



**FERRONORDIC**

ANNUAL REPORT 2017







## CONTENT

This is Ferronordic	4
The year in brief	5
CEO comments	6
Vision, objectives and strategy	8
Market overview	10
The company	18
Sustainability	28
Shares and shareholders	34
Share capital	35
Board of directors	38
Management and auditors	40
Directors' report	42
Corporate governance report	49
Consolidated accounts	58
Parent company accounts	62
Notes	66
Auditors report	100

The statutory sustainability report, according to the Annual Accounts Act, can be found on pages 28-33.



# This is Ferronordic

	2015	2016	2017
REVENUE (SEK MM)	1,469	1,658	2,567
EBITDA (SEK MM)	128	154	214
EMPLOYEES	685	782	847
OUTLETS	64	73	74

- ◆ Dealer for Volvo CE, Terex Trucks, Dressta, Rottne and Mecalac in all of Russia
- ◆ Aftermarket dealer for Volvo and Renault Trucks in select locations
- ◆ Dealer for Volvo Penta in select locations
- ◆ Revenue of SEK 2,567m and EBITDA of SEK 214m



# The year **in brief**



Considerable market recovery - but still from low levels

Strong growth and improved result

Expansion of product portfolio with Mecalac backhoe loaders

Listing of ordinary shares on Nasdaq Stockholm and capital raising of SEK 200m through issue of new ordinary shares

Redemption of most preference shares through conversion to ordinary shares and cash redemption

SEK MM	2013	2014	2015	2016	2017
New units sold	1,425	1,335	523	479	738
Revenue	2,483	2,335	1,469	1,658	2,567
<i>Growth</i>	3%	(6%)	(37%)	13%	55%
EBITDA	153	172	128	154	214
<i>Margin</i>	6.1%	7.4%	8.7%	9.3%	8.3%
EBIT*	89	102	87	132	187
<i>Margin</i>	3.6%	4.4%	5.9%	7.9%	7.3%
Result per ordinary share	(6.89)	(3.13)	(2.12)	3.03	8.06
Net debt / (Net cash)	60	109	(82)	(173)	(312)
Return on capital employed	11%	15%	18%	32%	36%
Working capital / Revenue	10%	8%	7%	7%	5%
Total assets	1,464	1,173	808	1,033	1,414
Equity / Total assets	37%	32%	40%	43%	43%

\*For the years 2013-2016, this refers to adjusted EBIT, i.e. the result from operating activities excluding (i) amortization of transaction-related intangible assets until May 2016, and (ii) write-downs of non-current assets during the fourth quarter 2016.

# Historic year for **Ferronordic**



*Lars Corneliusson, President and CEO*

“  
Compared to 2016 the market grew for all our products, and for the Volvo CE range it grew by as much as 72%

**2017 WAS A HISTORIC YEAR FOR FERRONORDIC.**

With regard to both turnover and result we delivered our highest numbers ever, notwithstanding that the market was still less than half of what it was in 2012 and 2013. At the same time, we became supplier of Volvo Certified Rebuild, and then became official dealer for Mecalac backhoe loaders in all of Russia. Moreover, we redeemed most of the company’s preference shares by conversion to ordinary shares and cash redemption, listed the ordinary shares on Nasdaq Stockholm and raised SEK 200m in new capital through an issue of additional ordinary shares.

**RUSSIA’S ECONOMY IS GROWING AGAIN, BUT SLOWLY.**

GDP grew by 1.5%, which is modest but at least positive. The ruble was relatively stable during the year, even though the oil price increased from USD 55 per barrel to USD 67 per barrel. At the same time, inflation fell to historically low levels and allowed the Russian Central Bank to cut its key rate to the current level of 7.25%. Despite the economic recovery, however, public spending and infrastructure investments remained relatively low.

**THE MARKET CONTINUED TO RECOVER**

on the back of the recovering economy and the pent-up demand created during the economic downturn. Compared to 2016 the market grew for all of our products, and for the Volvo CE range it grew by as much as 72% (the recovery was stronger during the first half of the year).



**REVENUE INCREASED TO SEK 2.6 BILLION**, which was our highest revenue ever and an increase of 55% compared to the previous year, with 72% growth in machine sales and 24% growth in the aftermarket. As the previous year, we saw strong demand for larger machines, such as haulers, larger excavators and asphalt pavers. Our aftermarket business continued to develop well, partly thanks to close and good customer relations, and partly because of our system for digital sales support, based on the machines' telematics system.

**THE RESULT CONTINUED TO IMPROVE.** The result for the year increased to SEK 151m, compared with SEK 84m for 2016 (or compared to the adjusted result for 2016 of SEK 106m). The earnings per ordinary share increased from SEK 3.03 to SEK 8.06 (or SEK 9.36, excluding the effect of the preference share redemption that took place during the fourth quarter). Given the continuously modest market during the year, I think this was a strong result.

**WE CONTINUE TO DEVELOP OUR COMPANY AND IMPLEMENT OUR STRATEGY.** As mentioned, in 2017 we were appointed supplier of Volvo Certified Rebuild and the official dealer for Mecalac backhoe loaders in all of Russia. The first Mecalac machines were delivered in the fourth quarter. The machines, which come with both equal- and unequal-sized wheels, give us access to a larger share of the backhoe loader market than before. In parallel, our daily work to improve our routines and develop our employees continued. In 2017, over 49,000 training hours were provided to more than 800 people all over Russia.

**WE LOOK FORWARD TO SELLING VOLVO-BRANDED RIGID HAULERS.** The product, which comes in 45, 60, 72 and 100 tons, relies heavily on the rigid hauler expertise of Terex Trucks, combined with the technological strength of the Volvo Group. Although we only get access to the new product towards the end of 2018, I think this will be a great addition to our product range. Meanwhile we will continue to sell Terex-branded rigid haulers.

**AS REGARDS THE FUTURE MARKET DEVELOPMENT,** we are continuously optimistic. The need to upgrade the infrastructure in Russia, and to increase and renew the machine population in the country, is still great. As regards the coming 12 months, most forecasts predict that Russia's economy will continue to recover and it is reasonable to assume that the construction equipment market will do the same. However, even if the market is still at a low level, we do not expect that the market will grow as much in 2018 as it did in 2017.





# Vision, objectives **and strategy**

*Our vision is to be regarded as the leading service and sales company in the CIS markets*

## **STRATEGIC OBJECTIVES**

- ◆ Leadership in the market for construction equipment
- ◆ Expansion into related business areas, such as other types of machinery and commercial vehicles
- ◆ Geographic expansion
- ◆ Extract synergies in dealer network and support functions
- ◆ High aftermarket absorption rate

## **FINANCIAL OBJECTIVES**

- ◆ Tripling of revenue from 2016 to 2021
- ◆ EBIT margin of 7-9%
- ◆ Net debt/EBITDA of 0-2 times (over a business cycle)





## CUSTOMER ORIENTATION

- ◆ Leading service and product availability
- ◆ Tailored service programs
- ◆ Financial services offerings
- ◆ Developed trade-in system
- ◆ Fleet and residual value management
- ◆ Rental machines

## STRONG BRANDS

- ◆ Volvo CE - the third largest manufacturer of construction equipment in the world
- ◆ Building on Volvo CE's leading brand position in Russia
- ◆ Broad range of equipment for road and general construction, oil and gas, mining, forestry, etc.
- ◆ Development through additional strong brands

## STRATEGIC

## CORNERSTONES

## SUPERIOR INFRASTRUCTURE

- ◆ High density network – many points of presence
- ◆ Mobile workshops and service-trucks
- ◆ Well equipped, purpose-built facilities in select locations
- ◆ Infrastructure to be used for complementary brands

## OPERATIONAL EXCELLENCE

- ◆ Implementation of best practices and processes
- ◆ Leading IT systems
- ◆ Close cooperation with equipment manufacturers
- ◆ Get the right people to do the right job right
- ◆ Continuous improvement of existing processes

# Market overview

Ferronordic operates on the Russian market for construction equipment. Such equipment is used in different types of building projects, e.g. for the construction of infrastructure, roads and different types of installations. The machines are also used operationally in a number of different industries, such as mining, quarries, aggregates, oil and gas and forestry. The Group also operates service stations for trucks at selected locations in Russia.

## The Russian economy

Russia is the largest country in the world measured by area and has a population of 144 million. The country has an abundance of oil, natural gas, metals and other natural resources. Russia is the second largest producer of oil and natural gas. In addition, it is a leading producer and exporter of minerals and gold. Furthermore, Russia has approx. 800 million hectares of forest land (1/5 of the world's total), making it the largest forestry country in the world. These natural resources are of great importance to the Russian economy and are expected to continue to be so going forward.

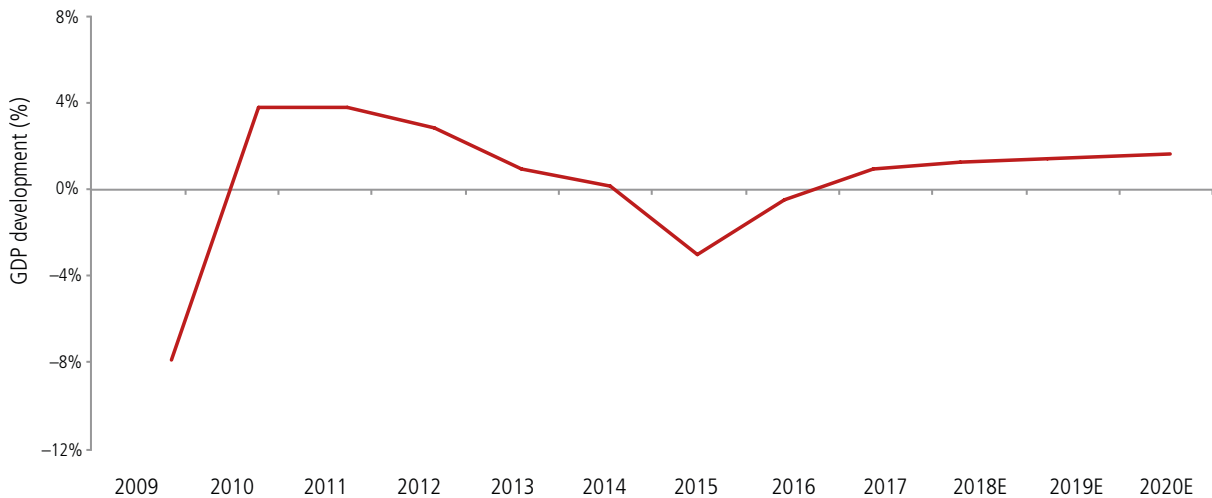
Between 2000 and 2008, Russia's GDP grew on average 7% per year. The global financial crisis of 2008 also affected Russia, but without causing any long-term damage. A short-term downturn was followed by strong recovery beginning at the end of 2009. After several years of strong growth, the economy slowed down and in 2013

grew by only 1.3%. In 2014, sanctions were imposed on Russia related to Crimea and Ukraine. This combined with falling oil prices led to a severe weakening of the Russian ruble and access to capital in the country. In 2014, the Russian economy thus grew by a mere 0.6%, followed by a decline of 3.8% in 2015 and a decline of 0.7% in 2016 (although with a clear recovery during the second half of the year).

During 2017, the Russian economy continued to recover. In total GDP increased by 1.5%. The oil price increased from USD 55 per barrel to USD 67. The ruble was relatively stable against the Swedish krona. In total the ruble weakened somewhat from 6.8 at the beginning of the year to 7.0 at the end of the year. Inflation during the year amounted to 3.7%, compared with 7.1% in 2016 and 15.5% in 2015. At the moment, numerous analysts forecast that the Russian economy will grow by 1.8-2.0% in 2018.

Ferronordic anticipates that Russia's economy will continue to grow long-term, partly because of the country's significant natural resources, and partly because of the infrastructure investments which will be necessary in the country in the long term.

GDP DEVELOPMENT IN RUSSIA



Source: CEEMEA Business Group.

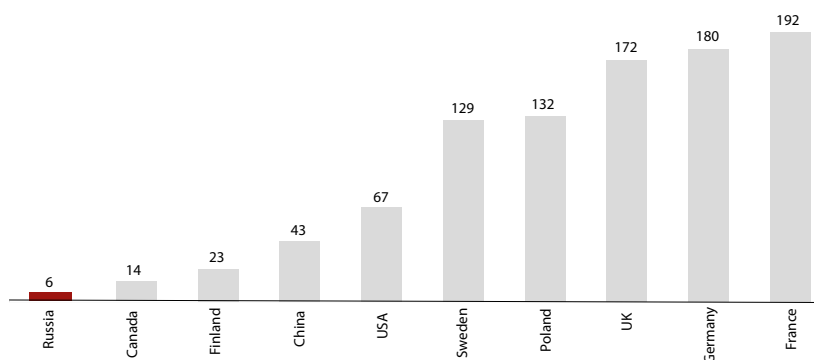
### Underinvested infrastructure

The construction equipment market is expected to capitalize on the long-term growth in Russia. An important driver for this will be the need to improve the country's aging infrastructure, the bulk of which was built during the Soviet era and generally needs to be upgraded. According to the latest edition of the Global Competitiveness Report, published by the World Economic Forum in September 2016, Russia is ranked 74 out of 148 countries in terms of the quality of the country's overall infrastructure.

Roads account for Russia's poorest ranking; 123 out of 148. Ferronordic believes that the poor quality of Russia's roads may lead to significant difficulties in driving further GDP growth. Increased investments in the road network could, however, have the opposite effect and thus stimulate GDP growth.

Russia's road network is not only old and in poor condition, but also low in density. As shown below, Russia has a road density of 6 km per 100km<sup>2</sup>, as compared to 129 km per 100km<sup>2</sup> in Sweden and 14 km per 100km<sup>2</sup> in Canada.

**ROAD DENSITY IN SELECTED COUNTRIES (KM ROAD PER 100 KM<sup>2</sup> LAND AREA)**

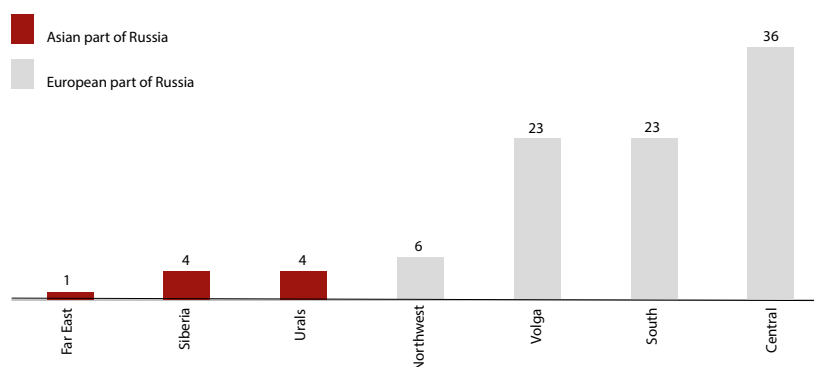


Source: The World Bank.

Due to variations in population and area, there are major differences between the different federal districts. The Central federal district (where Moscow is located) has the largest population, the most developed road network and the highest road density. However, compared to European countries, the road network is underdeveloped also in this district. For example, road density in the Central federal district is almost four times lower than in Sweden, despite

the fact that the district has a significantly higher population density (60 people per km<sup>2</sup>, compared to 22 people per km<sup>2</sup> in Sweden). The same also applies to other districts with relatively high population density, such as South (40 people per km<sup>2</sup>) and Volga (29 people per km<sup>2</sup>). This highlights the great need for investments in the Russian road network.

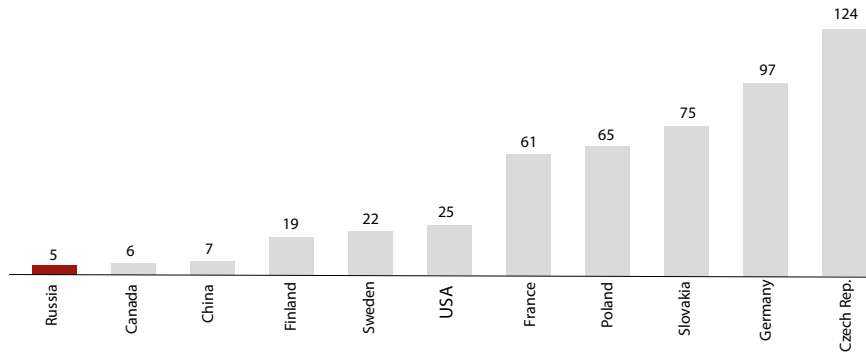
**ROAD DENSITY PER DISTRICT (KM ROAD PER 100 KM<sup>2</sup> LAND AREA)**



Source: Rosstat (Federal State Statistics Service) Russia in Figures 2016.

Railway density is also low in Russia. Below is a description of the railway density in a number of countries, measured in kilometers of railway per thousand km<sup>2</sup> of land area.

**RAIL DENSITY IN SELECTED COUNTRIES (KM RAILWAY PER 1,000 KM<sup>2</sup> LAND AREA)**



Source: The World Bank.

The development of Russia’s roads and railways is expected to account for an important part of the country’s future economic development. Several large construction projects are planned or ongoing. According to Rosavtodor, the Russian government intends to invest heavily in road infrastructure in order to increase the number of roads meeting applicable quality requirements to 85% by the end of 2019. Among others, these projects include the construction of a new highway between Moscow and St. Petersburg, as well as a new 530 km ring road around Moscow. Projects aimed at improving the country’s railways are also planned, such as the construction of a

railway line extending more than 700 km from the oilfields in western Siberia to the Arctic Ocean (“Northern Latitudinal Railway”), and the construction of a railway line between Kyzyl and Kuragino. Additional examples of ongoing and planned infrastructure investments include a large-scale project to demolish and replace dilapidated buildings in Moscow, as well as the construction and renovation of arenas, hotels, airports and other infrastructure pending the 2018 Football World Cup.

Ferronordic believes that the existing population of construction equipment in Russia must be expanded in order to carry out these projects.

