Ferronordic Machines AB

Interim Report January - June 2011

Second Quarter 2011

- Sales revenues amounted to EUR 74.7m (3.8m).
- Operating profit amounted to EUR 4.6m (-1.8m)*.
- The Operating margin was 6.1% (-48.0%)*.
- EBITDA for the second quarter was EUR 6.2m (-1.4m)*.
- The after-tax result amounted to EUR 2.0m (17.4m).
- Cash flow from operating activities amounted to EUR 12.1m (-1.7m).
- The Company issued bonds of SEK 400m.
- The Company repaid the Investor Loan Facility in the amount of EUR 24.9m.

January – June 2011

- Sales revenues amounted to EUR 116.8m (3.8m).
- Operating profit amounted to EUR 4.2m (-1.8m)*.
- The Operating margin was 3.6% (-48.0%)*.
- EBITDA for the six months amounted to EUR 7.2m (-1.4m)*.
- The after-tax result amounted to EUR 1.3m (17.4m).
- Cash flow used in operating activities amounted to EUR 5.5m (-1.7m).

*2010 numbers exclude the effect of negative goodwill of 18.8m related to the takeover from Volvo in June 2010.

Erik Eberhardson, the CEO of Ferronordic Machines comments:

A good first year

On 1 June 2010, we became Volvo's exclusive dealer in Russia for Volvo Construction Equipment. In the last 13 months, we have sold over 900 new machines, had revenues of EUR 187 million and hired an experienced management team and workforce of 400.

In the first six months of 2011, we have generated EBITDA of EUR 7.2 million. We have participated in exhibitions and spent time with our customers to promote a total cost of ownership concept. We also have expanded our points of presence to 47 locations. Our aftermarket, parts and service, business continues to grow and we continue to expand our training programs. We work closely with Volvo Construction Equipment and our cooperation helps to insure high quality equipment and service for the Russian market. We have also issued bond financing of SEK 400 million and repaid our Investor Loan of EUR 24.9 million. We look forward to the remainder of 2011, but remain vigilant to changes in business conditions in Russia and abroad.

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 2Q and the first half of 2011 were EUR 74.7m (3.8m) and EUR 116.8m (3.8m), respectively.

Results from operating activities

The results from operating activities for the period 2Q and the first half of 2011 were EUR 4.6m (-1.8m)* and EUR 4.2m (-1.8m)*, respectively.

- ***2010 numbers exclude the effect of negative goodwill of 18.8m related to the takeover from Volvo in June 2010.*

Profit before income tax

The profit before income tax for the period 2Q and first half of 2011 were EUR 3.4m (16.7m) and EUR 2.6m (16.7m), respectively.

Profit for the period

Profit for the period 2Q and first half of 2011 were EUR 2.0m (17.4m) and EUR 1.3m (17.4m), respectively.

Acquisitions

There were no new acquisitions in the first six months of 2011.

Cash flow

Cash flow from (used in) operating activities for the period 2Q and first half of 2011 were EUR 12.1m (-1.7m) and EUR -5.5m (-1.7m), respectively. Net cash used in investing activities for the period 2Q and first half of 2011 were EUR -0.2m (-20.2m) and EUR -0.8 m (-20.2m), respectively. Net cash from financing activities for the period 2Q and first half of 2011 were EUR 15.2m (35.7m) and EUR 22.5m (35.7m), respectively and the net increase in cash and cash equivalents for the period 2Q and first half of 2011 were EUR 27.1m (13.8m) and EUR 16.3m (13.8m), respectively.

Financial position

Consolidated cash and cash equivalents at 30 June 2011 and December 31, 2010 were EUR 36.8m and EUR 20.8m, respectively. At 30 June 2011 and December 31, 2010, the Group had interest-bearing liabilities of EUR 48.8m and EUR 26.3m, respectively.

As of 30 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 June 2011 was EUR 23.9m and at 31 December 2010 was EUR 22.6m.

Unused credit facilities at 30 June 2011 amounted to EUR 12.4m. There were no undrawn facilities at 31 December 2010.

Material disputes

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

Outlook

The Group believes it is in a strong position to achieve the goals and objectives set forth in its short range and long range business plans. The management team continues to monitor and assess the global economic situation. While the company has not yet seen any indications of a slowdown, management recognizes the uncertainties in evaluating the impact of a potential recession in Western Europe and the US on the Russian economy and the company's market.

