,455
Income tax paid	(1,020)	-	(1,020)	-
Interest paid	(126)	(623)	(1,626)	(872)
Net cash from/(used in) operating activities	(24,391)	14,461	(29,857)	12,583
Cash flows from investing activities				
Acquisition of business	-	-	-	(20,029)
Proceeds from sale of property, plant and equipment	94	-	336	-
Interest received	79	159	138	170
Acquisition of property, plant and equipment	(3,523)	(899)	(5,239)	(1,030)
Acquisition of intangible assets	(64)	(51)	(183)	(130)
Closing of deposits	-	-	747	-
Net cash (used in) investing activities	(3.414)	(791)	(4,201)	(21,019)
Cash flows from financing activities				
Proceeds from issue of share capital	-	-	-	100
Proceeds from issue of warrants	29	-	45	-
Proceeds from bonds	-	-	42,645	-
Proceeds from borrowings	34,074	-	46,524	24,798
Repayment of loan from Investors	-	-	(24,880)	-
Repayment of other loans	(21,759)	-	(29,229)	-
Contributions of shareholders	-	-	-	10,830
Net leasing financing paid	(212)	-	(437)	-
Net cash from financing activities	12,132	-	34,668	35,728
Net increase in cash and cash equivalents	(15,673)	13,670	610	27,292
Cash and cash equivalents at start of the period	36,848	13,595	20,776	-
Effect of exchange rate fluctuations on cash and cash equivalents	(1,412)	248	(1,623)	221
Cash and cash equivalents at end of the period	19,763	27,513	19,763	27,513

Parent Company statement of comprehensive income	For the three months ended 30 Sept 2011 Unaudited	For the three months ended 30 Sept 2010 Unaudited	For the nine months ended 30 Sept 2011 Reviewed	For the nine months ended 30 Sept 2010 Reviewed
	EUR '000	EUR '000	EUR '000	EUR '000
Revenue	125	125	375	167
Gross profit	125	125	375	167
Administrative and selling expenses	(603)	(438)	(1,495)	(556)
Other expenses	(1,151)	(19)	(1,245)	(19)
Results from operating activities	(1,629)	(332)	(2,365)	(408)
Finance income	1,153	780	2,715	1,075
Finance costs	(1,324)	(622)	(2,708)	(871)
Net finance costs	(171)	158	7	204
Loss before income tax benefit	(1,800)	(174)	(2,358)	(204)
Loss for the period	(1,800)	(174)	(2,358)	(204)
Total comprehensive losses for the period	(1,800)	(174)	(2,358)	(204)

Parent Company Balance Sheet

	30 September 2011	31 December 2010
	EUR ’000	EUR ’000
ASSETS		
Non-current assets		
Property, plant and equipment	2	2
Intangible assets	2,333	2,708
Holdings in group Companies	15,432	12,451
Loan to group companies	33,356	-
Deferred tax assets	105	105
Total non-current assets	51,228	15,266
Current assets		
Current loan to group companies	-	20,800
Trade and other receivables	7	8
Prepayments	61	7
Other assets	1,119	4
Cash and cash equivalents	917	993
Total current assets	2,104	21,812
Total assets	53,332	37,078
EQUITY AND LIABILITIES		
Equity		
Restricted equity Share capital (100,000 shares)	100	100
Unrestricted Equity Share Premium Reserve	12,344	12,302
Retained earnings	(294)	-
Loss for the period	(2,358)	(294)
Total equity attributable to equity holders of the Company	9,792	12,108
Total equity	9,792	12,108
Non-current liabilities		
Loans and borrowings	41,877	24,787
Total non-current liabilities	41,877	24,787
Current liabilities		
Trade and other payables	1,663	183
Total current liabilities	1,663	183
Total liabilities	43,540	24,970
Total equity and liabilities	53,332	37,078
Pledged Assets and Contingent Liabilities		
Pledged Assets	-	20,800

In relation to the Investor Loan Facility the parent company pledged as collateral: (1) the shares in its subsidiary Ferronordic Machines Russia AB and (2) an intergroup loan amounting to EUR 20.8m made to Ferronordic Machines LLC, a group entity owned by Ferronordic Machines Russia AB. With the repayment of the Investor Loan Facility (see note 4 below), the pledged assets have been released.