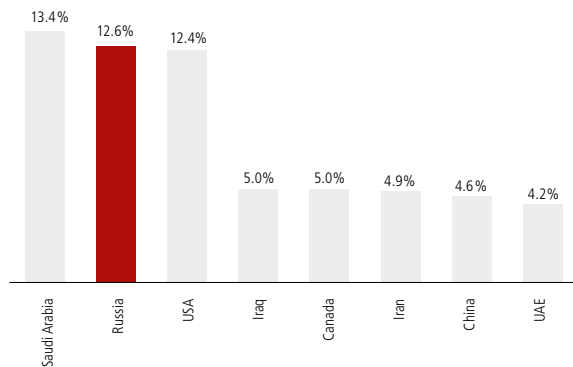


### Continued extraction and refinement of natural resources

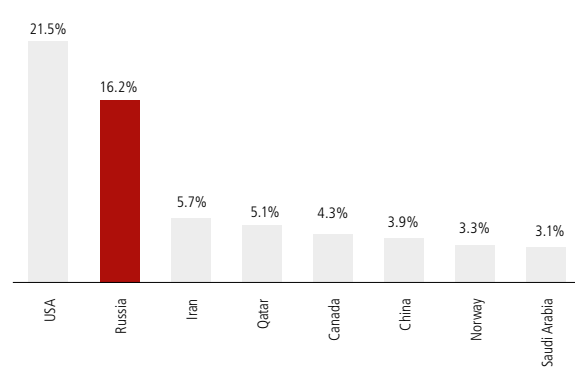
Russia enjoys an important position on the world market in terms of numerous natural resources, particularly oil and gas, but also coal, gold, timber and other commodities. The continued extraction and refinement of these natural resources will constitute an important driver for continued growth and future construction

projects. Examples of major projects related to the extraction of natural resources include development of the Bovanenkovo and Messoyakha gas fields, expansion of the Udokan copper field, development of the Sukhoy Log gold field, and construction of a gas pipeline from Yakutia to Vladivostok for gas exports to China, Japan and South Korea (“Power of Siberia”).

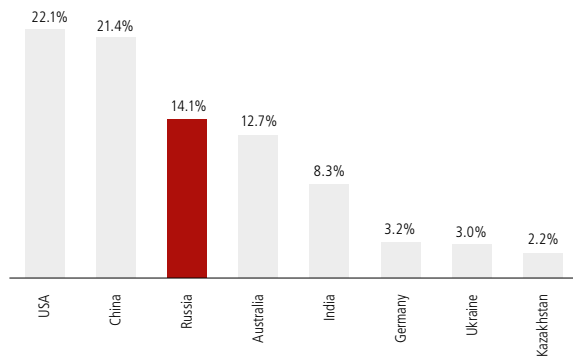
**OIL PRODUCTION (% OF TOTAL)**



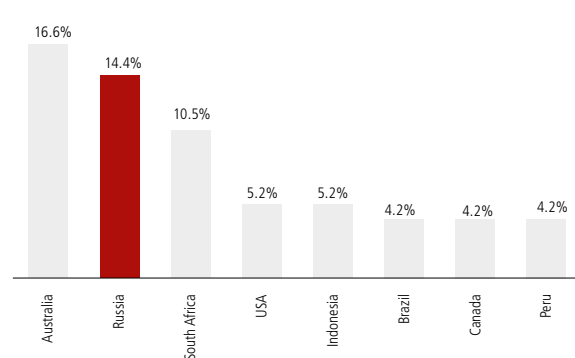
**NATURAL GAS PRODUCTION (% OF TOTAL)**



**COAL RESERVES (% OF TOTAL)**



**GOLD RESERVES (% OF TOTAL)**









Source: British Petroleum Statistical Review of World Energy (June 2016) and U.S. Geological Survey, Mineral Commodity Summaries, (January 2017).

# The Russian construction equipment market

## OVERVIEW

Construction equipment is used in different types of construction projects, e.g. construction and maintenance of infrastructure, roads and different types of facilities. The machines are also used operationally in

numerous sectors, such as mining, quarries and aggregates, as well as oil and gas industry and forestry. Below is a description of the main areas of use of construction equipment in different industries.

Industry	Main areas of use	Main geographic areas	Share of Ferronordic's new machine sales 2017	Comments
 Mining	<ul style="list-style-type: none"> <li>• Construction and maintenance of infrastructure</li> <li>• Operational use (e.g. excavation and transportation of earth and ore)</li> </ul>	<ul style="list-style-type: none"> <li>• Urals</li> <li>• Siberia</li> <li>• Far East</li> </ul>	33%	<ul style="list-style-type: none"> <li>• Focus on productivity and complete solutions makes the customers' mindset receptive to Ferronordic's offerings and creates positive conditions for the aftermarket.</li> </ul>
 Road construction	<ul style="list-style-type: none"> <li>• Construction and maintenance of roads, landing strips, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Whole Russia</li> </ul>	21%	<ul style="list-style-type: none"> <li>• Due to climate, road construction can only take place during a limited part of the year, resulting in focus on productivity and demand for high availability of parts and service.</li> <li>• Large population of Volvo CE machines generates extensive demand in the aftermarket (parts and service).</li> </ul>
 General construction and other	<ul style="list-style-type: none"> <li>• Construction and maintenance of buildings, industrial facilities, utilities, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Whole Russia</li> </ul>	20%	<ul style="list-style-type: none"> <li>• Comprises several different activities, such as construction, maintenance of infrastructure, construction of plants for electricity/water/gas, etc.</li> </ul>
 Forestry	<ul style="list-style-type: none"> <li>• Construction and maintenance of infrastructure</li> <li>• Logging</li> <li>• Transportation of logs</li> <li>• Stacking and other handling of logs</li> </ul>	<ul style="list-style-type: none"> <li>• North-west</li> <li>• Siberia</li> <li>• Volga</li> <li>• Far East</li> </ul>	14%	<ul style="list-style-type: none"> <li>• The core operations in forestry (e.g. logging) are generally on a higher technical level than, e.g. transportation of logs. The customers' purchasing strategy thus differs for different parts of the value chain.</li> </ul>
 Quarries and aggregates	<ul style="list-style-type: none"> <li>• Extraction and production of raw materials for the construction industry</li> </ul>	<ul style="list-style-type: none"> <li>• North-west</li> <li>• South</li> <li>• Siberia</li> <li>• Central</li> <li>• Urals</li> </ul>	11%	<ul style="list-style-type: none"> <li>• Medium-size and large companies focusing on productivity, which favors high quality brands.</li> <li>• High machine utilization requires regular and efficient service and repairs at the right time, which favors service and repair package solutions.</li> </ul>
 Oil and gas	<ul style="list-style-type: none"> <li>• Construction and maintenance of pipelines, refineries and other infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Volga</li> <li>• Urals</li> <li>• Siberia</li> </ul>	1%	<ul style="list-style-type: none"> <li>• The Russian oil and gas industry is dominated by a few large companies that often outsource construction works to subcontractors.</li> </ul>

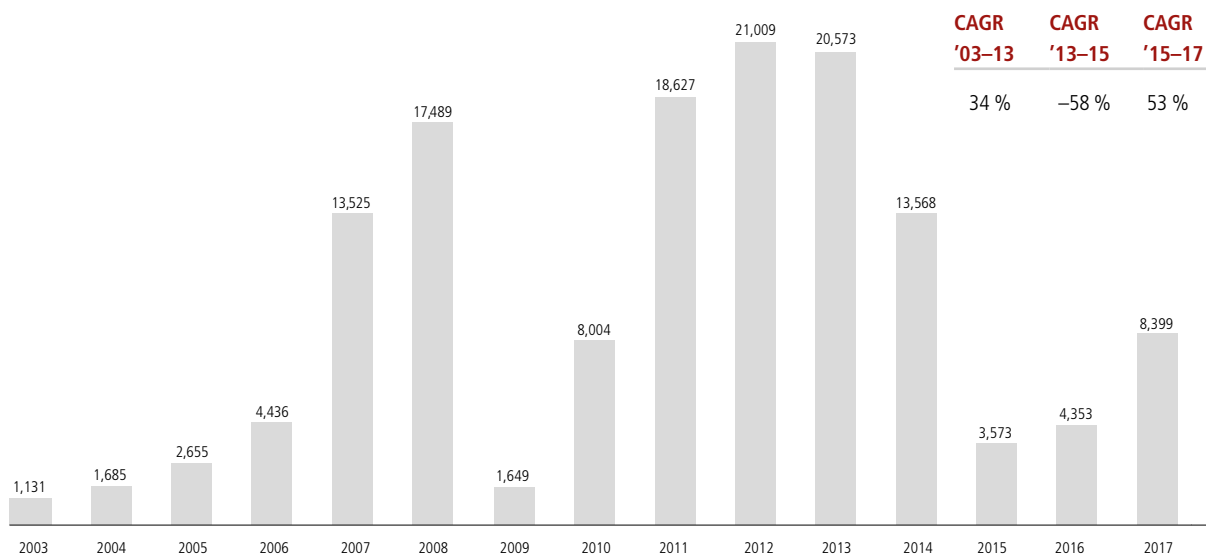
Note: General construction and other also includes areas such as agriculture, landscaping, demolition, industrial material handling, recycling and waste.

### MARKET DEVELOPMENT

The economic downturn in Russia between 2014 and 2016 resulted in a significant decline in demand for new construction equipment. In 2014 and 2015, the number of imported construction machines fell by 34% and 74%, respectively. In 2016, the number of imported machines continued to decline during the first half of the year, but subsequently recovered during the second half of the year (although from low levels). Thus, in total, more construction machines were imported in 2016 than in 2015. During 2017, the number of construction machines (excluding Chinese machines) imported to Russia increased by 93% (compared to the same period of the preceding year).

With exception of the weak market of recent years, imports of construction equipment into Russia have generally grown significantly over the past 10–12 years. The market for foreign, high quality construction equipment only took off around 2005–2006 and is still relatively young. During the period 2003–2013, the number of imported machines increased at a compound annual growth rate (“CAGR”) of 34%.<sup>1)</sup> The main reason for the growth has been an increase in construction in general, as well as a need to replace and upgrade the existing machine population – a trend Ferronordic thinks will continue going forward. Below is a description of the development of the Russian market for imported construction equipment (excluding Chinese machines), measured in number of imported machines.

### RUSSIAN IMPORTS OF CONSTRUCTION EQUIPMENT (NUMBER OF MACHINES)



Source: Russian import statistics, compiled by Volvo CE.  
 Note: Excludes construction equipment imported from China as well as bulldozers, forestry equipment and rigid haulers.

Ferronordic divides the market for construction equipment into three segments: GPPE, Utilities, and Road:

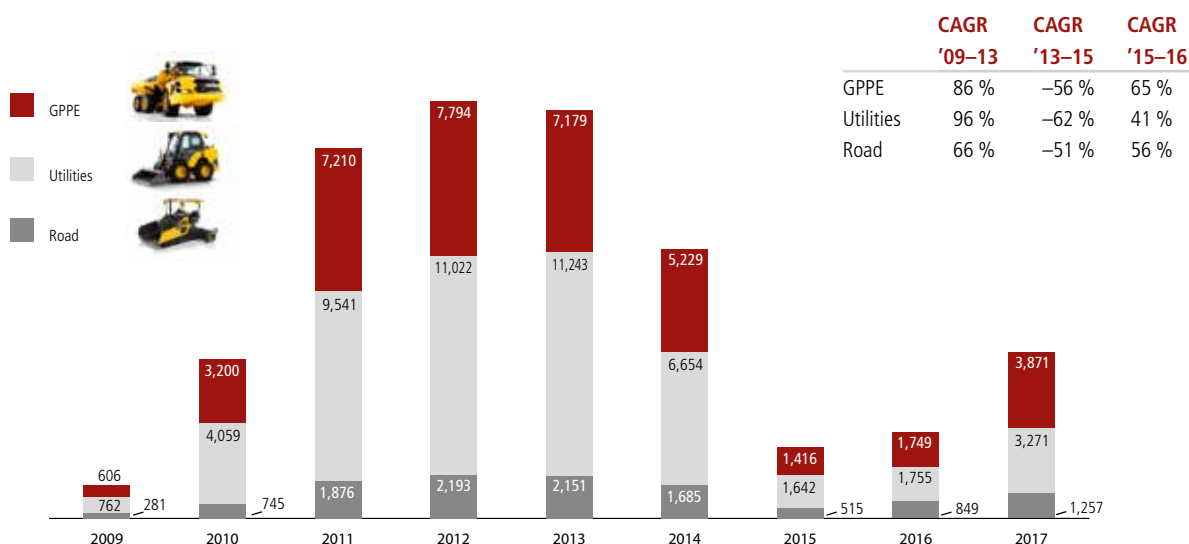
- *GPPE* comprises larger and more complex production equipment, such as larger wheel-loaders, larger excavators (mainly tracked), and articulated haulers.
- *Utilities* comprises smaller and simpler equipment, such as backhoe loaders, skid steer loaders, smaller excavators (mainly wheeled) and smaller wheel loaders.
- *Road* comprises equipment specifically used for construction/maintenance of roads, such as pavers and compactors.

1) Excluding construction equipment imported from China, as well as bulldozers, forestry equipment and rigid haulers.

In recent years, Ferronordic has focused primarily on larger and more complex equipment in the GPPE and Road segments. Below is a description of the develop-

ment of the Russian market for imported machines in the different segments.

**RUSSIAN IMPORTS OF CONSTRUCTION EQUIPMENT BY SEGMENT (NUMBER OF MACHINES)**



Source: Russian import statistics compiled by Volvo CE.  
 Note: Excludes construction equipment imported from China. Excludes bulldozers, forestry equipment and rigid haulers.

During the period 2009–2013, equipment imports in the GPPE, Utilities and Road segments increased at a compound annual growth rate (“CAGR”) of 86%, 96% and 66% respectively. During the period 2013–2015, imports in the corresponding segments declined by 56%, 62% and 51%, respectively, per year. All segments then began to recover during 2016 in order to increase sharply during 2017 (an increase of 121%, 86% and 48%, respectively, compared to 2016).<sup>1)</sup>

**TRENDS AND DRIVERS**

The future demand for construction equipment and aftermarket services in Russia will depend on a number of trends and drivers. These include, for example, the activity in the Russian construction and commodity sectors, a growing population of old and inefficient equipment, as well as gradually increased maturity among the customers.

**Activity in the Russian construction sector**

The demand for construction equipment, parts and service is to a large extent driven by the activity in the Russian construction industry, particularly the construction of bridges, railways, oil and gas pipelines, ports and other infrastructure. These projects are dependent on a number of factors, such as access to capital and political prioritizations. However, in the long-term, the construction activity in Russia is expected to increase, driven by a long-term need to improve the aging and underinvested infrastructure existing in the country today and which to a large extent was built

during the Soviet era. It is believed that investments in improving and expanding Russia’s road and railway networks also could drive the country’s long-term economic growth going forward. As described above, several major projects are ongoing or planned. Ferronordic estimates that, in order to realize these projects, the existing machine population in Russia must be increased, which is expected to lead to an increase in demand for construction equipment throughout the country. Ferronordic considers itself well-positioned to capture the opportunities that would be created by the increased demand.

**Activity in the Russian commodity sector**

Construction equipment is used operationally in numerous industries related to oil, gold, coal, minerals, forestry and other commodities. Thus, demand for Ferronordic’s products and services is also driven by the activity and the willingness to invest in these sectors, which in turn is dependent on the price of the various commodities. Generally, however, activity in this sector is less sensitive to business cycle fluctuations and price changes (for example, during the most recent economic downturn, mining and forestry remained relatively strong). Even if investments by customers usually decline during periods of recession and/or low commodities prices, they nevertheless continue to use their existing equipment. Thus, reduced machine sales is usually compensated partly by increased sales of parts and service.

1) Excluding construction equipment imported from China, as well as bulldozers, forestry equipment and rigid haulers.



### Pent-up demand

At the end of 2017, the accumulated number of new machines imported to Russia during the last ten years amounted to approx. 120,000 units. Ferronordic estimates that the total need of equipment in Russia, based on the prevailing investment level between 2011–2014, amounts to approx. 180,000 units. Thus, Ferronordic assesses that the pent-up demand on the market amounts to at least 60,000 units. By the end of 2017, over half of the new machines imported to Russia during the last ten years were more than five years old and, thus, in many cases, in need to be replaced with new equipment or undergo overhauls (e.g. through Volvo Certified Rebuild). In addition, there is undoubtedly also a large number of machines in the country that have been imported more than ten years ago, as well as domestic and Chinese machines, which need to be replaced with new and/or more effective equipment.<sup>1)</sup>

Ferronordic believes that the pent-up demand partly explains the strong market recovery during 2017, a trend Ferronordic anticipates will continue going forward. In addition to increased infrastructure investments and continued high activity in the commodity sector, Ferronordic expects that demand for construction equipment will be driven by an increasing need to replace old and inefficient equipment and to compensate for the pent-up demand that has been created.

### Gradually maturing customers

Since the middle of the 2000s, an increasing number of Russian construction machines have been replaced by imported equipment, driven primarily by demand for better quality, increased efficiency and stronger aftermarket support, and not merely initial purchase price. On more developed markets, purchasers of construction equipment have generally shifted focus from initial price to total cost of ownership over the machine's life-cycle, including fuel costs, repair and maintenance costs, standstill costs, residual value, etc. In Russia, however, customers often focus on initial price. However, Ferronordic believes that this is chan-

ging as the customers are maturing and becoming more focused on efficiency. The importance of high quality aftermarket services is also expected to increase as customers become less inclined to repair and maintain equipment by themselves, as they become more efficiency focused and the machines become more advanced.

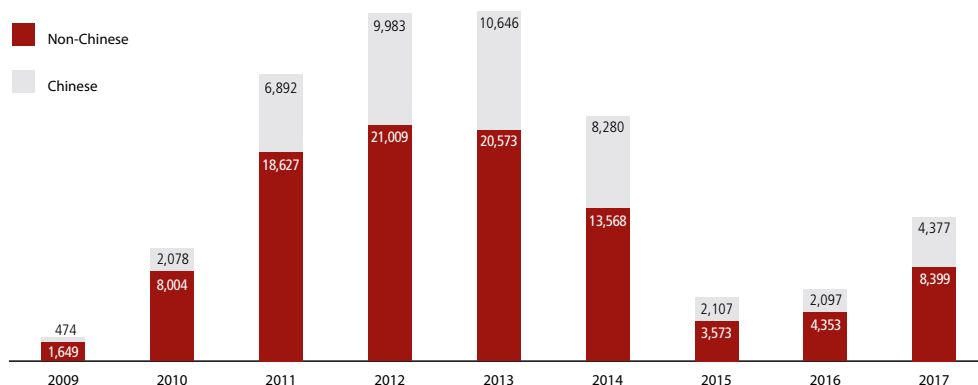
### COMPETITION

Ferronordic primarily distributes equipment from Volvo CE, a well-known brand in Russia. In addition, Ferronordic distributes haulers from Terex Trucks (owned by Volvo CE), bulldozers from Dressta, backhoe loaders from Mecalac and forestry equipment from Rottne. Ferronordic's product offering varies from large haulers with prices over SEK 10 million, to machines with prices below SEK 0.5 million. Ferronordic considers the main competitors to be other manufacturers/distributors of high quality construction equipment, such as Caterpillar, Komatsu and Hitachi.

Among imported construction equipment, Ferronordic sees a difference between manufacturers/distributors offering higher quality construction equipment and good aftermarket support but at higher prices, and Chinese brands that offer cheaper, standardized equipment with inferior aftermarket support, but at lower prices.