Fixed income instruments (“the Bonds”)

The Company has issued bonds 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

During the first half of 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. The parent company had two employees.

Revenue for the period 2Q and first half of 2011 was EUR 125.0 thousand (42.0) thousand and 250.0 thousand (42.0) thousand, respectively.

Administrative expenses for the period 2Q and first half of 2011 was EUR 601.0 thousand (118.0) thousand and 892.0 thousand (118.0) thousand, respectively.

The after tax loss for the period 2Q and first half of 2011 was EUR 540.0 thousand (31.0) thousand and 554.0 thousand (31.0) 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

Lars Corneliusson, former Managing Director of Volvo Vostok, Russia was appointed Chief Operating Officer on 1 March 2011.

Employees

The number of employees at the end of June totalled 401 which is an increase of 84 people since the start of the year.

Annual General Meeting 2011

The Group's Annual General Meeting on 7 June 2011 decided on the following:

-To accept the annual accounts.

-That all funds will be carried forward

-Approve the recommendations of the remuneration committee.

-The auditors shall be retained

-Accept the recommendation of the Nominating Committee that there shall be eight Board Members.

- The election of the following Board Members – Per Olof Eriksson, Lars Erik Ebbe Eberhardson, Eva Marika Fredriksson, Martin Leach, Lars Erik Mikael Corneliusson, Tom Kasson Jörning, Sven Magnus Brännström and Carl Erik Mikael Danemar.

-Accept the recommendation of the remuneration committee on the Board warrant program.

-Appointment of a special company signatory.

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. See footnote 6 to the condensed consolidated financial statements.

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 June 2011 Unaudited	For the three months ended 30 June 2010 Unaudited	For the six months ended 30 June 2011 Reviewed	For the six months ended 30 June 2010 Reviewed
		EUR '000	EUR '000	EUR '000	EUR '000
Revenue	2	74,742	3,837	116,794	3,837
Cost of sales		(62,527)	(3,189)	(98,501)	(3,189)
Gross profit		12,215	648	18,293	648
Administrative expenses		(7,459)	(1,918)	(13,860)	(1,918)
Negative goodwill		-	18,804	-	18,804
Other income		36	-	41	-
Other expenses		(219)	(571)	(248)	(571)
Results from operating activities		4, 573	16,963	4,226	16,963
Finance income		26	11	59	11
Finance costs		(1,150)	(249)	(1,731)	(249)
Net finance costs		(1,124)	(238)	(1,672)	(238)
Profit before income tax benefit (expense)		3,449	16,725	2,554	16,725
Income tax benefit (Expense)		(1,433)	634	(1,246)	634
Profit for the period		2,016	17,359	1,308	17,359
Other comprehensive income					
Exchange differences on translating to presentation currency		88	(40)	(63)	(40)
Other comprehensive income for the period, net of income tax benefit		88	(40)	(63)	(40)
Total comprehensive income for the period		2,104	17,319	1,245	17,319
Profit attributable to:					
Owners of the Company		2,016	17,359	1,308	17,359
Non-controlling interests		-	-	-	-
Profit for the period		2,016	17,359	1,308	17,359
Total comprehensive income attributable to:					
Owners of the Company		2,104	17,319	1,245	17,319
Non-controlling interests		-	-	-	-
Total comprehensive income for the period		2,104	17,319	1,245	17,319

Condensed consolidated statement of financial position	Note	30 June 2011 Reviewed	31 December 2010 Audited
		EUR ’000	EUR ’000
ASSETS			
Non-current assets			
Intangible assets		22,664	24,877
Property, plant and equipment		5,148	4,116
Total non-current assets		27,812	28,993
Current assets			
Inventories		48,053	28,921
Other investments		-	744
Trade and other receivables		24,077	15,374
Prepayments		101	87
Other assets		-	4
Cash and cash equivalents		36,848	20,776
Total current assets		109,079	65,906
Total assets		136,891	94,899
EQUITY AND LIABILITIES			
Equity			
Non-restricted share capital		95	95
Additional paid in capital		10,523	10,537
Warrant issue	3	42	-
Retained earnings		14,084	12,776
Translation reserve		(873)	(824)
Total equity attributable to equity holders of the Company		23,871	22,584
Total equity		23,871	22,584
Non-current liabilities			
Loans and borrowings	4	42,405	24,766
Deferred income		129	172
Deferred tax liabilities		4,051	3,333
Long-term portion of finance lease liabilities		1,098	1,258
Total non-current liabilities		47,683	29,529
Current liabilities			
Loans and borrowings	4	4,952	-
Trade and other payables		59,109	40,818
Deferred income		211	688
Provisions		717	998
Short-term portion of finance lease liabilities		348	282
Total current liabilities		65,337	42,786
Total liabilities		113,020	72,315
Total equity and liabilities		136,891	94,899
Pledged Assets and Contingent Liabilities			
Pledged Assets		21,142	20,800
Contingent Liabilities		612	613