1. Basis of presentation and summary of significant accounting policies

Functional and presentation currency

Items included in the various units of the Group and the Parent Company are valued in the currency in which each company primarily operates (functional currency). For the all companies in the Consolidated Group the functional currency is the national currency of the Russian Federation the Russian Rouble ("RUB"). The Group and Parent have selected the Euro ("EUR") as the currency for presentation purposes.
The Parent Company functional currency is the Euro for purposes of compliance with Swedish reporting requirements.
All financial information presented in EUR has been rounded to the nearest thousand, unless otherwise stated.

Accounting policies

The consolidated accounts for the third quarter and first nine months of 2011, as for the annual accounts for 2010, have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, the Annual Accounts Act and the Swedish Financial Reporting Board RFR 1, Supplementary Accounting Rules for Groups.
This quarterly report has been prepared in accordance with IAS 34.
The Group uses the same accounting policies as described in the Annual Report for 2010 except for warrants (see note 3). None of the new or revised standards, interpretations and improvements that have been adopted by the EU and that must be applied from 1 January 2011 has had an effect on the Group.
The Parent Company's financial statements are prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and RFR 2, Accounting for legal entities, and according to the same principles that were applied to the Annual Report for 2010.

Effects of changes in accounting estimates

Significant estimates and assumptions are described in Note 3 in the Annual Report for 2010.
There have not been changes in the estimates and assumptions that could have a material impact on the interim report.

Seasonality

The Company's interim period revenues and earnings historically follow a weather related pattern of seasonality. Typically, the first quarter is the weakest quarter as construction and infrastructure activity is constrained in the winter months, but with a strong performance in after sales customer support (parts and service) activities. This is followed by a strong increase in the second quarter as construction and other contracts begin to be put out for bid and companies begin to prepare for summer activity. The third quarter generally tends to be slower from an equipment sales standpoint, and the same tendency in customer support (parts and service) activities. Fourth quarter activity generally strengthens as companies make yearend capital spending decisions.

2. Operational Segments

Operating segments are reported in accordance with IFRS 8 and IAS34.

Management has determined the operating segments based on reports reviewed by the chief operating decision maker. The Company has one reportable segment, Equipment Distribution. This business sells and rents new and used equipment and provides after-sale product support (parts and service) to customers that operate in infrastructure, construction, mining, oil and gas exploration, forestry and industrial markets.

A breakdown of revenue from the Equipment Distribution segment is as follows:

	For the three months ended 30 Sept 2011 Unaudited	For the three months ended 30 Sept 2010 Unaudited	For the nine months ended 30 Sept 2011 Reviewed	For the nine months ended 30 Sept 2010 Reviewed
	EUR 'm	EUR 'm	EUR 'm	EUR 'm
Sales of goods	71.4	29.2	185.2	32.9
Revenue from services provided	2.2	0.6	5.2	0.7
Total revenues	73.6	29.8	190.4	33.6

The chief operating decision maker assesses the performance of the operating segment based on adjusted earnings before interest, tax, depreciation and amortization (EBITDA). Other information provided to chief operating decision maker is measured in a manner consistent with that in the consolidated accounts for the third quarter and first nine months of 2011.