Historically, machines from Chinese manufacturers have accounted for approx. 32% of the total volume of the construction equipment imported to Russia, measured by units (in value, these machines represent a considerably smaller part of the imports). However, these machines have mainly consisted of smaller and simple wheel-loaders (approx. 90% of the imports of Chinese brands during 2017). Since Ferronordic's new machine sales in this product group is more focused on complex machines and strong aftermarket support, Ferronordic does not consider the Chinese construction equipment manufacturers to be as important competitors as other brands.

**RUSSIAN IMPORTS OF CONSTRUCTION EQUIPMENT BY ORIGIN (NUMBER OF MACHINES)**



Source: Russian import statistics provided by Volvo CE.  
 Note: Excludes bulldozers, forestry equipment and rigid haulers.

1) Said number of units excludes Chinese machines as well as bulldozers, forestry equipment and rigid dump trucks.

# The company

Ferronordic is the authorized dealer for Volvo CE, Terex Trucks, Dressta, Mecalac and Rottne in Russia. In certain parts of the country, Ferronordic has also been appointed as aftermarket dealer for Volvo and Renault Trucks, as well as distributor for Volvo Penta. Ferronordic began its operations in 2010 and has subsequently expanded rapidly across Russia.

The Group is well-established in all federal districts, with 74 outlets and almost 850 employees. Ferronordic's vision is to be regarded as the leading service and sales company in the CIS markets. During 2017, the revenue amounted to SEK 2,567m and the result from operating activities to SEK 187m (corresponding to an EBIT margin of 7.3%).

	2017	2016	2015	2014	2013	2012	2011	2010
Outlets (at end of period)	74	73	64	75	75	69	57	12
Employees (at end of period)	847	782	685	767	731	654	540	326
Revenue (SEK millions)	2,567	1,658	1,469	2,335	2,483	2,402	2,421	1,184 <sup>1)</sup>
EBIT margin <sup>2)</sup>	7.3%	7.9%	5.9%	4.4%	3.6%	2.8%	3.9%	n.m.

1) Annualized.

2) For the years 2010-2016, this refers to the adjusted EBIT margin, i.e. EBIT margin excluding amortization of transaction-related intangible assets until May 2016, and write-downs of non-current assets during the fourth quarter 2016.

## BUSINESS MODEL

In more developed markets, construction equipment customers have generally shifted focus from initial price to total cost of ownership during the machine's life-cycle, including fuel costs, cost of repair and maintenance, cost of standstill, residual value, etc. In Russia, however, customers often continue to focus on initial price. Ferronordic believes that this is changing.

To meet the individual needs and increasing maturity of its customers, Ferronordic has developed a complete offering, both for Volvo CE and other brands. Thus, in addition to delivering high-quality machines, Ferronordic also provides consultancy services, such as fleet management, operator training, trade-in of used machines, site simulation and advice regarding optimal fleet composition and specifications. Since 2014, Ferronordic has also been offering contracting services to customers in the mining industry, whereby Ferronordic itself operates machines for excavation and transportation of earth and ore. While still on a small scale, Ferronordic expects this business to grow. All in all, these services make Ferronordic an integrated partner and more than 'just' a machine supplier.

Thus, Ferronordic is also a force in driving the ongoing trend away from initial price and towards total life-cycle cost. In the long term, Ferronordic anticipates that this will benefit both Volvo CE and other manufacturers of premium machines.

An important part of reducing the total life-cycle cost is to ensure that the machines have high utilization. Machines that cannot be used, because of poor planning or breakdown, can have catastrophic effect on a project's

profitability. The high cost of machines at standstill results in great demand on dealers as regards service levels and availability of spare parts. For Ferronordic, this has been a decisive factor in the establishment of a dense and mobile network throughout Russia. Proximity to customers, large number of outlets and high level of availability of service and parts are three differentiating factors that characterize Ferronordic on the Russian market. The fact that the Group operates throughout Russia has also been important in recent years, as Ferronordic has been able to reallocate resources to regions and sectors less affected by the economic downturn.

For the Russian market, Ferronordic also thinks that it has an unusually strong focus on the commercialization of the aftermarket, i.e. a proactive offering of customer service and spare parts supply, based on real-time data from the existing machine population and the Group's long experience. Ferronordic has recently developed a system for digital sales support, whereby signals from the machines' telematics system (e.g. Volvo CE's CareTrack) are automatically transformed into proposed sales actions for both equipment sales and aftermarket sales. The proposals are uploaded automatically on the sales staff's mobile phones or tablets.

Ferronordic's business model has been a strong contributor to the further strengthening of Volvo CE's position as the leading brand in Russia during the period 2011–2016.<sup>1)</sup> Surveyed customers have in particular appreciated Ferronordic's handling of customer relations, dense network, and strong service offering.

1) According to Volvo Construction Equipment Brand Track survey from 2016.



# Brands

Ferronordic is the authorized dealer for Volvo CE, Terex Trucks, Dressta, Mecalac and Rottne in all of Russia. In certain parts of the country, Ferronordic has also been appointed aftermarket dealer for Volvo and Renault Trucks as well as dealer for Volvo Penta. Ferronordic sees opportunities to capitalize on its existing network in order to offer complementary products and services for new brands.

During 2017, sales of products and services related to Volvo CE accounted for 80% of the total sales, while sales of products and services related to other brands accounted for 16%. Contracting services accounted for most of the remaining 4%.



## **VOLVO CE**

Ferronordic is the authorized dealer for Volvo CE in Russia since 2010. Volvo CE is a leading international manufacturer of premium construction equipment and, with over 14,000 employees, it is one of the largest companies in the industry. Volvo CE is the leading construction equipment brand in Russia. The product offering includes a wide range of machines in different sizes and categories. In 2017, Ferronordic sold 657 new Volvo CE machines.



## **TEREX TRUCKS**

In December 2014, Ferronordic was appointed the official dealer for Terex Trucks in all of Russia. At its factory in Scotland, the company produces rigid and articulated haulers. Since 2007, Terex Trucks has sold about 200 haulers to Russia and CIS. Terex Trucks contributed well to the aftermarket sales since the beginning. During 2017, Ferronordic sold 29 machines from Terex Trucks.



## **DRESSTA**

In July 2016, Ferronordic was appointed the official distributor of Dressta's bulldozers and pipelayers in all of Russia. Dressta is based in Poland and is a global manufacturer of bulldozers and pipelayers. Bulldozers complement well Ferronordic's range of products from Volvo CE and Terex Trucks, and improve the Group's ability to offer full package solutions. The appointment is fully in line with Ferronordic's strategy to use the network to distribute complementary products. During 2017, Ferronordic sold 16 bulldozers from Dressta.



## **MECALAC**

In August 2017, Ferronordic became the official distributor for backhoe loaders from Mecalac. The manufacturing of the equipment, acquired by Mecalac from Terex Corporation during 2016, is based in the United Kingdom. The equipment, which replaces the discontinued Volvo CE backhoe loaders, includes both equal-size and different size front- and back wheels, which gives Ferronordic access to a larger share of the backhoe loader market than before. During 2017, Ferronordic sold two backhoe loaders from Mecalac.



## **ROTTNE**

In December 2016, Ferronordic became the official distributor for Rottne forestry equipment in all of Russia. Rottne's product range includes a complete range of forwarders and harvesters for the forestry industry. As part of the cooperation with Ferronordic, Rottne has developed a new series of products for the Russian market, equipped with engines from Volvo Penta. Forestry equipment complements Ferronordic's offering from Volvo CE, and the fact that the machines are equipped with Volvo engines makes the synergies even greater. During 2017, Ferronordic sold five forestry machines from Rottne.



## **VOLVO TRUCKS AND RENAULT TRUCKS**

Ferronordic is an authorized aftermarket dealer (parts and service) for Volvo Trucks and Renault Trucks. At present, Ferronordic operates service stations for trucks in ten locations: Eastern Moscow, Krasnodar, Arkhangelsk, Koryazhma, Khabarovsk, Orenburg, Yuzhno-Sakhalinsk, Surgut, Norilsk and Novyi Urengoy. The truck business is still under development but has become an increasingly important part of Ferronordic's business. It has the potential to be highly profitable on its own and complements the main business well. The truck business also makes it possible, for example, to utilize Ferronordic's facilities more efficiently.



## **DIESEL GENERATORS**

Ferronordic also sells its own labelled diesel generators (gensets). The gensets consist of an electric generator powered by a Volvo Penta engine. Gensets are used in places that lack connection to a power grid, or as emergency power supply if the grid fails.



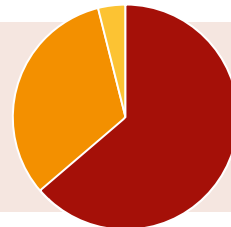
# Products and services

Ferronordic sells and distributes new and used construction equipment (including forestry equipment), spare parts to machines and trucks, as well as different types of attachments. The company also offers aftermarket service (repair and maintenance) for construction equipment, trucks and engines. Ferronordic also offers consulting services, such as fleet management, operator training, trade-in of used equipment, site simulation and advice concerning fleet composition and optimal specifications. Since 2014, Ferronordic has also been offering contracting services to customers in the mining industry. While still on a small scale, Ferronordic expects this business to grow. All in all, these services make Ferronordic an integrated partner and more than ‘just’ a supplier of equipment.



SHARE OF TOTAL REVENUES BROKEN DOWN BY REVENUE SEGMENT, 2017

Machine sales 69 %  
 Aftermarket 27 %  
 Other 4 %



## MACHINE SALES










Machine sales consist of sales of new and used machines, as well as different types of attachments. Most of the machine sales comes from new machines from Volvo CE, such as articulated haulers, wheel loaders, excavators and pavers. In 2017, sales of Volvo CE machines accounted for 89% of the new machine sales. Sales of new machines also include haulers from Terex Trucks, bulldozers and pipelayers from Dressta, backhoe loaders from Mecalac and forestry equipment from Rottne. Furthermore, Ferronordic sells attachments from various producers.

Machine sales also includes used machines. These can either be machines from Ferronordic’s own rental fleet or contracting services business, or machines traded-in by customers when purchasing new machines. The sales of used machines was high in 2015, as Ferronordic sold out most of its rental fleet. In 2016 and 2017, sales of used machines returned to lower levels. Another reason for the decline in sales of used machines during the last years was the low supply in the market, as customers held on to their used machines during the economic downturn.

Compared to dealers in more developed markets, Ferronordic’s sales of used machines is still low and thus has potential to grow significantly as the market develops.

During 2017, Ferronordic was also appointed supplier of Volvo Certified Rebuild for articulated haulers, excavators and wheel loaders. Volvo Certified Rebuild is a program whereby used equipment is rebuilt in accordance with Volvo CE’s standards in order to obtain a second, or even third, life-cycle. The rebuilt machines can then be sold as “Certified Rebuild” with a new warranty from Volvo CE. Ferronordic is one of the first Volvo CE dealers to be approved for the program and the first in Europe to be approved for excavators. The approval is strategically important and opens up new business opportunities for the Group. Ferronordic now has the possibility to extend the life of Volvo CE machines in Russia and can thereafter distribute them to its customers with a new warranty from the supplier. Ferronordic believes that this will benefit customers appreciably and afford the Group access to a larger part of the market.

**OVERVIEW OF SELECTED MACHINES SOLD IN 2017**

Product type	Sample product	New units sold in 2017	Description
Excavators		320	Used for a wide range of purposes, e.g. landscaping, excavation, trenching, demolition, loading, piping, etc.
Wheel loaders		133	Used to move or load materials. Come in several sizes and models, from compact machines to large production machines.
Articulated haulers		97	Volvo CE developed the articulated hauler concept and is the market leader in articulated hauling in demanding conditions. Since 2014, Ferronordic also sells Terex-branded articulated haulers. Applications include road construction, quarrying, mining and waste handling.
Road construction equipment		70	Pavers (tracked or wheeled) are used to lay asphalt in connection with the construction of roads, airports, etc. Compactors are used to press surfaces, e.g. asphalt or earth, often in connection with road construction.
Backhoe loader		57	A tractor with a shovel or scoop in the front and an excavator in the back. Used for a wide range of purposes, e.g. digging ditches, lifting, loading, materials handling and construction.
Rigid haulers		11	Massive trucks with payloads ranging from 41 to 91 tons. Used to move earth and other heavy loads in mining, aggregates, etc.
Bulldozers		16	Used to move earth, for example in road construction, aggregates, mining, etc.
Forestry machines		5	Harvesters are used for felling, delimiting and bucking trees. Forwarders are used to transport logs from the stump to the roadside landing.
Gensets		29	Power generators driven by a diesel engine from Volvo Penta, assembled in Russia and sold under Ferronordic's own label.

## AFTERMARKET

### Parts sales

Parts sales represents the largest revenue source from the important aftermarket. In addition to parts for construction equipment Ferronordic also sells parts for trucks.

Good availability of spare parts is of significant importance for dealers and may be a distinguishing factor. For this reason, Ferronordic maintains stocks of parts throughout Russia. Proximity to the customers is crucial for prompt delivery and Ferronordic's presence in all districts in Russia allows it to provide extraordinary customer service. Ferronordic also offers overhaul of vital components, such as engines and gearboxes.

### Service

Service comprises repair and maintenance of construction equipment and trucks. It includes scheduled maintenance, diagnostics, as well as scheduled and unscheduled repairs. Ferronordic also offers various types of service contracts in order to tailor its offering and meet each customer's individual needs. Service contracts provide increased stability in the business and improve the possibility to predict future revenues and cash flows. Service is provided in respect of both construction equipment and trucks – out in the field, at the customer, or at Ferronordic's service stations.

## CONTRACTING SERVICES








As part of its strategy of becoming further integrated in its customers' business, Ferronordic offers contracting services whereby Ferronordic not only supplies and maintains machines, but also provides the customers with operators to carry out specific tasks.

At present, the customers comprise mining companies who outsource to Ferronordic the excavation and transportation of ore and earth at their mining sites. Payment is based on the volume of ore and earth transported. This type of outsourcing is common in the mining industry in other parts of the world, particularly in Australia and South Africa. In Russia, however, this is still a relatively undeveloped business, which the company believes will grow. In the future, Ferronordic may also extend similar services to customers in other industries.

## SOFT PRODUCTS

In connection with sales and servicing of machines, Ferronordic also offers various "soft products", either by itself or through its cooperation partners. For instance, this includes various telematics systems that supply the customers and Ferronordic with continuous information about the customers' equipment. Thanks to the information from the equipment's telematics system, Ferronordic can help its customers in, for example, reducing fuel costs and maximizing fleet utilization. Telematics systems also enhance Ferronordic's possibility to provide high quality customer service, both in terms of technical support by the company's mechanics as well as proactive offers regarding parts and replacement of equipment.

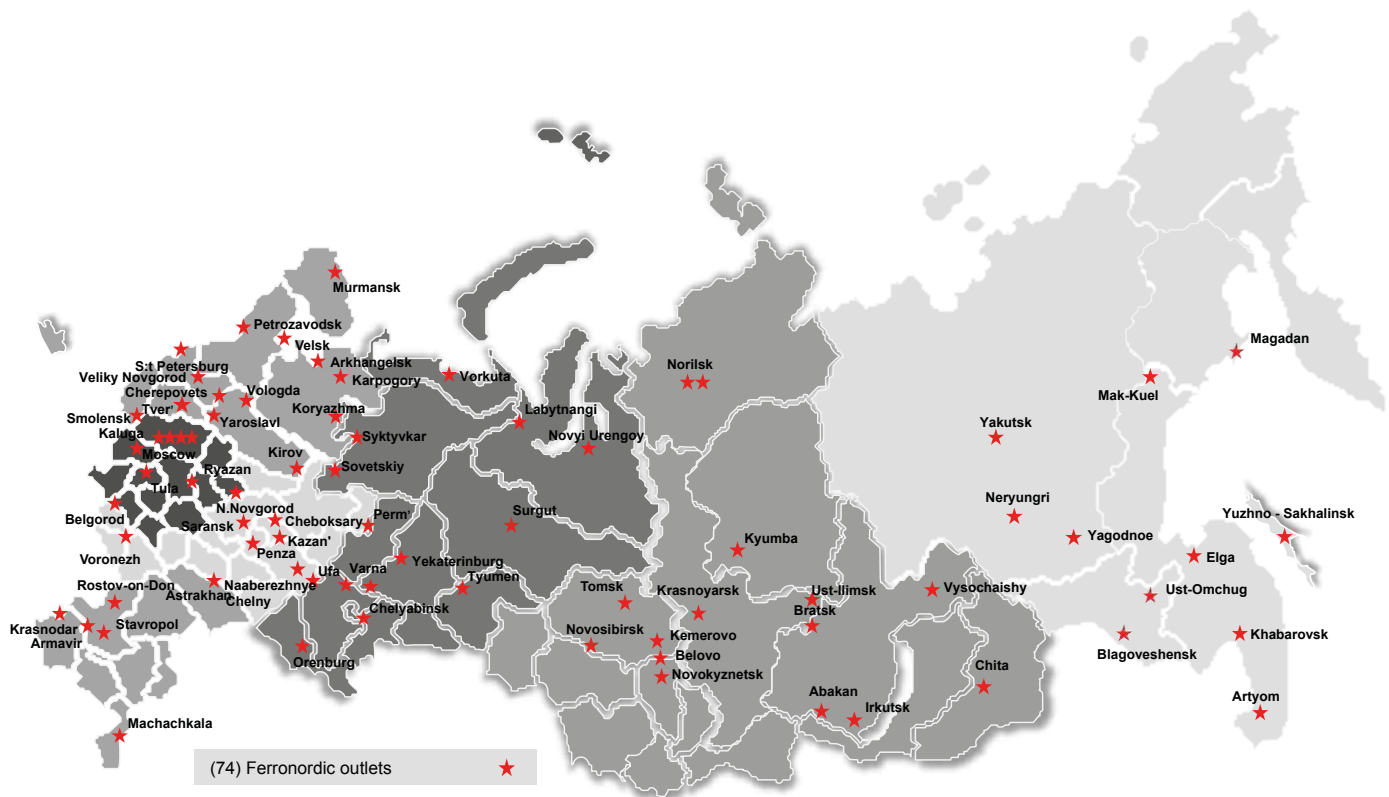
Soft products also include fleet management, project simulation, consulting on fleet optimization, financial services, machine operator training and extended warranties.

	Traditional method	Outsourcing method: Contracting Services
Machine		
Parts	 or the customer	
Service	 or the customer	
Operators	Provided by: The customer	 Provided by:
Payment	Cost of machine, parts and service	Volume based (per tonne, cubic meter, etc.)



# Network

## 74 OUTLETS THROUGHOUT RUSSIA



Construction equipment dealers must be close to their customers. To begin with, the equipment is often difficult to transport. Moving a machine to a workshop is rarely economically feasible and, in certain cases, impossible for practical reasons. Instead, the dealer's mechanics must travel to the sites where the machines are used. Secondly, since the machines are so important and machines standing idle quickly result in major costs and deteriorating profitability for the customer, it is crucial that the dealer's mechanics have good access to parts and can quickly be on site in order to repair machines at standstill. Proximity to the customers, a large number of outlets and good parts availability are thus important distinguishing factors.