Consolidated statement of changes in equity

EUR ’000

	Attributable to equity holders of the Company					
	Share capital	**Additional paid in capital**	**Retained earnings**	**Translation reserve**	**Warrants issue**	**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	-	-	1,308	-	-	1,308
Other comprehensive income						
Exchange differences on translating to presentation currency	-		-	(63)	-	(63)
Total other comprehensive income	-		-	(63)	-	(63)
Total other comprehensive income for the year	-		1,308	(63)	-	1,245
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 June 2011	95	10,537	14,084	(887)	42	23,871

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	-	-	17,359	-	17,359
Other comprehensive income					
Exchange differences on translating to presentation currency	-	-	-	(40)	(40)
Total other comprehensive income	-	-	-	(40)	(40)
Total comprehensive income for the period	-	-	17,359	(40)	17,319
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Share capital contribution	95	-	-	-	95
Additional capital paid	-	11,129	-	-	11,129
Total contributions by and distributions to owners	-	-	-	-	11,224
Balance at 30 June 2010	95	11,129	17,359	(40)	28,543

Consolidated cash flow statement

	For the three months ended 30 June 2011 Unaudited	For the three months ended 30 June 2010 Unaudited	For the six months ended 30 June 2011 Reviewed	For the six months ended 30 June 2010 Reviewed
	EUR '000	EUR '000	EUR '000	EUR '000
Cash flows from operating activities				
Profit before income tax	3,449	16,725	2,554	16,725
Adjustments for:				
Depreciation and amortisation	1,467	416	2,802	416
Negative goodwill	-	(18,609)	-	(18,609)
Loss from write off of receivables	283	-	283	-
Loss on disposal of property, plant and equipment	-	-	(64)	-
Finance costs	1,150	249	1,731	249
Finance income	(26)	(11)	(59)	(11)
Foreign exchange losses less gains	(52)	(11)	(36)	(11)
Cash flows from (used in) operating activities before changes in working capital and provisions	6,271	(1,241)	7,211	(1,241)
Change in inventories	(68)	233	(19,279)	233
Change in trade and other receivables	(4,047)	(7,135)	(9,030)	(7,135)
Change in prepayments for current assets	46	(355)	(14)	(355)
Change in trade and other payables	13,000	6,112	17,883	6,112
Change in provisions and employee benefits	(1,164)	950	(600)	950
Change in deferred income	(786)	-	(522)	-
Change in tax liabilities	-	-	384	-
Cash flows from operations before interest paid	13,252	(1,436)	(3,967)	(1,436)
Interest paid	(1,150)	(249)	(1,501)	(249)
Net cash from/(used in) operating activities	12,102	(1,685)	(5,468)	(1,685)
Cash flows from investing activities				
Acquisition of business	-	(20,029)		(20,029)
Proceeds from sale of property, plant and equipment	-	-	242	-
Interest received	26	11	59	11
Acquisition of property, plant and equipment	(951)	(131)	(1,715)	(131)
Acquisition of intangible assets	(42)	(79)	(118)	(79)
Closing of deposits	747	-	747	-
Net cash (used in) investing activities	(220)	(20,228)	(785)	(20,228)
Cash flows from financing activities				
Proceeds from issue of share capital	-	100	-	100
Proceeds from issue of warrants	16	-	16	-
Proceeds from bonds	42,645	-	42,645	-
Proceeds from borrowings	4,954	24,798	12,450	24,798
Repayment of loan from Investors	(24,880)	-	(24,880)	-
Repayment of other loans	(7,470)	-	(7,470)	-
Contributions of shareholders	-	10,830	-	10,830
Net leasing financing paid	(90)	-	(226)	-
Net cash from financing activities	15,175	35,728	22,535	35,728
Net increase in cash and cash equivalents	27,057	13,815	16,282	13,815
Cash and cash equivalents at start of the period	9,926	-	20,776	-
Effect of exchange rate fluctuations on cash and cash equivalents	(135)	(220)	(210)	(220)
Cash and cash equivalents at end of the period	36,848	13,595	36,848	13,595