A reconciliation of EBITDA to profit for the period is as follows:

	For the three months ended 30 Sept 2011 Unaudited	For the three months ended 30 Sept 2010 Unaudited	For the nine months ended 30 Sept 2011 Reviewed	For the nine months ended 30 Sept 2010 Reviewed
	EUR ’m	EUR ’m	EUR ’m	EUR ’m
EBITDA	2.3	0.9	9.5	(0.5)
Depreciation and amortisation	(1.7)	(1.3)	(4.5)	(1.7)
Foreign exchange loss	(2.2)	(1.5)	(2.4)	(1. 5)
Negative goodwill	-	-	-	18.6
Finance income	0.1	0.2	0.1	0.2
Finance costs	(1.6)	(0.6)	(3.3)	(0.9)
Profit before income tax	(3.1)	(2.3)	(0.6)	14.2
Income tax benefit/(expense)	0.3	0.2	(0.9)	0.8
Profit for the period	(2.8)	(2.1)	(1.5)	15.0

3. Warrants

In accordance with the Shareholders’ decision as of 07 June 2011, the Group has offered members of the Board of Directors the option to acquire newly issued warrants in the Company. Each warrant grants the warrant holder a right, under certain conditions, to subscribe for new shares in Ferronordic Machines AB against payment of the exercise price. The fair market value of the warrants has been assessed by external appraiser. The warrants were subscribed at market value. The market value was EUR 42 thousand.

4. Loans and borrowings

(a) Short-term borrowings

Short term borrowings as at 30 September 2011 consisted of the following:

Bank	Outstanding balance as of 30 Sept 2011 EUR ‘000	Interest rate	Maturity date	Credit facility limit EUR ‘000'
Transcreditbank				
Agreement dated April 2011				
Credit line	9,217	8.0%	23.11.2011	9,217
Agreement dated March 2011				
Credit line #1	2,304	8.0%	23.11.2011	2,304
Credit line #2	4,609	8.7%	26.03.2012	4,609
	6,913			6,913
	16,130			16,130

On 28 March 2011 and 22 April 2011, the Group has entered into borrowing facility agreements with Transcreditbank. The amounts of the secured borrowing facilities are RUB 300 million (EUR 6.9 million) and RUB 400 million (EUR 9.2 million). The interest rate is 8-10% p.a. (depending on the term of borrowing facility drawdown) and the maturity date of the loans is 24 months, from 28 March 2011 and 22 April 2011, respectively. The loans are secured by inventory, with carrying amounts as of the date when the loans were drawn of EUR 8,461 thousand and EUR 11,215 thousand, respectively.
The loan agreements with Transcreditbank are established certain financial covenants which should be maintained by the Group. As of 30 September 2011 the Group complied with all covenants stipulated in loan agreements with Transcreditbank.

(b) Long-term borrowings

The Group issued bonds on 28 June 2011 with gross proceeds of SEK four hundred million (EUR 43,730 thousand) and will be represented by a freely transferable, unconditional, unsecured and unsubordinated debt instrument. The coupon rate for the bonds payable outstanding as of 30 September 2011 was set at 12% p.a., with interest payable on a yearly basis. Each bond has a nominal amount of SEK one million or full multiples thereof. The redemption date of the bonds is 28 June 2014.
The proceeds of the issuance shall be applied by the Company towards repayment of the outstanding loan from Investors in full and general corporate purposes primary in the operating Group Companies. As of 28 June 2011, the loan from Investors was fully repaid in amount of EUR 24.9 million that was outstanding.
The bond loan agreement contains the number of covenants including general, information and financial undertakings.
The fees for the bond issuance were EUR 1.3 million and are recognized against bond the payable amount.
The bond has initially been recognized at fair value, net of transaction costs incurred. The bond is subsequently stated at amortized cost; the difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the bond using the effective interest method.

5. Related party transactions

The Group's related parties and the extent of transactions with related parties are described in note 26 of the 2010 Annual Report. IAS 24, related party disclosures, has been amended and is effective for financial years beginning from and including January 2011. The changes have no impact on the Group however.

Transactions with owners

The Group had outstanding at 31 December 2010 a loan from the Group's investors of EUR 24.9m with an outstanding balance of EUR 24.8m (the Investor Loan Facility). The loan was fully repaid on 28 June 2011.

Transactions with key management personnel

In June 2011, the Group offered members of the Board of Directors the option to acquire warrants in the Company. See note 3.