In December 2017, Ferronordic had 74 outlets throughout Russia. Most of the outlets are located in major cities or other places that have, or are expected to get, strong demand for construction equipment (e.g. clusters for the oil and gas industry or mining industries). The standard of the outlets varies from simple workshops and sales offices to purpose-built service stations for both construction equipment and trucks. In certain cases, outlets can be established on a project basis at the site where the equipment is used, often in

remote locations (e.g. mines in Siberia and Far East). These projects can be on such a large scale and demand such a high level of service that Ferronordic has to establish its own workshops with its own mechanics and own parts warehouse at the customer's site. Ferronordic is planning to continue to expand and upgrade its network in Russia.

Since Ferronordic has customers in different industries throughout Russia it is less exposed to trends and business cycles that affect specific regions and industries. For example, during the recent economic downturn, the market for new construction equipment was particularly weak in the European part of Russia where the building sector is of major importance, but less weak in Siberia and Far East where mining and forestry are important segments. Ferronordic's focus on the aftermarket – including the increasingly important sales of parts and service for Volvo and Renault Trucks – constitutes another buffer. As noted in 2015 and 2016, the aftermarket is less sensitive to business cycle fluctuations compared to machine sales.

## REGIONAL COVERAGE

Ferronordic has outlets all over Russia. The network is divided into seven regions: the Central region, Northwest, Volga, South, Urals, Siberia and Far East. The regions roughly correspond to the division of federal districts in the Russian Federation. Ferronordic also has a department in Moscow, responsible for relations with key account customers, i.e. major customers with operations in several regions.

When Ferronordic was founded in 2010, approx. 82% of all units were sold in Northwest and Central. Since then, the company has steadily expanded its business to other regions in order to capitalize on major projects in the eastern parts of Russia. Thus, in 2017 the share of machines sold in other regions increased to approx. 50%.

Region	Outlets	Description
Central	12	<ul style="list-style-type: none"> <li>Central includes Moscow and is the country's most densely populated region with 39 million inhabitants. Most of Russia's major companies are headquartered in the region.</li> <li>Demand for construction equipment is driven primarily by infrastructure investments, such as the current construction of a highway between Moscow and St. Petersburg and the construction of a new 530 km ring road around Moscow.</li> <li>Quarries and aggregates also contributes to demand for equipment.</li> <li>Competition is intense – most brands are represented in the region and there is a high level of price sensitivity.</li> </ul>
Northwest	12	<ul style="list-style-type: none"> <li>Northwest includes St. Petersburg, Russia's second-largest city, and has a population of 14 million inhabitants.</li> <li>The area contains large forest areas and demand for equipment is largely driven by the forestry industry, but general construction, quarries and aggregate and mining are also important for demand.</li> <li>Volvo CE has historically had a strong position in the region and enjoys a strong reputation. Ferronordic has benefited from Volvo's brand and is market leader in the region.</li> </ul>
South	6	<ul style="list-style-type: none"> <li>South, comprising the South and North Caucasus federal districts, has a population of 24 million inhabitants.</li> <li>North Caucasus is an area with few large cities, generally poor infrastructure and a low-income population, in contrast to the Southern federal district which has significant oil and gas deposits.</li> </ul>
Volga	8	<ul style="list-style-type: none"> <li>Volga is a large and industrially well-developed region which covers the central parts of Russia. It has a second largest population among Ferronordic's regions, with 30 million inhabitants.</li> <li>Oil and gas are the region's most important industries. Forestry is also important for demand.</li> </ul>
Urals	10	<ul style="list-style-type: none"> <li>Urals has a population of approx. 12 million inhabitants.</li> <li>Demand is largely driven by companies in the mining industry, as well as companies in the oil and gas sector.</li> </ul>
Siberia	15	<ul style="list-style-type: none"> <li>Siberia has a population of approx. 19 million inhabitants.</li> <li>The region is characterized by major natural resources and poorly developed infrastructure, resulting in increasing demand for construction equipment both for major mining projects, oil and gas projects, as well as construction of transportation infrastructure.</li> </ul>
Far East	11	<ul style="list-style-type: none"> <li>Far East has a population of approx. 6 million inhabitants.</li> <li>The region resembles Siberia and is dominated by mining and transportation of natural resources, which together create major market potential for construction equipment.</li> </ul>





# Sustainability

## **SUSTAINABILITY IS ABOUT TRUST**

It is embedded in everything we do, either consciously or subconsciously. It is not just a nice word, but an essential part of our work to constantly improve and make our business more efficient.

## **OUR SUCCESS IS DEPENDENT ON THE SUCCESS OF OUR CUSTOMERS**

By providing qualitative, fuel-efficient and safe machines, and ensuring that they work when and where they should, we contribute to our customers' long-term success. At the same time, we build a sound basis for a sustainable and profitable business going forward. This also helps us to develop and maintain long-term relations with Volvo and other partners, based on mutual trust, which further benefit our business and improve our ability to provide even better support to our customers.

## **TO CONTRIBUTE TO THE SUCCESS OF OUR PARTNERS, WE MUST HAVE ENGAGED EMPLOYEES**

By allowing our people to learn from their mistakes, we encourage initiatives and creativity. By caring for their safety and wellbeing, we create trust and loyalty. By paying fair salaries and transparent bonuses, we increase motivation. According to our latest employee survey, we have an overall employee engagement score in the company as high as 83%. This has been crucial during the last difficult years in Russia and will be equally important for our business going forward.

## **WE HAVE ZERO TOLERANCE FOR CORRUPTION AND ANTI-COMPETITIVE BEHAVIOUR**

In a market where corruption is common, this raises trust in our company and the brands we represent and thus increases our long-term competitiveness.

## **THE IMPORTANCE OF SUSTAINABILITY IS GROWING ALSO IN RUSSIA**

To grow sales, we, together with Volvo and other partners, must continue to be able to offer products with lower environmental footprint and continuously improved safety for our customers.



*Lars Corneliusson, President and CEO*



# Stakeholders and **materiality**

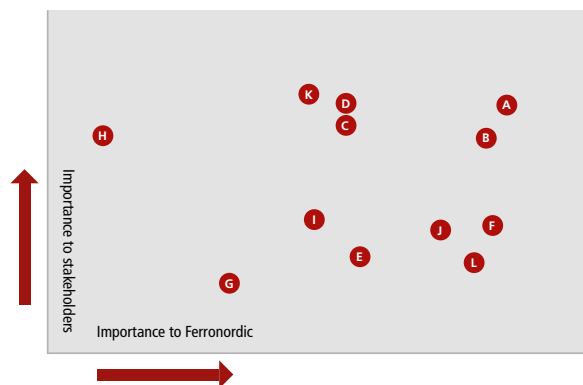
Ferronordic's main stakeholders are the following:

- 1) Customers
- 2) Partners (manufacturers whose brands we represent)
- 3) Suppliers
- 4) Shareholders
- 5) Employees
- 6) Banks and credit institutions
- 7) Governments and municipalities

We keep an ongoing dialogue with our stakeholders to understand their expectations and how our business creates additional value for them, Ferronordic and the society at large. Our most important stakeholders are our customers, partners, shareholders and employees.

In this report, we have tried to identify the most significant economic, environmental and social impacts of Ferronordic, as well as the topics that materially influence the assessments and decision of our internal and external stakeholders. The assessment is made based on ongoing discussions with our stakeholders. Many of our partners, in particular Volvo, also communicate their sustainability priorities in their annual reports and on their websites.

Based on this analysis, we have identified twelve topics that particularly reflect Ferronordic's economic, environmental and social impact:

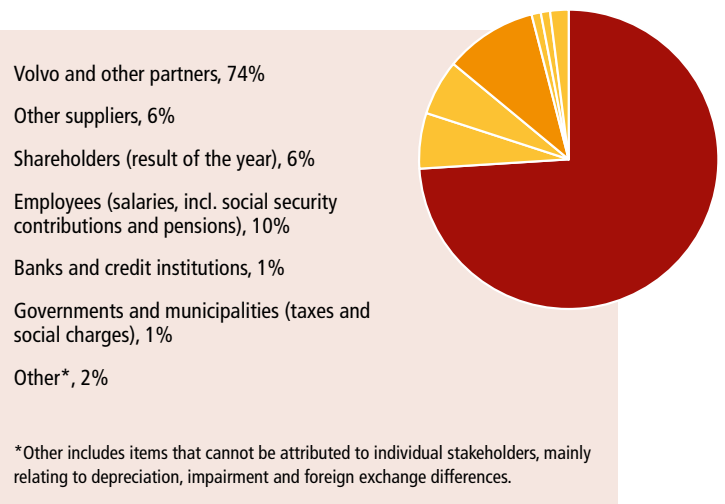


- |                                   |                                      |
|-----------------------------------|--------------------------------------|
| A. Customer satisfaction          | G. Diversity and equal opportunity   |
| B. Product safety                 | H. Environmental impact (operations) |
| C. Business ethics                | I. Environmental impact (products)   |
| D. Legal compliance               | J. Social engagement                 |
| E. Occupational health and safety | K. Energy efficiency                 |
| F. Financial health               | L. Employee engagement               |

## Economic **impact**

We support our customers' value creating by providing high quality products, high parts availability and good service solutions. In 2017, we delivered 738 new machines throughout Russia. At the same time, we continued to service the existing population of active Volvo machines in the country of about 11,000 units. These machines continuously support our customers' profitability by engaging them to meet their customers' needs. At the same time, we create additional value for the manufacturers whose brands we represent, e.g. by purchasing machines and parts, but also by promoting their brands and providing feedback as to how the customers' needs can be better satisfied.

During 2017, our revenue amounted to SEK 2,567m (SEK 1,658m in 2016). The bulk of this was distributed among our stakeholders:



## Customer **satisfaction**

Customer satisfaction is our most important sustainability factor. For a company like Ferronordic, customer satisfaction is crucial to build sustainable relationships with customers and manufacturers.

Partly we achieve this by providing high-quality machines in combination with high parts availability and good and reliable service. Simply, we make sure that our customers' machines work when they should.

Another important aspect is our strategic strive towards increased customer integration, for example through our contracting services where we excavate and move earth and ore for customers in the mining industry.

We monitor customer satisfaction regularly, e.g. by systematic complaints management. Other important tools are Volvo CE's regular surveys regarding customer satisfaction and brand image.



## Environmental **impact**

The business of Ferronordic shall have as limited negative environmental impact as possible. This also regards the process of handling, storing and recycling waste, oils and parts.

In general, our impact on the environment is limited and the risk of accidents that could have a negative impact on the environment is considered remote. We assess that the greatest environmental impact of our operations is caused by transportation of machines and parts across Russia. Since May 2015, our main logistics operations are outsourced to an external logistics company. Our logistics partner is certified in accordance with ISO 14001. To reduce transportation cost and environmental impact, heavy transports are largely made by rail.

An essential part of our work to promote environmental sustainability is our daily work to deliver and maintain fuel-efficient products. A large part of the existing machine population in Russia consists of old machines with suboptimal fuel-efficiency. By replacing these machines, we contribute to a better environment in Russia in general. We also use machine data from the machines' telematics systems to detect inefficient machine usage and make proactive offers to our customers how they can improve their fuel efficiency (e.g. operator training, replacement of components, renewal of machines, etc.).

Compliance with legal and other applicable environmental standards is a requirement included in our Code of Conduct. Save for a minor nonobservance which resulted in a fine of approx. SEK 16,000, no breaches of authorization conditions or national or local environmental legislation occurred in 2017 (no breaches occurred in 2016).

## Social impact – employees

At the end of 2017, we employed 847 people in 74 locations (compared to 782 employees in 73 locations at the end of 2016). Our aim is to have the right number of people with the right competences in the right place at the right time, at the right cost. The average age of our employees at the end of 2017 was 36 years (compared to 38, at the end of 2016). About 15% of our employees are female (same as the year before).

Employees are encouraged to take part in the continuous improvement of our operations, including regarding business development and strategy. According to our latest survey, we have an overall employee engagement score of 83% and an overall employee satisfaction of 79% (compared to 79% and 69%, respectively, according to the last survey, made in 2013). Our employees have been crucial during the last economic downturn in Russia and will be equally important for the continuous improvement of our operations.

We prefer internal promotion. About 95% of all vacancies are announced internally on the company's intranet. About 60% of all vacant positions are filled internally. During 2017, we made 107 internal promotions (compared to 137 during 2016). This included various management positions, such as the promotion of Mikhail Visloguzov from regional sales manager to regional director in Central.

We strive to promote a diverse workforce and do not tolerate any form of discrimination. We respect the right of all employees to join an association to represent their interests as employees, to organize and to bargain collectively or individually. We do not accept child labor or forced labor.

We cooperate with suppliers and partners that share our value. For the Volvo Group, which represents over 92% of our revenue, this is an essential question. The Volvo Group thus has a comprehensive program for controlling and ensuring that its suppliers fulfill Volvo's requirements with regard to social responsibility and human rights (see Volvo's 2017 annual- and sustainability report for further information).



## Training and education

Part of our work to build sustainable development is the significant investment we make in training and development of our employees. In 2017, we provided about 49,000 hours of training to our employees, compared to 45,000 in 2016.

The aim is to utilize internal competence and give employees the opportunity to develop and take greater responsibility within the company – while at the same time empowering local employees.

## Product safety

A large part of the machines in Russia today are old and unsafe, sometimes even dangerous. Safety is one of the core values of the Volvo Group.

By selling and servicing safe machines of high quality and outstanding ergonomic features, we take responsibility for promoting health and safety at large in the society where we operate.



## Occupational health **and safety**

Providing a safe workplace is of great importance to both ourselves and our employees. The goal is to achieve an injury free workplace. Each individual manager and employee is responsible for sustaining a safe working environment. However, we share this responsibility by promoting health and safety across the organization, providing safe workplaces, and ensuring that our employees have relevant training and education. We also employ dedicated health and safety specialists, each responsible for his/her designated geographic area, to support health and safety throughout the organization.

To further improve and underline the importance of labor safety, additional resources were allocated during 2017. At the same time, a nationwide campaign was carried out in this field.

In 2017, one serious accident occurred that required hospitalization and unfortunately resulted in disability for the employee (in 2016, no serious accidents occurred). No work-related fatalities occurred in either 2017 or 2016.

The number of reported days of sick leave during 2017 was 2,237, which was slightly less than 2,474 days of sick leave reported in 2016. However, the average days of sick leave per employee decreased from 3.0 days per year to 2.6 days per year.



## Anti-**corruption**

Ferronordic has zero tolerance for bribery and corruption. This is not only to comply with applicable law. On our market, this also makes Ferronordic a more attractive employer and a reliable partner for the manufacturers whose brands we represent. It builds long-term, sustainable relations with customers based on trust.

We take active measures to prevent, monitor and investigate potential corruption in our operations. Our anti-corruption program consists of various policies and procedures, regular training (including an annual online training), regular risk assessment, whistleblower procedures, as well as auditing. During 2017 all employees except for some machine operators in our contracting services operations participated in the anti-corruption training. During 2017 we also updated our Code of Conduct with simplified and clearer rules of what is expected of us in different areas.

# Shares and shareholders

Ferronordic Machines AB (publ) has two series of shares: ordinary shares and preference shares. The number of ordinary shares amounts to 14,532,434, while the number of preference shares amounts to 66,728. Each ordinary share carries one voting right at the general meeting, while each preference share carries a one tenth (1/10) voting right. At the end of 2017, the company had approx. 1,500 shareholders.

The company's ordinary shares are listed on Nasdaq Stockholm under the ticker "FNM" and the company's preference shares are listed on Nasdaq First North Premier under the ticker "FNMA PREF".

## Larger shareholders 31 December 2017:

	Number of Ordinary Shares	Number of Preference Shares	Share of Capital	Share of Votes
Skandinavskonsult i Stockholm AB*	2,260,774	-	15.5%	15.5%
Mellby Gärd AB	1,216,200	-	8.4%	8.3%
Erik Eberhardson (through companies)	1,082,205	-	7.4%	7.4%
Lars Corneliussen (through companies)	935,749	-	6.4%	6.4%
Creades AB	642,462	-	4.4%	4.4%
Anders Blomqvist (through companies)	510,410	-	3.5%	3.5%
Swedbank Robur	507,066	-	3.5%	3.5%
Avanza Pension	457,794	4,848	3.2%	3.2%
Svenska Handelsbanken Luxembourg	426,903	-	2.9%	2.9%
Fastighetsaktiefbolaget Granen	387,292	-	2.7%	2.7%
Other shareholders	6,105,579	61,880	42.0%	42.2%
<b>Total</b>	<b>14,532,434</b>	<b>66,728</b>	<b>100.0%</b>	<b>100.0%</b>

\*Associated person of Håkan Eriksson



# Share capital

## Share capital and number of shares:

Year	Action	Number of ordinary shares	Number of ordinary shares of series 2	Number of A-preference shares	Number of B-preference shares	Change in share capital (SEK)	Share capital (SEK)
2008	New formation	11,000	-	-	-	98,211	98,211
2010	Issue of shares	89,000	-	-	-	794,619	892,839
2013	Share split (1:100)	9,900,000	-	-	-	-	892,839
2013	Issue of shares	-	-	500,000	-	44,641	937,471
2017	Conversion	-	-	-366,544	366,544	-	937,471
2017	Issue of shares	1,333,333	-	-	-	119,044	1,056,515
2017	Redemption and issue of shares	-	3,199,101	-	-366,544	252,899	1,309,414
2017	Redemption of shares	-	-	-66,728	-	-5,958	1,303,456
2017	Conversion	3,199,101	-3,199,101	-	-	-	1,303,456
Shares outstanding 31 December 2017		14,532,434	-	66,728	-	-	1,303,456

## ORDINARY SHARES – LISTING ON NASDAQ STOCKHOLM

On 29 September 2017, it was announced that Ferronordic intended to list the ordinary shares in the company on Nasdaq Stockholm and diversify the ownership of the company, partly through an issue of new ordinary shares, and partly through a sale of existing ordinary shares. The offer in connection with the listing was announced on 16 October 2017. The outcome of the offer was announced on 27 October 2017. The offer was heavily oversubscribed.

Trading in the ordinary shares commenced on 27 October 2017 under the ticker “FNM”.

The price in the offer amounted to SEK 150 per ordinary share, corresponding to a value of the ordinary shares, after the completion of the offer, of SEK 1,700m (excluding ordinary shares attributable to the conversion of preference shares).