Parent Company statement of comprehensive income	For the three months ended 30 June 2011 Unaudited	For the three months ended 30 June 2010 Unaudited	For the six months ended 30 June 2011 Reviewed	For the six months ended 30 June 2010 Reviewed
	EUR ’000	EUR ’000	EUR ’000	EUR ’000
Revenue	125	42	250	42
Gross profit	125	42	250	42
Administrative expenses	(601)	(118)	(892)	(118)
Other expenses	(89)	(1)	(94)	(1)
Results from operating activities	(565)	(77)	(736)	(77)
Finance income	782	295	1,565	295
Finance costs	(757)	(249)	(1,383)	(249)
Net finance costs	25	46	182	46
Loss before income tax benefit	(540)	(31)	(554)	(31)
Loss for the period	(540)	(31)	(554)	(31)
Total comprehensive losses for the period	(540)	(31)	(554)	(31)

Parent Company Balance Sheet

	30 June 2011	31 December 2010
	EUR '000	EUR '000
ASSETS		
Non-current assets		
Property, plant and equipment	2	2
Intangible assets	2,458	2,708
Holdings in group Companies	12,451	12,451
Deferred tax assets	111	105
Total non-current assets	15,022	15,266
Current assets		
Current loan to group companies	20,800	20,800
Trade and other receivables	139	8
Prepayments	38	7
Other assets	-	4
Cash and cash equivalents	18,409	993
Total current assets	39,386	21,812
Total assets	54,408	37,078
EQUITY AND LIABILITIES		
Equity		
Restricted equity Share capital (100,000 shares)	100	100
Unrestricted Equity Share Premium Reserve	12,302	12,302
Warrants issues	42	-
Retained earnings	(294)	-
Loss for the period	(554)	(294)
Total equity attributable to equity holders of the Company	11,596	12,108
Total equity	11,596	12,108
Non-current liabilities		
Loans and borrowings	42,424	24,787
Total non-current liabilities	42,424	24,787
Current liabilities		
Trade and other payables	388	183
Total current liabilities	388	183
Total liabilities	42,812	24,970
Total equity and liabilities	54,408	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 Consolidated Group financial statements the functional currency is the national currency of the Russian Federation the Russian Rouble (“RUB”), which is the Group’s functional currency. The Group and Parent have selected the Euro (“EUR”) as the currency for presentation purposes.
The Parent functional currency is the Euro.
All financial information presented in EUR has been rounded to the nearest thousand, unless otherwise stated.

Accounting policies

The consolidated accounts for the second quarter and first six 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 any changes made to anything 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 June 2011 Unaudited	For the three months ended 30 June 2010 Unaudited	For the six months ended 30 June 2011 Reviewed	For the six months ended 30 June 2010 Reviewed
	EUR ’m	EUR ’m	EUR ’m	EUR ’m
Sales of goods	72.9	3.7	113.8	3.7
Revenue from services provided	1.8	0.1	3.0	0.1
Total revenues	74.7	3.8	116.8	3.8

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 second quarter and first six months of 2011.

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

	For the three months ended 30 June 2011 Unaudited	For the three months ended 30 June 2010 Unaudited	For the six months ended 30 June 2011 Reviewed	For the six months ended 30 June 2010 Reviewed
	EUR 'm	EUR 'm	EUR 'm	EUR 'm
EBITDA	6.2	(1.4)	7.2	(1.4)
Depreciation and amortisation	(1.5)	(0.4)	(2.8)	(0.4)
Foreign exchange loss	(0.2)	-	(0.2)	-
Negative goodwill	-	18.8	-	18.8
Finance income	0.0	0.0	0.0	0.0
Finance costs	(1.1)	(0.2)	(1.7)	(0.2)
Profit before income tax	3.4	16.8	2.5	16.8
Income tax benefit/(expense)	(1.4)	0.6	(1.2)	0.6
Profit for the period	2.0	17.4	1.3	17.4

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 independent appraiser. The warrants were subscribed at market value. The market value was EUR 42 thousand.
The warrants are accounted for as equity-settled share based payment transactions in accordance with IFRS 2 Share-based payment.