Parent company

During the year, the parent company received EUR 375.0 thousand (EUR 167.0 thousand) from Ferronordic Machines LLC for the Volvo business sub-licence. The parent company also received EUR 2.7 million (EUR 1.1 million) in interest income from subsidiaries and incurred EUR 1.2 million (EUR 0.9 million) in interest expense on the Shareholder Loan Facility.

6. Events subsequent to the reporting date.

The following subsequent events have taken place after 30 September 2011:

A merger plan for the Company and Ferronordic Machines Russia AB was established on 8 July 2011. The planned time for Russia AB's dissolution is 31 December 2011. The Company will be the surviving entity and will inherit all of Russia AB's assets and debts and all rights and obligations. Through the merger, cost savings can be accomplished as the companies' activities are similar and the administration can be coordinated and the work thereby may be made more effective.

The Board of Directors has approved, in principle, a long term incentive plan for certain employees of the Group. The detailed plan document has not been approved by the Board and various methodologies of accomplishing the goals and objectives of the plan and allocating the value to the employees are still under discussion. Therefore, it is not possible to calculate any potential accrual of liability, if any, under the plan, required at 30 September 2011.

The Group has contracted to acquire the land, building, inventory and equipment of a sub-dealer in the North West Region. The total transaction amount is EUR 1,959 thousand of which EUR 1,567 thousand is committed for 2011 and EUR 392 thousand is committed for 2012. It is anticipated that the final closing of the transaction will occur in the second quarter of 2012.

The Board of Directors and the CEO confirm that the nine months report gives an accurate summary of the Company's and the Group's activities, position and results, and describes the noteworthy risks and uncertainties faced by the Company and companies that are included within the Group.

Stockholm, 28 November 2011

Per-Olof Eriksson
Chairman

Martin Leach
Vice Chairman

Marika Fredriksson
Director

Erik Eberhardson
Director

Tom Jörning
Director

Erik Danemar
Director

Lars Corneliusson
Director

Magnus Brännström
Director

Granskningsrapport

Inledning

Vi har utfört en översiktlig granskning av delårsrapporten för Ferronordic Machines AB per den 30 september 2011 och den niomånadersperiod som slutade detta datum. Det är styrelsen och verkställande direktören som har ansvaret för att upprätta och presentera denna delårsrapport i enlighet med IAS 34 och årsredovisningslagen. Vårt ansvar är att uttala en slutsats om denna delårsrapport grundad på vår översiktliga granskning.

Den översiktliga granskningens inriktning och omfattning

Vi har utfört vår översiktliga granskning i enlighet med Standard för översiktlig granskning (SÖG) 2410 *Översiktlig granskning av finansiell delårsinformation utförd av företagets valda revisor*. En översiktlig granskning består av att göra förfrågningar, i första hand till personer som är ansvariga för finansiella frågor och redovisningsfrågor, att utföra analytisk granskning och att vidta andra översiktliga granskningsåtgärder. En översiktlig granskning har en annan inriktning och en betydligt mindre omfattning jämfört med den inriktning och omfattning som en revision enligt International Standards on Auditing och god revisionssed i övrigt har. De granskningsåtgärder som vidtas vid en översiktlig granskning gör det inte möjligt för oss att skaffa oss en sådan säkerhet att vi blir medvetna om alla viktiga omständigheter som skulle kunna ha blivit identifierade om en revision utförts. Den uttalade slutsatsen grundad på en översiktlig granskning har därför inte den säkerhet som en uttalad slutsats grundad på en revision har.

Slutsats

Grundat på vår översiktliga granskning har det inte kommit fram några omständigheter som ger oss anledning att anse att delårsrapporten inte, i allt väsentligt, är upprättad för koncernens del i enlighet med IAS 34 och årsredovisningslagen samt för moderbolagets del i enlighet med årsredovisningslagen.