The offer comprised 3,002,821 ordinary shares, of which 1,333,333 were new ordinary shares issued by the company. The remaining 1,669,488 ordinary shares were offered by the “Selling Shareholders” (Skandinavkonsult i Stockholm AB (related party to

Håkan Eriksson), Erik Eberhardson (through company), Lars Corneliusson (through company), Fastighetsaktiebolaget Granen, Staffan Jufors, Anders Blomqvist (through company), Onur Gucum (through company), Henrik Carlborg (through company), Kjell Åkesson, Marika Fredriksson and Sixbees AB).

The offer corresponded to 26% of the ordinary shares following the completion of the Offer (excluding ordinary shares attributable to the conversion of preference shares).

To cover potential over-allotment in connection with the offer, certain Selling Shareholders undertook to sell, at the request of Carnegie Investment Bank, an additional amount of up to 449,673 existing ordinary shares, corresponding to 15% of the ordinary shares in the offer and 4% of the ordinary shares in Ferronordic after completion of the offer (excluding ordinary shares attributable to conversion of preference shares). Carnegie utilized the over-allotment option in full on 3 November 2017.

As a result of the offer, the number of ordinary shares increased from 10,000,000 to 11,333,333.

## PREFERENCE SHARES

During 2013, Ferronordic issued 500,000 A-preference shares ("preference shares") at a subscription price of SEK 1,000 per preference share. Until the last payment before the AGM 2016, each preference share carried a preferential right to an annual dividend of SEK 100 (provided that the general meeting decides to pay dividends). From the first payment following the AGM 2016 until the first payment after the AGM 2023, the dividend increases by SEK 10 per year. If no dividend is paid, the unpaid amount ("Outstanding Amount") shall be added to future dividends. The Outstanding Amount is increased by 20% per year from the time when the payment should have been made until the dividend is paid in full. No dividends can be paid to the holders of ordinary shares until the preference shareholders have received full payment of any potential Outstanding Amount. The terms of the preference shares are set out in the articles of association of Ferronordic Machines AB, available on the company's website.

### Conversion

In anticipation of the upcoming listing of the company's ordinary shares, on 29 September 2017, the preference shareholders were offered the possibility to convert preference shares to ordinary shares in accordance with the articles of association. On 12 October 2017, it was announced that as an outcome of the offer, 366,544 preference shares, corresponding to 73% of all preference shares, had been submitted for conversion.

On 6 November 2017, it was announced that the submitted preference shares, in accordance with the articles of association, would be redeemed in exchange for 3,199,101 so-called ordinary share of series 2. On 27 December 2017, these ordinary shares of series 2 were converted into ordinary shares (and thus became tradable on Nasdaq Stockholm). In connection therewith, the number of ordinary shares increased by an additional 3,199,101 shares to 14,532,434 ordinary shares in total.

### Cash redemption

Pursuant to the articles of association, Ferronordic has the right to redeem preference shares in cash for a redemption price of SEK 1,200 per preference share, plus unpaid accrued dividends and any potential Outstanding Amount.

On 17 November 2017, it was announced that the Board had decided to redeem 66,728 of the remaining preference shares for a total redemption price of approx. SEK 81m.

The Board's intention is that all remaining preference shares shall be redeemed in cash as soon as possible following the AGM on 27 April 2018.

## SHARE BASED INCENTIVE PROGRAM

In accordance with the Board's proposal, the AGM 2017 decided to approved a long-term incentive program for the company's executive management and certain other senior employees (in total 15 participants). The program was a repetition of the program approved by the AGM 2016. In accordance with the program, the company paid a bonus to the participants of approx. SEK 2m (divided equally among the participants) to be used to purchase preference shares in Ferronordic (subsequently converted into ordinary shares in connection with the listing on Nasdaq Stockholm). The participants may not sell the purchased shares for a period of three years. If a participant resigns or is dismissed due to gross misconduct, the participant must sell his/her shares to the other participants at a pre-agreed, discounted price. The program is intended to provide long-term incentive and to align the interests of the management and the shareholders.

For the AGM 2018, the Board has proposed that the program introduced in 2016 be repeated also in 2018. The number of participants would amount to 15-18.

## DIVIDENDS AND REDEMPTION

At the EGM on 22 March 2017 it was decided to pay dividends on preference shares in an amount of SEK 55 per preference share, corresponding to a total dividend of SEK 27.5m. The dividend was paid in April 2017.

At the AGM on 19 May 2017 it was decided to pay dividends on the preference shares in an amount of SEK 60 per preference share, corresponding to a total dividend of SEK 30m. The dividend was paid in October 2017. No decision was made with regard on the preference share dividend in April 2018. Further, it was decided that no dividend should be paid on the company's ordinary shares.

As regards the dividend on the preference shares in April 2018, the Board does not intend to convene any separate EGM to decide on this matter. Instead the Board will propose that the AGM 2018 decide on a dividend on the preference shares in an amount corresponding to the preference share dividend for the period 26 October 2017 to 25 April 2018, plus Outstanding Amount for the period 30 April 2018 until the date of payment. The expected record date for the dividend would be 2 May 2018. Payment of the dividend would then be made on 7 May 2018. The dividend is expected to amount to approx. SEK 60.40 per preference share, corresponding to a total dividend of approx. SEK 4m. The payment of the Outstanding Amount is deemed justifiable in consideration of the cost it would entail to convene a separate EGM.



Further, on 27 April 2018, immediately upon the conclusion of the AGM 2018, the Board intends to decide upon a mandatory cash redemption of all remaining preference shares. The record date for the redemption would be around 15 May 2018. The payment of the redemption price is expected to be made on 18 May 2018.

In accordance with the articles of association, the redemption price would be SEK 1,200 per preference share, plus accrued dividends for the period 26 April 2018 to 18 May 2018. In total, the redemption price is expected to be approx. SEK 1,208 per preference share, corresponding to a total redemption price of approx. SEK 80.6m.

As regards dividends on the company's ordinary shares, the Board proposes that the AGM resolve on a dividend in the amount of SEK 1.73 per ordinary share, corresponding to a total dividend of approx. SEK 25m. Should the AGM approve the Board's proposal, the record date would be 22 May 2018, i.e. following the redemption of all remaining preference shares, and the payment of the dividend would be made around 25 May 2018.

# Board of directors

## THE BOARD

Ferronordic's Board comprises six members, including the chairman, without deputies. All directors have been elected until the end of the 2018 annual general meeting.

Name	Position	Member since	Independent in relation to:	
			Company and Executive Management	Major shareholders
Staffan Jufors	Chairman	2017	Yes	Yes
Annette Brodin Rampe	Board member	2017	Yes	Yes
Magnus Brännström	Board member	2011	Yes	Yes
Lars Corneliusson	Board member	2011	No	Yes
Erik Eberhardson	Board member	2010	No	Yes
Håkan Eriksson	Board member	2016	Yes	No



### STAFFAN JUFORS

Chairman of the Board, chairman of the remuneration committee and member of the audit committee

**Member since:** 2017

**General:** Swedish citizen. Born 1951. M.Sc. in Business Administration.

**Current positions:** Board member of ÅF AB, Uniflex AB and the foundation Nordens Ark.

**Previous positions:** Managing director of Volvo Trucks. Managing director of Volvo Penta. Board member of Akelius Residential Property AB and Haldex AB.

**Shares in Ferronordic:** 60,747 ordinary shares.



### ANNETTE BRODIN RAMPE

Board member and member of the remuneration and audit committees

**Member since:** 2017

**General:** Swedish citizen. Born 1962. M.Sc. in Industrial Chemistry.

**Current positions:** CEO of Internationella Engelska Skolan. Board chairman, Stillfront Group AB.

**Previous positions:** Board member of Peab AB, Ernströmgruppen AB and AHA World AB.

**Shares in Ferronordic:** 10,000 ordinary shares (through companies).



### MAGNUS BRÄNNSTRÖM

Board member and member of the remuneration and audit committees

**Member since:** 2011

**General:** Swedish citizen. Born 1966. M.Sc. in Business Administration.

**Current positions:** CEO and President of Oriflame Cosmetics SA.

**Previous positions:** Managing director of Oriflame Russia.

**Shares in Ferronordic:** –



**LARS CORNELIUSSON**

Board member

**Member since:** 2011

**General:** Swedish citizen. Born 1967. M.Sc. in Business Administration.

**Current positions:** President and CEO of Ferronordic.

**Previous positions:** Managing director of CJSC Volvo Vostok and head of Volvo Trucks Russia.

**Shares in Ferronordic:** 935,749 ordinary shares (through companies).



**ERIK EBERHARDSON**

Board member

**Member since:** 2010

**General:** Swedish citizen. Born 1970. B.Sc. in Business Administration. Studies in applied physics.

**Current positions:** Managing director of ScandSib Group.

**Previous positions:** CEO of Ferronordic. Chairman and CEO of OJSC GAZ. Head of Volvo CE Russia.

**Shares in Ferronordic:** 1,082,205 ordinary shares (through companies).



**HÅKAN ERIKSSON**

Board member, chairman of audit committee and member of the remuneration committee

**Member since:** 2016

**General:** Swedish citizen. Born 1962. M.Sc. in Business Administration.

**Current positions:** Board member and CEO of Planch AB. Board member of Skandinavskonsult i Stockholm AB, Skandinavskonsult Holding i Stockholm AB, Torkab Entreprenad AB, Nivika Fastigheter AB, DWG Sweden AB and Koch-Eriksson Holding AB.

**Previous positions:** Board chairman and CEO of Kapitalkredit Sverige AB and board chairman of ClearCar AB.

**Shares in Ferronordic:** 2,260,744 ordinary shares (through companies).



# Management **and auditors**

## EXECUTIVE MANAGEMENT

Name	Position	Employed since
Lars Corneliussen	President and CEO	2011
Nadezhda Arzumanova	Human Resources Director	2010
Anders Blomqvist	Chief Financial Officer (Group) (including investor relations)	2010
Henrik Carlborg	General Counsel	2013
Onur Gucum	Commercial Director	2012
Alexander Shmakov	Director Mining	2010
Jonathan Tubb	Chief Financial Officer (Russia)	2017
Anton Zhelyapov	Director Trucks	2015



### LARS CORNELIUSSON

President and CEO

**General:** Swedish citizen. Born 1967. M.Sc. in Business Administration. Employed since 2011.

**Shares in Ferronordic:** 935,749 ordinary shares (through companies).



### NADEZHDA ARZUMANOVA

Human Resources Director

**General:** Russian citizen. Born 1979. Studies in organizational management. Employed since 2010.

**Shares in Ferronordic:** 1,649 ordinary shares (through companies).



### ANDERS BLOMQVIST

Chief Financial Officer (Group) (including investor relations)

**General:** Swedish citizen. Born 1970. M.Sc. in Business Administration. Employed since 2010.

**Shares in Ferronordic:** 510,410 ordinary shares (through companies).



### HENRIK CARLBORG

General Counsel

**General:** Swedish citizen. Born 1975. LL.M. Employed since 2013.

**Shares in Ferronordic:** 290,399 ordinary shares (through companies).



### ONUR GUCUM

Commercial Director

**General:** Turkish citizen. Born 1973. B.Sc. in Economics and Mathematics. Employed since 2012.

**Shares in Ferronordic:** 139,780 ordinary shares (through companies).



### ALEXANDER SHMAKOV

Director Mining

**General:** Russian citizen. Born 1978. Studies in management. Employed since 2010.

**Shares in Ferronordic:** 1,649 ordinary shares (through companies).





#### JONATHAN TUBB

Chief Financial Officer (Russia)

**General:** British citizen. Born 1964. ONC in Business and Finance. Fellow of the Institute of Financial Accountants FFA/FIPA. Employed since 2017.

**Shares in Ferronordic:** –



#### ANTON ZHELYAPOV

Director Trucks

**General:** Belarussian citizen. Born 1977. Studies in international relations. Employed since 2015.

**Shares in Ferronordic:** 1,649 ordinary shares (through companies).

#### AUDITOR

At the AGM 2017, KPMG was re-elected as the company's auditor with Mattias Lötborn (born 1970) as auditor-in-charge and without a deputy auditor, for a term of office until the next AGM. Mattias Lötborn is an authorized public accountant and a member of FAR (the professional institute for authorized public accountants in Sweden).

# Directors' report

The Board of Directors of Ferronordic Machines AB (publ), corporate registration number 556748-7953 (the "parent company"), hereby presents its annual report and consolidated financial statements for the financial year 2017. All amounts are indicated in SEK millions (SEK m) unless otherwise stated. Amounts in brackets refer to the financial year 2016 if not otherwise stated.

## THE BUSINESS

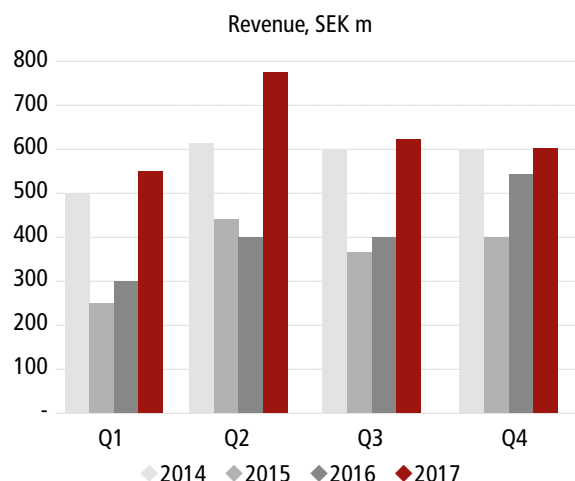
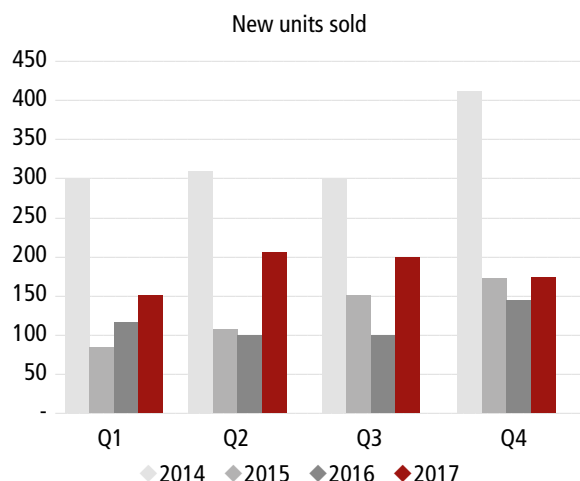
The parent company (together with its subsidiaries referred to as the "Group" or "Ferronordic") is a Swedish public limited liability company with its seat in Stockholm. The parent company is the holding company of the Group and provides financing for the Group's operational companies. The parent company is also the owner of the trademark "Ferronordic Machines."

The Group was created in 2010 to acquire and operate the Volvo CE distribution business in Russia. In connection thereto, the Group was appointed the official dealer for Volvo CE in all of Russia. Since then the Group has also been appointed distributor for several other brands. The operations primarily consist of selling new and used construction equipment, spare parts and attachments, and providing service of machines, technical support and other services, including contracting services.

The Group's customers are operating in Russia and are active in a variety of industries, including construction, oil & gas, mining and forestry.

## OPERATIONS IN 2017 COMPARED TO 2016

Revenue during 2017 amounted to SEK 2,567m (SEK 1,658m), corresponding to an increase of 55% compared to 2016. In rubles, the revenue increased by 37%. The machine sales increased by 72% while the aftermarket sales (parts and service) increased by 24%. In rubles, the machine sales increased by 52% while the aftermarket sales increased by 9%. The gross margin decreased by 3.1 percentage points from 22.1% in 2016 to 19.0% in 2017. This was primarily a result of lower margins on sold machines and changed product mix. Due to the increased revenue, but offset by the lower gross margin, gross profit amounted to SEK 488m (SEK 366m), corresponding to an increase of 33%. The operating result for the year increased by as much as 80% to SEK 187m (SEK 104m). Compared to the adjusted EBIT for 2016 (SEK 132m), however, the increase amounted to 42%. The increase was mainly a result of the improved gross profit, partly offset by higher selling and administrative expenses (in relation to revenue, however, these expenses decreased by almost three percentage points to 11.3%). The EBIT margin for 2017 thus amounted to 7.3%, compared to an adjusted EBIT margin of 7.9% for the previous year. The cash flows from operating activities amounted to SEK 148m, compared with SEK 141m during the year before. The cash used in investment activities amounted to SEK 4m, which was SEK 1.5m less than the year before. In total this resulted in a net cash<sup>1)</sup> position at the end of the year of SEK 312m, compared to a net cash position of SEK 173m at the end of 2016.



<sup>1</sup> Interest-bearing liabilities less cash and cash equivalents.

## REVENUE

The revenue during the year increased by 55% to SEK 2,567m (SEK 1,658m). In rubles the revenue increased by 37%. Machine sales increased by 72% while aftermarket sales increased by 24%. In rubles machine sales increased by 52% while aftermarket sales increased by 9%.

## GROSS PROFIT AND RESULTS FROM OPERATING ACTIVITIES

Gross profit amounted to SEK 488m (SEK 366m), an increase of 33%. This was a result of the increased revenue, but offset by a decrease in gross margin from 22.1% in 2016 to 19.0% in 2017, primarily as a result of lower margins on machine sales and a change in product mix.

The results from operating activities increased by 80% to SEK 187m (SEK 104m). However, compared to adjusted EBIT for 2016 (SEK 132m), the result from operating activities was 42% higher. The increase was primarily a result of the improved gross profit, partly offset by higher selling and administrative expenses. As a percentage of revenue, however, these expenses came down by almost three percentage points to 11.3%.

## RESULT BEFORE INCOME TAX

The result before tax increased to SEK 193m (SEK 107m). This was a result of the improved result from operating activities, as well as higher finance income and lower finance costs.

## RESULT FOR THE YEAR

The result for the year increased to SEK 151m (SEK 84m; adjusted result SEK 106m).

## EARNINGS PER ORDINARY SHARE

Earnings per ordinary share amounted to SEK 8.06, compared to SEK 3.03 for 2016. The earnings per ordinary share were negatively affected by the cash redemption of preference shares that took place during the fourth quarter of 2017 where the difference between the book value of the preference shares and the redemption price (SEK 1,200 per preference share) was recognised as a value transfer on preference shares. This reduced the earnings per ordinary shares by SEK 1.3. Thus, for comparisons with future periods, we think that SEK 9.36 would be a better number for earnings for ordinary shares for 2017.

## CASH FLOW AND INVESTMENTS

The cash flows from operating activities increased slightly to SEK 148m (SEK 141m). The increase was primarily a result of the improved result and higher payables, offset by higher inventories and higher receivables. Cash flows from investing activities

amounted to SEK -4m (SEK -5m). This was primarily due to an increase in interest received, offset by higher investments in intangible assets.

## FINANCIAL POSITION

Cash and cash equivalents at the end of 2017 amounted to SEK 352m, an increase of SEK 153m compared to the end of 2016. Interest-bearing liabilities at the end of the year (including financial leases) amounted to SEK 40m, an increase of SEK 14m compared to the end of 2016.