4. Loans and borrowings

(a) Short-term borrowings

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

Bank	Outstanding balance as of 30 June 2011 EUR '000	Interest rate	Maturity date	Credit facility limit EUR '000'
Transcreditbank				
Agreement dated April 2011	4,952	8%	22.07.2011	9,904
Agreement dated March 2011	-	8%	31.08.2011	7,428
	4,952			

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 7.5 million) and RUB 400 million (EUR 9.9 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 9,091 thousand and EUR 12,051 thousand, respectively.
The loan agreements with Transcreditbank are established certain financial covenants which should be maintained by the Group. As of 30 June 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 June 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. On 30 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 30 June 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 30 June 2011. See note 4 for further information.

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 for further information.

Parent company

During the year, the parent company received EUR 250 thousand (EUR 42 thousand) from Ferronordic Machines LLC for the Volvo business sub-licence. The parent company also received EUR 1.6 million (EUR 0.3 million) in interest income from subsidiaries and incurred EUR 1.2 million (EUR 0.25 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 June 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, extensive 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, under the plan, required at 30 June 2011.

The Board of Directors and the CEO confirm that the half year 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.

Moscow, 24 August 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 juni 2011 och den sexmånadersperiod 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 31 augusti 2011

KPMG AB

Mattias Lötborn
Auktoriserad revisor

KPMG

Review Report

Introduction

We have reviewed the interim report of Ferronordic Machines AB, as per June 30, 2011 and for the six-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 August 31, 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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Head of Corporate Development
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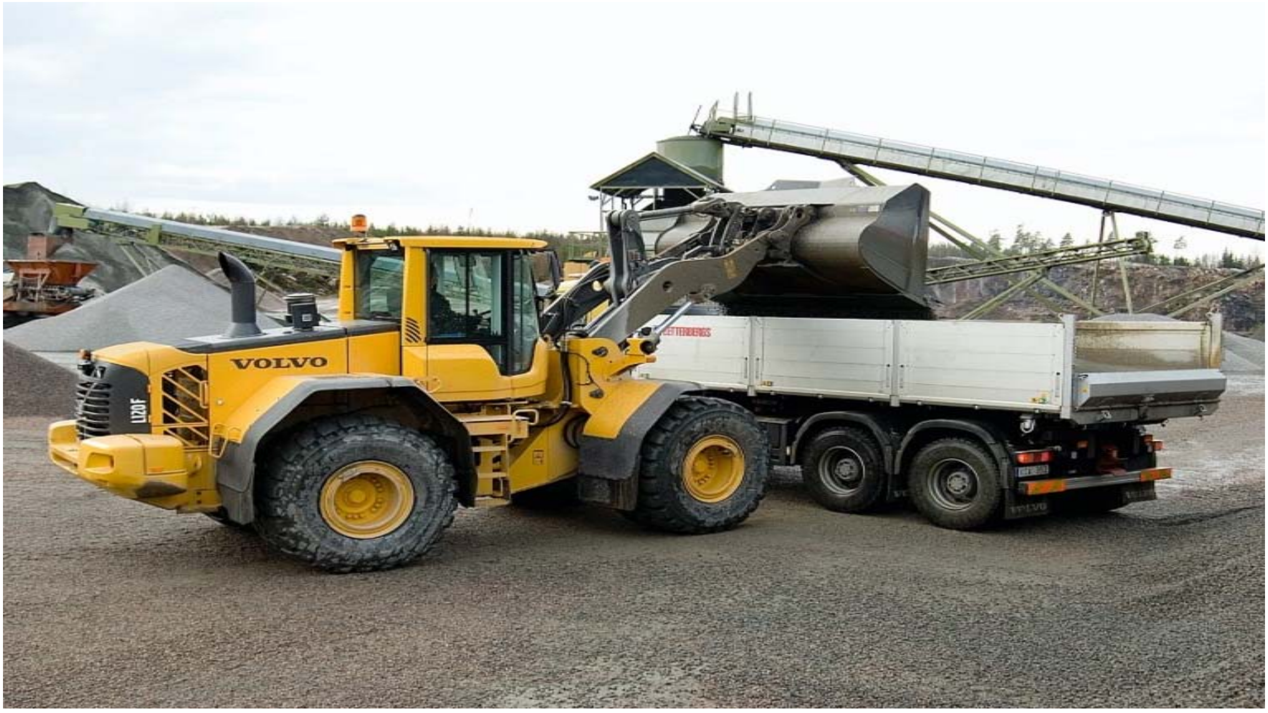
Email: anders.blomqvist@ferronordic.ru



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