Stockholm den 28 november 2011

KPMG AB

Mattias Lötborn
Auktoriserad revisor

Review Report

Introduction
We have reviewed the interim report of Ferronordic Machines AB, as per September 30, 2011 and for the nine-month reporting period then ended. The Board of directors and the President are responsible for the preparation and presentation of this interim report in accordance with IAS 34 and the Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Focus and scope of the review
We conducted our review in accordance with the Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review has a different focus and is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and other generally accepted auditing practices.

The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, the conclusion expressed on the basis of a review does not give the same level of assurance as a conclusion expressed on the basis of an audit.

Conclusion
Based on our review, nothing has came to our attention that causes us to believe that the interim report is not prepared, in all material respects, for the Group in accordance with IAS 34 and the Annual Accounts Act and for the Parent Company in accordance with the Annual Accounts Act.

Stockholm November 28, 2011

KPMG AB

Mattias Lötborn
Authorized Public Accountant

This review report is a translation of the original review report in Swedish

For further information please contact:

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Chief Financial Officer
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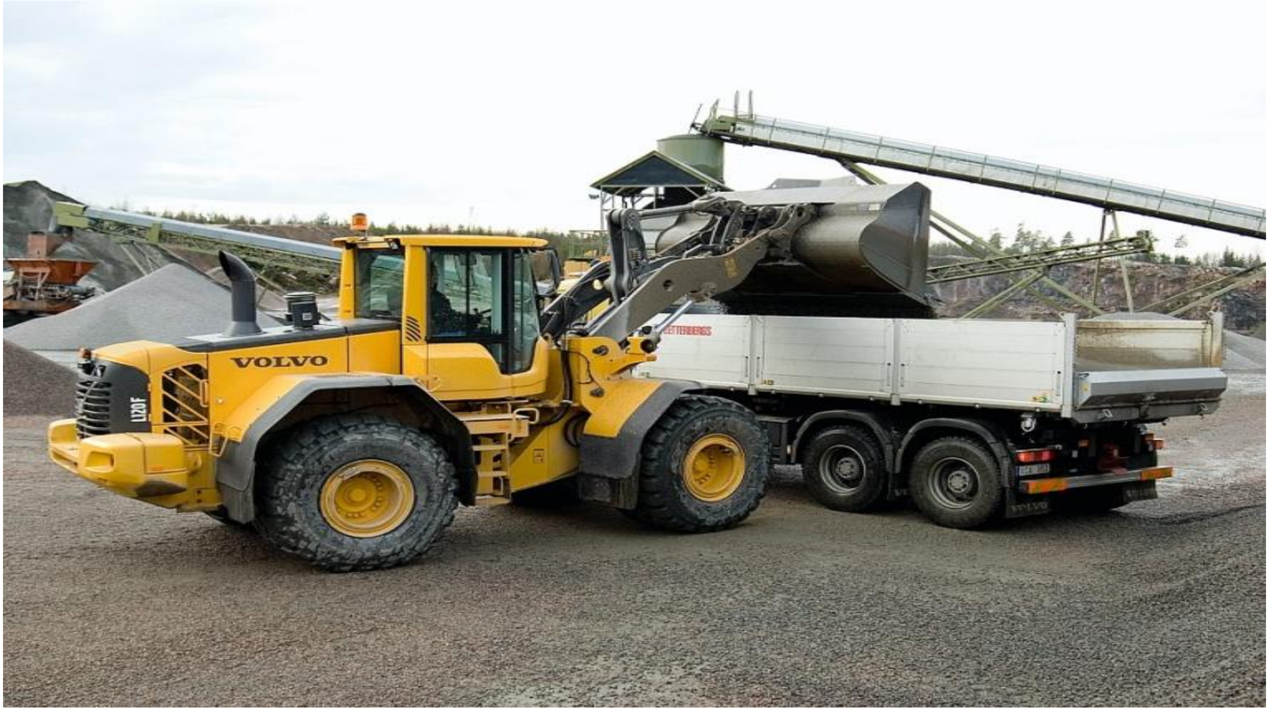

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