Equity at the end of the year amounted to SEK 611m, an increase of SEK 169m compared to the end of 2016. The increase was a result of the improved result of the year, partly offset by negative translation differences in the amount of SEK 21m. Equity was also positively impacted by the issuance of new shares in connection with the listing of ordinary shares on Nasdaq Stockholm and the conversion of preference shares into ordinary shares, offset by the redemption of preference shares, costs related to the issuance of new shares and the conversion of preference shares, as well as dividends on preference shares. These events had the following impact on equity:

- Issue of new ordinary shares in connection with the listing of ordinary shares on Nasdaq Stockholm - SEK 200m (positive)
- Issue of new ordinary shares in connection with the conversion of preference shares - SEK 240m (positive)
- Redemption of preference shares in connection with the conversion of preference shares - SEK 238m (negative)
- Redemption of preference shares in cash - SEK 80m (negative)
- Costs related to the new share issues in connection with the listing of ordinary shares and the conversion of preference shares - SEK 23m (net of tax) (negative)
- Dividends on preference shares - SEK 3m (negative)

## UPDATED FINANCIAL OBJECTIVES AND DIVIDEND POLICY

On 23 August 2017, the Board approved the following revised financial objectives.

- Tripling of the revenue from 2016 to 2021
- EBIT margin of 7-9%
- Net debt to EBITDA of 0-2 times (over a business cycle) (unchanged).

Further, the Board adopted a dividend policy, according to which the ambition should be that at least 25% of the result (after dividends on the preference shares) should be distributed to the ordinary shareholders. The Board will take several factors into consideration when proposing the level of dividend, including the requirements of the articles of association, the Group's expansion opportunities, its financial position and other investment needs.

### LISTING OF ORDINARY SHARES ON NASDAQ STOCKHOLM

On 29 September 2017, it was announced that Ferronordic intended to list its ordinary shares on Nasdaq Stockholm and diversify the ownership of the company, partly through an issue of new ordinary shares and partly through a sale of existing shares. The offer in connection with the listing was announced on 16 October 2017. The outcome of the offer was announced on 27 October 2017.

Trading in the ordinary shares commenced on 27 October 2017.

The offer comprised 3,002,821 ordinary shares, of which 1,333,333 were new ordinary shares issued by the company. The remaining 1,669,488 ordinary shares were offered by certain existing shareholders.

As a result of the offer, the number of ordinary shares increased from 10,000,000 to 11,333,333.

For additional information on the listing and the offer, please see above under the section *Share capital*.

### CONVERSION OF PREFERENCE SHARES

In view of the listing of the ordinary shares, on 29 September 2017, the preference shareholders were offered the possibility to convert preference shares to ordinary shares in accordance with the articles of association. On 12 October 2017, it was announced that, as an outcome of the offer, 366,544 preference shares, corresponding to 73% of the preference shares, had been submitted for conversion.

On 6 November 2017, it was announced that, in accordance with the articles of association, the submitted preference shares would be redeemed in exchange for 3,199,101 ordinary shares of series 2. These were then converted to ordinary shares (and thus became tradable on Nasdaq Stockholm) on 27 December 2017. When the ordinary shares of series 2 were converted to ordinary shares, the number of ordinary shares increased by an additional 3,199,101 from 11,333,333 to 14,532,434.

### REDEMPTION OF PREFERENCE SHARES IN CASH

On 17 November 2017, in accordance with the articles of association, the Board decided to redeem 66,728 preference shares, corresponding to half of the remaining preference shares in the company, for a total redemption price of approx. SEK 81 million. The intention of the Board is that all remaining 66,728 preference shares shall be redeemed in cash in accordance with the articles of association as soon as practically possible following the AGM 2018.

### VOLVO CERTIFIED REBUILD

On 15 June 2017 Ferronordic was approved as a supplier of Volvo Certified Rebuild for articulated haulers, excavators and wheel-loaders. Volvo Certified Rebuild is a program where used machines are rebuilt based on Volvo CE's requirements to have a second or third "lifecycle". When the rebuilt machines are ready, they can be sold as "Certified Rebuild" with an official, additional warranty from Volvo CE. To qualify for the Volvo Certified Rebuild program, the dealer and its facilities must live up to strict standards and requirements set by Volvo CE. Ferronordic is among the first Volvo CE dealers to be approved for the program, and the first in Europe to be approved for excavators. The first rebuilt Volvo-excavators were delivered during the fourth quarter.

### MECALAC

On 21 August 2017, Ferronordic entered into an agreement with Mecalac Construction Equipment UK Ltd (formerly Terex GB) to become official distributor for Mecalac in all of Russia. Mecalac is an international manufacturer of construction equipment. At the end of 2016, Mecalac purchased the business of Terex Corporation related to backhoe loaders, based in the UK. Mecalac is in the process of rebranding the products from Terex to Mecalac. Ferronordic will market the products under the Mecalac brand from the beginning. Sales of the new Mecalac products commenced during the fourth quarter of 2017.

### DISCONTINUED PRODUCTS

During 2015, Volvo CE discontinued the production of motor graders and backhoe loaders. The last motor grader was sold already in 2015 and since then the Group has not been able to sell this product. Regarding backhoe loaders, the supply of Volvo machines ran out during 2017. The Volvo backhoe loader has now been replaced by backhoe loaders from Mecalac. The loss of these products is also compensated by the addition of Terex Trucks in 2014 and Dressta and Rottne in 2016.

## CHANGED CREDIT FACILITIES AND BANK GUARANTEES

In February, Rosbank issued a bank guarantee to Volvo for RUB 550m (SEK 79m) as security for the Group's payables. In June 2017, Sberbank issued an additional bank guarantee for RUB 500m (SEK 72m) as security for the Group's payables to Volvo.

In June 2017, Ferronordic Torgovaya Kompaniya LLC entered into a new framework agreement for financial leases with Raiffeisen Leasing. The contract is for an amount of RUB 360m (SEK 52m) and is valid for two years. The facility will partly be used to finance machines used in the Group's contracting services operations.

In June 2017, Ferronordic Machines LLC increased its financial lease agreement with RB Leasing by RUB 50m (SEK 7m) up to RUB 300m (SEK 43m). The increased facility will be used to replace cars in the Group's car fleet.

In August 2017, Ferronordic entered into a new credit agreement with Sberbank regarding a credit facility for RUB 1,300m (SEK 186m). The facility is available until 30 August 2019.

In September 2017, SMP Bank agreed to prolong its existing credit facility of RUB 500m (SEK 72m) to Ferronordic until 27 August 2019.

In December 2017 Sberbank prolonged an existing RUB 1,000m (SEK 143m) credit facility with a new agreement with Ferronordic through May 2019.

## EMPLOYEES

The number of employees at the end of the year, converted to full-time employees, was 847 people. This corresponds to an increase during the year of 65 people.

## RISKS AND UNCERTAINTIES

The Group is exposed to various types of operational and financial risks. To identify, assess and manage these risks is fundamental for the Group's profitability and financial position. Operational risks are associated with the Group's daily operations and relate to, *inter alia*, changes in business cycles, procurement, capacity utilization and price risks. The financial risks are associated with the amount of capital tied up and the Group's long- and short-term capital requirements. The operational risks are greater than the financial risks.

The parent company is indirectly exposed to the same risks and uncertainties as the Group.

## RISK MANAGEMENT

The management of the operational risks consist of a large number of daily routines and standardized processes, e.g. with regard to purchases of machines and parts, approvals of discounts, tendering for larger purchases, etc. These processes have been developed over time and are continuously evaluated and improved. It is important that the Group's employees consistently follow existing routines and processes to ensure that the operational risks are kept under control. Financial risks and credit risks are managed centrally to minimize and control the Group's risk exposure.

## OPERATIONAL RISKS

### *Political environment*

Historically, political conditions in Russia have been volatile. In recent decades, political trends have been inconsistent in certain respects and the composition of the Russian government has at times been unstable. The Russian political system continues to be vulnerable to negative tides of opinion. Such manifestations of instability can adversely affect the economic and political climate in Russia, particularly in the short term. Changes in government policy and legislative work are less foreseeable in Russia than in many Western countries and can disrupt or prevent political, economic and regulatory reforms. Unforeseen political changes may result in a significant deterioration in the investment climate in Russia, which could limit the possibilities available to the Group or its customers to secure financing, or which could otherwise adversely affect the Group's business, result and financial position.

### *International sanctions*

The sanctions that in recent years have been imposed on Russia and various Russian citizens and companies relating to Crimea and Ukraine remain in force. The sanctions have not prevented the Group from continuing its business with existing customers or otherwise had any direct negative effect on the Group's operations or financial position. However, the sanctions have contributed to the economic downturn in Russia during the last years, in particular the sanctions targeted at the Russian financial sector.

### *Increased protectionism*

In the wake of the sanctions and economic downturn, there have been signs of increased protectionism in Russia. For example, in 2014 the Russian government introduced a decree that prevents state and municipal enterprises from purchasing foreign construction machines if there are Russian produced equivalents. The decree has only had limited effect on the Group's operations, but similar and more extensive laws and regulations may be introduced in the future could have a negative effect on the Group's operations, financial position and result.

*Russian legal system and legal procedures*

The Russian legal system is still relatively underdeveloped. Many laws and regulations are still relatively new. Many of these contain ambiguous wording and doubts commonly arise as to their interpretation. In addition, there are often discrepancies in and between laws and regulations on different levels. A lack of legal or administrative guidance as regards the interpretation of applicable regulations; the untried legal system and its lack of independence vis-à-vis political, social and commercial interests; the relative inexperience of lawyers, judges and courts as regards the interpretation of newly adopted legislation and complex commercial agreements; alleged corruption in the legal system; substantial gaps in the legal regulatory structure due to delays in, or absence of, implementing legislation; undeveloped bankruptcy procedures that are subject to abuse; and a lack of binding judicial precedent, may affect the Group's possibility to protect and enforce its legal rights, and to protect itself against legal claims.

*Corruption*

Russian and international media have reported on widespread corruption in Russia. Media reports have also described cases in which government officials have initiated selective investigations and brought prosecutions in order to further the interests of the government, individual officials or business groups. Notwithstanding that the Group adheres to a business ethics policy and has strict procedures in place to counteract the effects of corruption, instances of illegal activities, demands from corrupt officials, allegations that the Group or its management has been involved in corruption or illegal activities, or biased articles and negative publicity, could have an adverse effect on the Group's business, result and financial position.

*Environmental risks*

Environmental legislation may impose obligations on property owners or business operators to take measures to restore contaminated land. The Group's properties could contain undiscovered contamination and Ferronordic may become the subject of claims in damages, judicial proceedings and administrative proceedings regarding environmental liability. An unfavorable outcome of such proceedings may result in civil law, administrative law or criminal law liability being imposed on the Group or its employees. Changes to laws and their application with respect to the environment, health and safety may result in costs and obligations and may result in the Group's properties (or properties previously owned or operated by the Group) being exposed to stricter audits than at present. If contaminated land is discovered, this may result in clean-up costs for the Group

*The Russian tax system*

For information on risks associated with the Russian tax system, please see Note 25 (*Contingencies*).

*Changes in economic activity*

The Group's products are largely used in connection with construction and industrial operations. Economic downturns and weakened activity in the construction and industry sectors thus have significant negative effect on the demand for the Group's products. Furthermore, the demand is affected by changes in the price of commodities as well as the market for extraction and processing of natural resources, particularly oil and gas, but also minerals, gold and timber. Declining commodity prices or a weaker market for the extraction and processing of natural resources could therefore have an adverse effect on the Group. The Group's business could also be adversely affected (either temporarily or in the long-term) by a decline in customers' expenditure levels, unfavorable credit markets that adversely affect the end customer's ability to secure financing, reduced infrastructure project expenditures on a local or federal level, increased costs for building materials, as well as increased interest rates. Downturns due to the above-mentioned or other factors can have an adverse effect on the Group's business, result and financial position.

The demand for parts and service is less sensitive to changes in business cycles than machine sales.

*Capacity utilization*

Except for the last years, the Group has continuously expanded its network. The Group plans to continue this expansion when the market recovers. An unforeseen decline in capacity utilization, e.g. as a result of economic downturn, discontinuation of certain products, etc., generally results in a loss of revenue which in the short term cannot be offset by a corresponding cost reduction.

*Cooperation with Volvo CE*

Sales of Volvo CE's products accounts for the absolute majority of Ferronordic's sales and thus Ferronordic is highly dependent on good relations with the Volvo Group in general and Volvo CE in particular. Any deterioration in such relations could have a significant adverse effect on Ferronordic's business.

*Dependence on suppliers*

The Group is dependent on the strategic decisions taken by its suppliers, e.g., as regards the introduction of new products or the discontinuation of existing products. As an example, during 2015, Volvo CE discontinued its production of motor graders and backhoe loaders. The Group's suppliers may take

similar strategic decisions in the future, which may affect the Group's product range. This, in turn, could have an adverse effect on the Group's business, financial position and result.

#### *Dependence on key employees*

The Group is dependent on its ability to identify, recruit and retain qualified executives and other key employees. The Group's ability to recruit and retain qualified personnel is dependent on a number of external factors. Should key employees leave the Group due to retirement, acceptance of employment with a competitor or for any other reason, this may result in a loss of important know-how and experience which may be difficult to replace, and which may delay or adversely affect the Group's ability to implement its business plan and strategy. Inability to recruit or retain such executives and other key employees could thus have an adverse effect on the Group's business, result and financial position.

#### *Price risks*

The prices that the Group pays for products from Volvo CE and other suppliers are of fundamental importance for the Group's profitability and competitiveness. Too high prices may result in loss of sales, lost market share and/or lower profitability. The Group manages this risk by continuously, together with its suppliers, monitoring the development of price positioning and market shares, and continuously adjusting the prices that the Group is paying for machines and parts.

#### *Insurance coverage*

The insurance market in Russia is underdeveloped and several types of insurance that are common in other countries are not available in Russia or cannot be obtained at reasonable cost. The Group holds insurance against some, but not all, risks that are relevant to its operations. Hence, there is a risk that losses of assets or claims against the Group may not be covered by the Group's insurance.

#### *Financial risks*

For information about financial risks, see Note 22 to the consolidated financial statements (*Financial instruments and risk management*).

#### *Material disputes*

No material disputes took place during the year.

## **OUTLOOK**

In view of the recent recovery of the Russian economy, Ferronordic is optimistic about the development of the Russian construction equipment market. Although the market is still a rather low level, the Group does not believe that the market will grow as strongly in 2018 as it did in 2017. Ferronordic is also optimistic with regard to the future of its business in the longer perspective, as the long-term fundamentals in the Russian construction equipment market remain strong.

## **SHAREHOLDERS**

Please refer to section *Shares and shareholders*.

## **THE WORK OF THE BOARD OF DIRECTORS**

Please refer to the *Corporate governance report*.

## **PARENT COMPANY**

The revenue of the parent company during the year amounted to SEK 144m (SEK 53m). The increase was primarily related to intra-group sales of equipment from the parent company to its subsidiary, Ferronordic Machines LLC. The gross profit amounted to SEK 19m (SEK 17m). Administrative expenses decreased to SEK 10m (SEK 12m). The result for the year decreased to SEK 16m (SEK 57m), mainly because of unrealized foreign exchange losses (net) (compared to foreign exchange gains (net) in 2016). The result was also negatively affected by higher finance costs and lower finance income.

## **EVENTS SUBSEQUENT TO THE REPORTING DATE**

On 11 January 2018, Volvo CE announced that it will enter the rigid hauler market with its own Volvo brand of rigid haulers in the second quarter of 2018. The development of the new four-model range has relied heavily on the rigid hauler expertise of Volvo CE's subsidiary Terex Trucks, combined with the technological strength of the Volvo Group. The range, which will initially be launched in less regulated markets, consists of the 45-ton R45D, 60-ton R60D, 72-ton R70D and the flagship 100-ton R100E. Ferronordic expects to be able to start selling the new Volvo-branded rigid haulers towards the fourth quarter of 2018. Meanwhile Ferronordic will continue to sell Terex-branded rigid haulers.

## PROPOSED ALLOCATION OF PROFIT

The following amount is available for allocation by the AGM:

SEK 450,063,682

The Board proposes that this amount is allocated as follows:

SEK	
Dividend on preference shares	4,030,371
Dividend on ordinary shares	25,141,111
Amount carried forward	420,892,200
<i>of which to the share premium reserve</i>	673,044,392
<b>Total</b>	<b>450,063,682</b>

The Board has proposed that the AGM on 27 April 2018 resolve on a dividend on the preference shares in an amount corresponding to the preference share dividend for the period 26 October 2017 until 25 April 2018 (i.e. SEK 60 per share), plus Outstanding Amount for the period 30 April 2018 until the date of payment. The expected record date for the dividend would be 2 May 2018. Payment of the dividend would then be made on 7 May 2018. Thus, the dividend would amount to SEK 60.40 per preference share, corresponding to a total dividend approx. SEK 4m.

The Board has also proposed that the AGM 2018 resolve on a dividend on the ordinary shares in the amount of SEK 1.73 per share, corresponding to a total dividend of approx. SEK 25m. Should the AGM approve the Board's proposal, the record date would be 22 May 2018, and the payment of the dividend would be made around 25 May 2018.

Further, on 27 April 2018, immediately upon the conclusion of the AGM, the Board intends to decide upon a mandatory cash redemption of all remaining preference shares. The record date for the redemption would be around 15 May 2018. The payment of the redemption price is expected to be made on 18 May 2018. In accordance with the articles of association, the redemption price would then amount to SEK 1,200 per preference share, plus accrued dividends for the period 26 April until 18 May 2018. In total, the redemption price is expected to be approx. SEK 1,208 per preference share, corresponding to a total redemption price of approx. SEK 81m.

For more information about the Group's results and financial position, see the following financial statements and the Notes thereto.

## SUSTAINABILITY REPORT

The Group's sustainability report is included in the annual report on pages 28-33.

## ALTERNATIVE PERFORMANCE MEASUREMENTS

Definitions of alternative performance measurements can be found on page 25 of the 2017 year-end report.



# Corporate **governance** report

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

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

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

## SUMMARY OF FERRONORDIC'S CORPORATE GOVERNANCE MODEL

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

## MORE INFORMATION ON CORPORATE GOVERNANCE:

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

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

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

## SWEDISH CORPORATE GOVERNANCE CODE

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

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

## SHARE CAPITAL AND SHAREHOLDERS

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

## THE GENERAL MEETING

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

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

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

### *EGM March 2017*

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

### *Annual general meeting 2017*

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

The following resolutions were made at the AGM:

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

### *Annual General Meeting 2018*

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

## NOMINATION COMMITTEE

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

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

### *Principles regarding the nomination committee*

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

The nomination committee shall consist of four members.

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

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

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

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

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

### *Nomination committee for the AGM 2018*

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

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

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

## THE BOARD OF DIRECTORS

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

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

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

### *Composition*

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

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

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

### *Independence requirements*

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

### *Work procedures*

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

### *Evaluation of the Board work*

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

### *Board work in 2017*

During 2017, the Board held fourteen meetings.

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

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

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

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

## ATTENDANCE IN BOARD MEETINGS 2017

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

## REMUNERATION OF THE BOARD

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

## BOARD COMMITTEES

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

### *Audit committee*

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

The audit committee consists of the following members:

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

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

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

*Remuneration committee*

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

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

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

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

**AUDITORS**

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

**CEO AND EXECUTIVE MANAGEMENT**

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

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

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

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

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

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

**REMUNERATION OF SENIOR EXECUTIVES**

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

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

*Basic principles*

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

*Fixed salaries*

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

*Variable salaries*

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

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

#### *Non-monetary and other benefits*

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

#### *Pension benefits*

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

#### *Severance pay*

Severance pay shall not exceed 12 months' salary.

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

The remuneration committee is responsible for:

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

The remuneration committee prepares and the Board resolves on:

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

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

#### *Authority to decide on deviations from these guidelines*

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

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

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

### **REPORT ON INTERNAL CONTROL**

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

#### *Control environment*

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

#### *Risk assessment*

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

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

#### *Control activities*

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

#### *Information and communication*

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

#### *Monitoring*

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

#### *Internal audit*

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

Stockholm, March 2018

The Board of Directors

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





## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK '000	Note	2017	2016
Revenue	6	2,567,231	1,658,455
Cost of sales		(2,079,428)	(1,292,322)
<b>Gross profit</b>		<b>487,803</b>	<b>366,133</b>
Selling expenses	7	(124,663)	(98,836)
General and administrative expenses	7	(164,590)	(137,335)
Other income		5,182	3,575
Other expenses	8	(16,418)	(29,272)
<b>Results from operating activities</b>		<b>187,314</b>	<b>104,265</b>
Finance income	9	14,611	9,617
Finance costs	9	(6,580)	(7,891)
Net foreign exchange gains/(losses)		(2,330)	1,450
<b>Result before income tax</b>		<b>193,015</b>	<b>107,441</b>
Income tax	10	(41,719)	(23,800)
<b>Result for the year</b>		<b>151,296</b>	<b>83,641</b>
<b>Other comprehensive income</b>			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation difference for foreign operations		(20,876)	89,198
<b>Other comprehensive income for the year, net of income tax</b>		<b>(20,876)</b>	<b>89,198</b>
<b>Total comprehensive income for the year</b>		<b>130,420</b>	<b>172,839</b>
<b>Earnings per ordinary share</b>			
Basic and diluted earnings per ordinary share (SEK)	31	8.06	3.03

The consolidated statement of comprehensive income forms part of and shall be read together with the Notes to the consolidated financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK '000	Note	31 December 2017	31 December 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	136,220	116,368
Intangible assets	12	5,507	2,077
Deferred tax assets	13	41,936	41,887
<b>Total non-current assets</b>		<b>183,663</b>	<b>160,332</b>
<b>Current assets</b>			
Inventories	14	632,536	467,172
Trade and other receivables	15	242,959	202,439
Prepayments		3,088	3,997
Cash and cash equivalents	16	352,238	198,846
<b>Total current assets</b>		<b>1,230,821</b>	<b>872,454</b>
<b>TOTAL ASSETS</b>		<b>1,414,484</b>	<b>1,032,786</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Share capital		1,303	937
Additional paid in capital		692,204	594,279
Translation reserve		(160,216)	(139,340)
Retained earnings		77,787	(13,466)
<b>TOTAL EQUITY</b>		<b>611,078</b>	<b>442,410</b>
<b>Non-current liabilities</b>			
Deferred income	19	449	-
Deferred tax liabilities	13	862	294
Long-term portion of finance lease liabilities	18	21,636	15,324
<b>Total non-current liabilities</b>		<b>22,947</b>	<b>15,618</b>
<b>Current liabilities</b>			
Trade and other payables	21	736,500	547,255
Deferred income	19	12,020	6,632
Provisions	20	13,171	10,156
Short-term portion of finance lease liabilities	18	18,768	10,715
<b>Total current liabilities</b>		<b>780,459</b>	<b>574,758</b>
<b>TOTAL LIABILITIES</b>		<b>803,406</b>	<b>590,376</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>1,414,484</b>	<b>1,032,786</b>

The consolidated statement of financial position forms part of and shall be read together with the Notes to the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

SEK '000	Note	Attributable to equity holders of the Company				Total equity
		Share capital	Additional paid in capital	Retained earnings	Translation reserve	
Balance 1 January 2017		937	594,279	(13,466)	(139,340)	442,410
<b>Total comprehensive income for the year</b>						
Result for the year		-	-	151,296	-	151,296
<b>Other comprehensive income</b>						
Foreign exchange differences		-	-	-	(20,876)	(20,876)
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>151,296</b>	<b>(20,876)</b>	<b>130,420</b>
<b>Contribution by and distribution to owners</b>						
Issue of shares	17	405	416,213	-	-	416,618
Redemption of preference shares	17	(39)	(318,288)	-	-	(318,327)
Dividends on preference shares	17	-	-	(60,043)	-	(60,043)
<b>Total contributions and distributions</b>		<b>366</b>	<b>97,925</b>	<b>(60,043)</b>	<b>-</b>	<b>38,248</b>
Balance 31 December 2017		1,303	692,204	77,787	(160,216)	611,078

SEK '000	Note	Attributable to equity holders of the Company				Total equity
		Share capital	Additional paid in capital	Retained earnings	Translation reserve	
Balance 1 January 2016		937	594,279	(44,607)	(228,538)	322,071
<b>Total comprehensive income for the year</b>						
Result for the year		-	-	83,641	-	83,641
<b>Other comprehensive income</b>						
Foreign exchange differences		-	-	-	89,198	89,198
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>83,641</b>	<b>89,198</b>	<b>172,839</b>
<b>Contribution by and distribution to owners</b>						
Dividends on preference shares	17	-	-	(52,500)	-	(52,500)
<b>Total contributions and distributions</b>		<b>-</b>	<b>-</b>	<b>(52,500)</b>	<b>-</b>	<b>(52,500)</b>
Balance 31 December 2016		937	594,279	(13,466)	(139,340)	442,410

The consolidated statement of changes in equity forms part of and shall be read together with the Notes to the consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

SEK '000	Note	2017	2016
<b>Cash flows from operating activities</b>			
Result before income tax		193,015	107,441
<b>Adjustments for:</b>			
Depreciation and amortisation	11, 12	26,463	31,057
Impairment of property, plant and equipment	11	-	12,558
Impairment of intangible assets	12	-	5,765
Loss from write-off of receivables	8	(182)	4,944
Profit on disposal of property, plant and equipment		(511)	(2,122)
Finance costs	9	6,580	7,891
Finance income	9	(14,611)	(9,617)
Net foreign exchange gains/(losses)		2,330	(1,450)
<b>Cash from operating activities before changes in working capital and provisions</b>		<b>213,084</b>	<b>156,467</b>
Change in inventories		(194,999)	(25,416)
Change in trade and other receivables		(57,411)	1,829
Change in prepayments		704	(2,660)
Change in trade and other payables		222,119	38,626
Change in provisions		3,759	4,608
Change in other assets		-	434
Change in deferred income		6,049	756
<b>Cash flows from operations before interest paid and tax paid</b>		<b>193,305</b>	<b>174,644</b>
Income tax paid		(39,233)	(25,052)
Interest paid		(5,880)	(8,103)
<b>Cash flows from operating activities</b>		<b>148,192</b>	<b>141,489</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		2,905	4,251
Interest received		14,611	9,617
Acquisition of property, plant and equipment		(16,144)	(16,483)
Acquisition of intangible assets		(5,289)	(2,851)
<b>Cash flows from investing activities</b>		<b>(3,917)</b>	<b>(5,466)</b>
<b>Cash flows from financing activities</b>			
Issue of shares		200,000	-
Redemption of preference shares		(80,074)	-
Costs related to issue of shares and redemption of preference shares		(28,084)	-
Repayment of loans		-	(87,945)
Dividends on preference shares		(58,364)	(52,500)
Leasing financing received		7,794	-
Leasing financing paid		(20,203)	(14,540)
<b>Cash flows from financing activities</b>		<b>21,069</b>	<b>(154,985)</b>
<b>Net change in cash and cash equivalents</b>		<b>165,344</b>	<b>(18,962)</b>
Cash and cash equivalents at start of the year		198,846	175,295
Effect of exchange rate fluctuations on cash and cash equivalents		(11,952)	42,513
<b>Cash and cash equivalents at year-end</b>	<b>16</b>	<b>352,238</b>	<b>198,846</b>

The consolidated statement of cash flows forms part of and shall be read together with the Notes to the consolidated financial statements.

**PARENT COMPANY INCOME STATEMENT**

SEK '000	Note	2017	2016
Revenue		144,357	53,265
Cost of sales		(125,444)	(36,625)
Gross profit		18,913	16,640
Administrative expenses	7	(10,478)	(12,482)
Results from operating activities		8,436	4,158
Interest income	9	24,872	27,962
Interest costs	9	(6,464)	(4,250)
Net foreign exchange gains/(losses)		(6,549)	45,500
Result before income tax		20,294	73,370
Income tax	10	(4,477)	(16,163)
Result for the year		15,816	57,207

**PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME**

SEK '000	Note	2017	2016
Result for the year		15,816	57,207
Total comprehensive income for the year		15,816	57,207

The income statement forms part of and shall be read together with the Notes to the consolidated financial statements.

## PARENT COMPANY BALANCE SHEET

SEK '000	Note	31 December 2017	31 December 2016
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	9	14
Intangible assets	12	-	-
<b>Financial assets</b>			
Holdings in group companies	28	193,088	192,949
Loans to group companies	26	207,097	216,707
Deferred tax assets	13	20,890	19,343
<b>Total financial assets</b>		<b>421,075</b>	<b>428,999</b>
<b>Total non-current assets</b>		<b>421,084</b>	<b>429,013</b>
<b>Current assets</b>			
Trade and other receivables	15	71,721	53,016
Prepayments		1,283	246
Cash and cash equivalents	16	76,150	5,831
<b>Total current assets</b>		<b>149,154</b>	<b>59,093</b>
<b>TOTAL ASSETS</b>		<b>570,238</b>	<b>488,106</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
<b>Restricted equity</b>			
Share capital		1,303	937
<b>Unrestricted equity</b>			
Share premium reserve		702,216	604,291
Retained earnings		(267,969)	(265,133)
Result for the year		15,816	57,207
<b>TOTAL EQUITY</b>		<b>451,367</b>	<b>397,302</b>
<b>Current liabilities</b>			
Borrowings	18	50,930	45,509
Trade and other payables	21	67,941	45,295
<b>Total current liabilities</b>		<b>118,871</b>	<b>90,804</b>
<b>TOTAL LIABILITIES</b>		<b>118,871</b>	<b>90,804</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>570,238</b>	<b>488,106</b>

The balance sheet forms part of and shall be read together with the Notes to the consolidated financial statements.

## PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

SEK '000	Note	Share capital	Share premium reserve	Retained earnings	Total equity
Balance 1 January 2017		937	604,291	(207,926)	397,302
Total comprehensive income for the year					
Result for the year		-	-	15,816	15,816
Total comprehensive income for the year		-	-	15,816	15,816
Contribution by and distribution to owners					
Issue of shares	17	405	416,213	-	416,618
Redemption of preference shares	17	(39)	(318,288)	-	(318,327)
Dividends on preference shares	17	-	-	(60,043)	(60,043)
Total contributions and distributions		366	97,925	(60,043)	38,248
Balance 31 December 2017		1,303	702,216	(252,152)	451,367

SEK '000	Note	Share capital	Share premium reserve	Retained earnings	Total equity
Balance 1 January 2016		937	604,291	(212,633)	392,595
Total comprehensive income for the year					
Result for the year		-	-	57,207	57,207
Total comprehensive income for the year		-	-	57,207	57,207
Contribution by and distribution to owners					
Dividends on preference shares	17	-	-	(52,500)	(52,500)
Total contributions and distributions		-	-	(52,500)	(52,500)
Balance 31 December 2016		937	604,291	(207,926)	397,302

The statement of changes in equity forms part of and shall be read together with the Notes to the consolidated financial statements.



## PARENT COMPANY STATEMENT OF CASH FLOWS

SEK '000	Note	2017	2016
<b>Cash flows from operating activities</b>			
Result before income tax		20,294	73,370
<b>Adjustments for:</b>			
Depreciation and amortisation	11,12	5	1,854
Interest costs	9	6,464	4,250
Interest income	9	(24,872)	(27,962)
Net foreign exchange gains/(losses)		6,549	(45,500)
<b>Cash from operating activities before changes in working capital and provisions</b>		<b>8,440</b>	<b>6,012</b>
Change in trade and other receivables		(18,377)	(39,479)
Change in prepayments		(1,037)	106
Change in trade and other payables		17,250	35,523
<b>Cash flows from operations before income tax and interest paid</b>		<b>6,276</b>	<b>2,162</b>
Interest paid		-	-
<b>Cash flows from operating activities</b>		<b>6,276</b>	<b>2,162</b>
<b>Cash flows from investing activities</b>			
Interest received		22,461	31,042
Acquisition of property, plant and equipment		-	-
Contributions to subsidiaries		(139)	-
<b>Cash flows from investing activities</b>		<b>22,322</b>	<b>31,042</b>
<b>Cash flows from financing activities</b>			
Issue of shares		200,000	-
Redemption of preference shares		(80,074)	-
Costs related to issue of shares and redemption of preference shares		(28,084)	-
Loans received		8,243	23,650
Dividends on preference shares		(58,364)	(52,500)
<b>Cash flows from financing activities</b>		<b>41,721</b>	<b>(28,850)</b>
<b>Net change in cash and cash equivalents</b>		<b>70,319</b>	<b>4,354</b>
Cash and cash equivalents at start of year		5,831	1,477
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
<b>Cash and cash equivalents at year-end</b>	16	<b>76,150</b>	<b>5,831</b>

The statement of cash flows forms part of and shall be read together with the Notes to the consolidated financial statements.

**CONTENT OF NOTES**

1. General information	67
2. Basis of preparation	67
3. Changed accounting policies	67
4. Significant accounting policies	68
5. Determination of fair value	73
6. Segment reporting	73
7. Selling, general and administrative expenses	74
8. Other expenses	74
9. Finance income and finance costs	74
10. Income taxes	75
11. Property, plant and equipment	76
12. Intangible assets	79
13. Deferred tax assets and liabilities	80
14. Inventories	82
15. Trade and other receivables	82
16. Cash and cash equivalents	82
17. Capital and reserves	83
18. Borrowings	85
19. Deferred income	87
20. Provisions	87
21. Trade and other payables	88
22. Financial instruments and risk management	88
23. Operating leases	93
24. Capital commitments	93
25. Contingencies	94
26. Related party transactions	94
27. Events subsequent to the reporting date	95
28. Interests in Group companies	95
29. Employees, Board and executive management	96
30. Auditors' fees and expenses	98
31. Earnings per ordinary share	98

# Notes

## NOTE 1 » GENERAL INFORMATION

Ferronordic Machines AB (publ) (the “parent company”) and its subsidiaries comprise the “Group”. The company is a Swedish public limited liability company with registered number 556748-7953. The company’s address is Hovslagargatan 5B, 111 48 Stockholm.

The Group’s principal activity comprises sales and service of construction equipment and other machinery in Russia. The Group is the authorized dealer for Volvo Construction Equipment, Terex Trucks, Dressta, Mecalac and Rottne in Russia. The Group has also been appointed aftermarket dealer for Volvo and Renault Trucks in certain parts of Russia. In addition the Group provides contracting services and other services.

The legal and fiscal framework in Russia is still under development and remains subject to varying interpretations and frequent changes. The Group’s financial statements reflect management’s assessment of the impact of the Russian business environment on the Group’s operations and financial position. The future business environment may differ from management’s assessment.

## NOTE 2 » BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) issued by the International Financial Standards Board (IASB) as well as the interpretations of the IFRS Interpretations Committee, as adopted by the European Union. RFR 1 on Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied. The annual accounts of the parent company are prepared in accordance with the Swedish Annual Accounts Act and RFR 2, Accounting for Legal Entities, issued by the Swedish Financial Reporting Board.

## BASIS OF MEASUREMENT

The financial statements of the Group are prepared on a historical cost basis.

## FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the various units of the Group are valued in each Group company’s functional currency. For all Group companies except the parent company, the functional currency is the Russian ruble (RUB). For the parent company, the functional currency is the Swedish krona (SEK). The Group and the parent company have selected the Swedish krona as presentation currency. All amounts have been rounded to the nearest thousand, except as otherwise noted.

## ESTIMATES AND JUDGMENTS

The preparation of the Group’s financial statements in conformity with IFRS requires management to make various estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates and assumptions.

Estimates and assumptions are reviewed on an ongoing basis. Changes in estimations and assumptions are recognised in the period when they occur and in future periods affected.

The judgments that have the most significant effect on the amounts recognised in the Group’s financial statements relate to the useful life and residual value of property, plant and equipment (see Note 4) and provisions for trade receivables (see Note 22).

## NOTE 3 » CHANGED ACCOUNTING POLICIES

No changes in accounting principles took place in 2017.

**NOTE 4 » SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently for all periods presented and have been applied consistently by all Group entities.

Subsidiaries are entities controlled by the Group. The financial statements of the subsidiaries are included in the consolidated financial statements from the date when the Group obtains control over the entity until the date when the Group ceases control over the entity.

**ELIMINATION OF INTRA-GROUP TRANSACTIONS**

Intra-Group balances and transactions (and unrealized income and expenses arising from such transactions) are eliminated in the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, unless there is need for impairment.

**FOREIGN CURRENCY***Foreign currency transactions*

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the transaction date.

Monetary assets and liabilities in foreign currencies are translated to functional currency at the exchange rate on the reporting date. Foreign currency gains or losses on monetary items comprise the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in foreign currencies, which are measured based on historical cost, are translated to functional currency at the exchange rate at the date of the transaction.

Foreign currency differences are recognised in profit or loss.

*Foreign operations*

Assets and liabilities of foreign operations are translated to Swedish krona at the exchange rates on the reporting date. Income and expenses of foreign operations are translated to Swedish krona at the exchange rate on the transaction date.

Foreign currency differences are recognised in other comprehensive income and included in the translation reserve in equity.

If the Group's control, significant influence or joint control over a foreign operation is lost, the accumulated translation reserve related to that foreign operation is reclassified to profit or loss as part of the

gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests.

Foreign exchange gains and losses arising from receivables or payables to a foreign operation (which are not expected to be settled in the foreseeable future) form part of net investments in foreign operations and are recognised in other comprehensive income and presented in the translation reserve in equity.

**FINANCIAL INSTRUMENTS***Financial assets*

Loans, receivables and deposits are recognised when they originate. Other financial assets are recognised when the Group becomes bound by the terms of the relevant instrument.

Financial assets are derecognised when the rights to the cash flows from the assets expire, or when the rights to receive the cash flows on the financial assets are transferred and substantially all risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset.

Financial assets and liabilities are only offset, and the net amount is only presented in the statement of financial position, if the Group has a right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

*Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments and which are not quoted in any active market. Such assets are initially recognised at fair value plus directly attributable transaction costs, and thereafter at amortised cost using the effective interest method, less impairment losses.

Loans and receivables include trade and other receivables.

*Cash and cash equivalents*

Cash and cash equivalents consist of cash balances, call deposits and highly liquid investments with maturities at initial recognition of three months or less.

*Financial liabilities*

Financial liabilities consist of borrowings, bank overdrafts, and trade and other payables. Financial liabilities are recognised when the Group becomes bound by the terms of the relevant instrument.

Financial liabilities are derecognised when the obligations are discharged or cancelled, or when the obligations expire.

Financial liabilities are initially recognised at fair value less any directly attributable transaction costs, and thereafter at amortised cost using the effective interest method.

### SHARE CAPITAL

Shares in the parent company (ordinary shares and preference shares) are classified as equity since their holders have no right to demand any dividends and the shares do not entail any obligation on the Group to deliver cash or other financial assets. Costs that are directly attributable to the issue or redemption of shares and warrants are recognised as a deduction from equity, net of any tax effects. Dividends are recognised as equity distributions when approved by the general meeting.

### PROPERTY, PLANT AND EQUIPMENT

Except for land, assets in property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and directly attributable labour costs, other costs directly attributable to bringing the asset to a working condition, the cost of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs. Software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Components of an item of property, plant and equipment with different useful lives are accounted for as separate assets.

Gains or losses on disposals of property, plant and equipment are determined by comparing the proceeds from the disposal of the asset with the asset's carrying amount, and is recognised net within other income/ other expenses in profit or loss.

#### *Subsequent costs*

The cost of replacing a component of an asset in property, plant and equipment is recognised in the asset's carrying amount if it is probable that the future economic benefits of the asset will flow to the Group and the cost can be measured reliably. The carrying amount of the replaced component is derecognised. Costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

#### *Depreciation*

Depreciation of property, plant and equipment is based on the cost of the asset less its residual value.

Depreciation is recognised in profit or loss on a straight-line basis over the useful life of each individual asset or group of assets. This reflects how the Group is expected to consume the future economic benefits of the asset. Leased assets are depreciated either over the shorter of the lease term and the asset's useful life (unless it is reasonably certain that the Group will obtain ownership of the leased asset by the end of the lease term, in which case the asset is depreciated as other property, plant and equipment).

Land is not depreciated.

Estimated useful lives of certain significant types of property, plant and equipment:

• Buildings	2-45 years
• Machinery and equipment	2-16 years
• Rental fleet	3 years
• Office equipment	2-10 years
• Cars	3-7 years

The residual value for all property, plant and equipment is zero. An exception is made for equipment in the rental fleet and contracting services, for which the residual value is set at 25% of the cost after a period of three years.

Depreciation methods, useful lives and residual values are reviewed at the end of each financial year and adjusted if appropriate.

### INTANGIBLE ASSETS

Intangible assets acquired by the Group (and which have definite useful lives) are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditures are capitalised only if they increase the economic benefits of the relevant asset. Other expenditures, including expenditures on internally generated goodwill and brands, are recognised in profit or loss when incurred.

#### *Amortisation*

Amortisation of intangible assets is based on the cost of the asset less its residual value.

Except for goodwill, amortisation of intangible assets is recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets. This reflects how the Group is expected to enjoy the economic benefits of the assets.

Estimated useful lives of the Group's intangible assets:

- Software and software licenses 2-5 years
- Customer relations (fully amortised 2016) 6 years
- Franchise agreement (fully amortised 2016) 6 years

Amortisation methods, useful lives and residual values are reviewed at the end of each financial year and adjusted if appropriate.

## LEASES

### *Leased assets*

Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets leased under financial lease are initially recognised at the lower of fair value or the present value of the minimum lease payments. Thereafter, the asset is accounted for in accordance with the accounting policy applicable to the relevant asset.

Leases where the Group does not assume substantially all the risks and rewards of ownership of the assets are classified as operating leases.

### *Lease payments*

Payments for operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

Payments for finance leases are apportioned between finance expenses and a reduction of the lease obligations. The finance expense is allocated to each period during the lease term in order to produce a fixed interest rate on the remaining lease obligation.

## INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing the assets to their existing location and condition.

Each machine included in inventory has a specifically identified cost.

The net realisable value is the estimated selling price in the ordinary course of business, less the estimated completion and selling expenses.

## IMPAIRMENT

### *Loans and receivables*

Loans and receivables are tested for impairment on an individual basis at each reporting date. Indications that a receivable is impaired may be that the debtor has not paid in time, or that the debtor is subject to bankruptcy proceedings.

Impairment of financial assets is calculated as the difference between the carrying amount and the present value of the assets' estimated future cash flows, discounted at the original effective interest rate.

Impairment losses are included in profit or loss and reflected in an allowance account against loans and receivables. If the impairment need subsequently decreases, the decrease is reversed through profit and loss.

### *Non-financial assets*

Except for inventories and deferred tax assets, the carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit.

The recoverable amount of an asset is the higher of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the present value and the risks specific to the asset or cash-generating unit. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds the estimated recoverable amount of the asset.

Impairment losses are recognised in profit or loss.

## EMPLOYEE RELATED LIABILITIES

### *Termination costs*

Termination costs are recognised as an expense when the Group becomes committed to either terminate an employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary resignation. Termination benefits for voluntary resignations are recognised as expenses provided that the Group has made an offer of voluntary resignation, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. Benefits that are payable for more than 12 months after the reporting date are discounted to present value.

### *Salaries and other short-term benefits*

Obligations related to salaries and other short-term employee benefits are measured on an undiscounted basis and are expensed as the related services are provided. Liabilities related to short-term cash bonus plans (e.g. bonuses to sales personnel) are recognised when the Group becomes obligated to pay the bonus, and the bonus amount can be estimated reliably.

*Defined contribution plans*

Obligations for contributions to defined contribution plans, such as the Russian State Pension Fund, are recognised as employee benefit expenses in profit or loss in the periods when the related services are rendered.

**WARRANTIES**

The Group provides warranties on new machines and components sold by the Group. The Group's suppliers reimburse the Group for costs incurred as a result of these warranties at agreed rates and amounts. Both the gross provision amount for the warranty and the related receivable from the supplier are recorded.

Provisions for warranties are based on historical data and recognised when the relevant machines/components are sold.

In addition to standard warranties included in the price for sold machines and components, the Group offers its customers extended warranties for 2-3 years for an additional charge. Revenue on sales of such warranties is recognised evenly during the contract term. When extended warranties are sold to customers, the Group also purchases a corresponding extended warranty from the relevant supplier. These are recognised as other receivables and amortised evenly during the contract term.

**REVENUE***Goods sold*

Revenue from sales of machines, parts and other goods is measured at the fair value of the agreed consideration, net of returns and discounts. Revenue is recognised when the significant risks and rewards of the goods are transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted, and the amount can be measured reliably, then the discounts are recognised as a reduction of revenue at the same time as the recognition of the revenue.

The timing of the transfers of risks and rewards can vary depending on the individual delivery terms. Customers generally do not have any right of return and transfers occur upon receipt by the customer.

*Services*

Revenue from sales of service, repairs and other services is normally recognised when the rendered service is completed and invoiced. Revenue from services rendered on uncompleted work is recognised in proportion to the stage of completion at the reporting date. The stage of completion is assessed by reference to surveys of work performed and estimates of time to completion.

**FINANCE INCOME AND COSTS**

Finance income consists of interest income. Interest income is recognised as it accrues, using the effective interest method.

Finance costs consist of interest expense on borrowings and finance leases. Borrowing costs directly attributable to the acquisition, construction or production of property, plant and equipment are capitalized to the cost of the asset. Other borrowing costs are recognised in profit or loss using the effective interest method.

Currency gains and losses are reported on a net basis, depending on the currency movements (net gain or net loss).

**INCOME TAX**

Income tax consists of current and deferred tax and is recognised in profit or loss (unless the tax relates to a business combination or items recognised directly in equity or in other comprehensive income).

Current tax is the tax which the Group is expecting to pay on the taxable result for the period, using applicable tax rates, and potential adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the taxable and carrying amounts of assets and liabilities. Deferred tax is based on the tax rates that are expected to be applied to the temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and deferred tax liabilities are only offset if the Group has a right to offset current tax assets and tax liabilities and if the tax assets and tax liabilities relate to income taxes levied by the same tax authority.

According to Russian law, tax losses and current tax assets of one Group company cannot be offset against taxable profits and current tax liabilities of other Group companies. Further, the tax base is determined separately for each of the Group's main activities. Hence, it is not possible to offset tax losses and taxable profits related to different activities.

Unused tax losses, tax credits and deductible temporary differences are recognised as deferred tax assets if it is probable that there will be taxable profits available in the future against which the assets can be utilised. Deferred tax assets are reviewed at each reporting date and reduced to the extent it is no longer probable that the relevant tax benefit will be realised.

### STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new or amended IFRS standards have been adopted and will become effective in the coming years. Ferronordic has not applied and does not intend to apply these new or amended standards ahead of time.

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial instruments: Recognition and Measurement* as of 2018. The new standard consists of three parts: classification and measurement, impairment, and hedge accounting. Ferronordic will apply IFRS 9 from 1 January 2018. With regard to classification and measurement of the Group's financial instruments, Ferronordic does not anticipate that there will be any change due to the adoption of IFRS 9. The new rules on impairment, based on expected credit losses instead of occurred, will change the calculation of the Group's provisions for doubtful receivables, but this will have no significant impact on the amount of the relevant provisions. With regard to hedge accounting, the new standard will not have any effect since the Group generally does not use hedging.

IFRS 15 *Revenue from contracts with customers* is a new standard for recognition of revenue from customers and related enhanced disclosure requirements that, as of 1 January 2018, will replace IAS 11 *Construction Contracts* and IAS 18 *Revenue* (and related interpretations). Based on IFRS 15, revenue is recognised when control of an asset or service is passed to the customer, which is different from the current standard that is based on transfer of risks and rewards. Save for the enhanced disclosure requirements, the adoption of IFRS 15 will have no significant effect on the recognition of the Group's revenue.

As of 2019, IFRS 16 *Leases* will replace existing IFRS standards relating to recognition of leasing contracts, such as IAS 17 *Leases* and IFRIC 4 *Determining whether an arrangement contains a lease*. Under IFRS 16, the lessee has to recognise all major leases in a way resembling the current recognition of finance leases. As a result, assets and liabilities shall be recognised also with regard to leases which according to the current rules are classified as operational leases, along with associated depreciation and interest expenses in the profit and loss - and not as today where no recognition is made for leased assets and related liabilities, and leasing fees are recognised on a linear basis as operating expenses. Ferronordic, as an operational lessee, will be affected by the introduction of IFRS 16. Quantitative assessments of the effect of IFRS 16 and selection of transition methods have not yet been made.

### INFORMATION ABOUT THE PARENT COMPANY

#### *Parent company accounting principles*

The annual accounts of the parent company are prepared in accordance with the Swedish Annual Accounts Act and RFR 2, Accounting for Legal Entities, issued by the Swedish Financial Reporting Board. According to RFR 2, the parent company's annual accounts shall be prepared by applying all IFRS statements adopted by the EU insofar as this is possible under the Swedish Annual Accounts Act and with regard to the relationship between accounting and taxation. The stated accounting policies have been applied consistently for all periods presented.

#### *Differences between the accounting policies applied for the Group and the parent company*

For the reports of the parent company, the terms 'income statement' and 'balance sheet' are used, while for the reports of the Group, the terms 'consolidated statement of comprehensive income' and 'consolidated statement of financial position' are used. For the parent company, the income statement and balance sheet are presented according to the structure following from the Swedish Annual Accounts Act, while for the Group, the report of changes in equity and cash flow analysis are based on IAS 1 *Presentation of Financial Statements* and IAS 7 *Consolidated cash flow statements*.

For the parent company, holdings in subsidiaries are recognised at cost (less potential impairment losses). Expenses attributable to business combinations are included in cost.

Due to the connection between accounting and taxation, the rules on financial instruments and hedge accounting in IAS 39 are not applied by the parent company.



In the parent company, financial assets are measured at cost (less potential impairment), and financial current assets are measured at the lower of cost and net realizable value. The acquisition cost for fixed-income instruments is adjusted for the accrued difference between initial cost, less transaction costs, and the sum paid on the closing date (premiums and discounts).

The parent company classifies all leases as operating leases.

Shareholders' contributions are recognised in the parent company's balance sheet as an increase of the carrying value of the shares.

#### NOTE 5 » DETERMINATION OF FAIR VALUE

To measure the fair value of an item, the Group uses market observable data as far as possible. Fair values are categorised into different levels as follows:

- **Level 1:** quoted prices (unadjusted) in active markets for identical items
- **Level 2:** other observable inputs for the item, either directly (i.e. prices) or indirectly (i.e. derived from prices)
- **Level 3:** other inputs for the item that are not based on observable market data (unobservable inputs)

If the fair value measurement can be categorised in different levels the measurement is categorised entirely in the lowest level that is relevant for the measurement.

Changes in levels are recognised at the end of the period when the changes occurred.

Fair values of borrowings and finance leases are calculated based on the present value of future cash flows from principal and interest, discounted at the market rate of interest at the reporting date (level 2). For finance leases, the market rate of interest is determined by reference to similar lease agreements.

The Group does not disclose the fair values of short-term receivables and payables since it can reasonably be assumed that the carrying amounts are the same as the fair values.

#### NOTE 6 » SEGMENT REPORTING

The Group has one reportable segment: *Equipment Distribution*. The segment comprises sales and rental of new and used construction equipment and other machinery, contracting services, as well as aftermarket support (sales of spare parts and service). The segment is determined based on the internal reports to the chief operating decision-maker. The chief operating decision-maker, comprising the Group's executive management, is responsible for allocating resources, assessing the performance of the segment, and making strategic decisions.

##### Revenue from Equipment Distribution

Group		
SEK '000	2017	2016
Machine sales	1,765,224	1,028,714
Aftermarket	701,092	566,010
Other revenue	100,915	63,731
Total revenues	2,567,231	1,658,455

The Group operates in one geographic area: Russia. In 2017, no customer represented more than 6% of the Group's total revenue. Almost all of the Group's non-current assets are located in Russia.

The chief operating decision-maker assesses the performance of the segment based on adjusted earnings before interest, tax, depreciation and amortization (EBITDA).

##### Reconciliation of EBITDA to result for the year

Group		
SEK '000	2017	2016
EBITDA	213,777	153,645
Depreciation and amortisation	(26,463)	(31,057)
Impairment of property, plant and equipment	-	(12,558)
Impairment of intangible assets	-	(5,765)
Net foreign exchange gains/(losses)	(2,330)	1,450
Finance income	14,611	9,617
Finance costs	(6,580)	(7,891)
Profit before income tax	193,015	107,441
Income tax	(41,719)	(23,800)
Result for the year	151,296	83,641

**NOTE 7 » SELLING, GENERAL AND ADMINISTRATIVE EXPENSES***Selling expenses*

<b>Group</b>		
SEK '000	2017	2016
Personnel expenses	113,589	91,121
Depreciation	5,248	3,457
Other selling expenses	5,826	4,258
	<b>124,663</b>	<b>98,836</b>

*General and administrative expenses*

<b>Group</b>		
SEK '000	2017	2016
Personnel expenses	98,632	76,154
Depreciation and amortisation	8,061	17,560
Rent	28,967	23,196
Other general and administrative expenses	28,930	20,425
	<b>164,590</b>	<b>137,335</b>

**Parent Company**

SEK '000	2017	2016
Personnel expenses	8,359	8,536
Depreciation and amortisation	5	1,854
Other general and administrative expenses	2,114	2,092
	<b>10,478</b>	<b>12,482</b>

**NOTE 8 » OTHER EXPENSES**

<b>Group</b>		
SEK '000	2017	2016
Bank services	6,111	2,173
Impairment of property, plant and equipment	-	12,558
Impairment of intangible assets	-	5,765
Impairment of trade receivables	(182)	4,944
Sundry expenses	10,489	3,832
	<b>16,418</b>	<b>29,272</b>

**NOTE 9 » FINANCE INCOME AND FINANCE COSTS****Group**

SEK '000	2017	2016
Interest income on bank deposits	14,611	9,617
<b>Finance income</b>	<b>14,611</b>	<b>9,617</b>
Interest expense on finance leasing obligation	(4,621)	(2,785)
Interest expense on bank loans	(330)	(5,106)
Other finance costs	(1,629)	-
<b>Finance costs</b>	<b>(6,580)</b>	<b>(7,891)</b>
<b>Net finance income/(cost)</b>	<b>8,031</b>	<b>1,726</b>

**Parent Company**

SEK '000	2017	2016
Interest income on loans to subsidiary	24,769	27,874
Interest income on bank deposits	101	88
<b>Interest income</b>	<b>24,872</b>	<b>27,962</b>
Interest expense on loans from subsidiary	(5,763)	(4,250)
Other finance costs	(700)	-
<b>Interest costs</b>	<b>(6,464)</b>	<b>(4,250)</b>
<b>Net interest income</b>	<b>18,408</b>	<b>23,712</b>

No finance income or finance costs relate to financial instruments measured at fair value through profit or loss.

**NOTE 10 » INCOME TAXES**

The parent company is a tax resident of Sweden. The applicable tax rate in Sweden for 2017 was 22% (same as last year). The other companies in the Group are tax residents of Russia. The applicable tax rate in Russia for 2017 was 20% (same as last year).

Income tax is calculated separately for each Group entity by multiplying the applicable tax rate with the taxable results for the period. The average tax rate of the Group in 2017 was 21.6% (22.2%).

SEK '000	Group		Parent Company	
	2017	2016	2017	2016
Current tax expense	(34,022)	(27,320)	-	-
Deferred tax benefit / (expense)	(7,697)	3,520	(4,477)	(16,163)
Total income tax expense	(41,719)	(23,800)	(4,477)	(16,163)

**Reconciliation of effective tax rate****Group**

SEK '000	2017		2016	
Result for the year	151,296		83,641	
Total tax expense (income)	(41,719)		(23,800)	
Result before income tax	193,015	100%	107,441	100%
Income tax at applicable tax rate	(39,842)	(20.6%)	(22,038)	(20.5%)
Non-deductible expenses	(1,877)	(1.0%)	(1,762)	(1.6%)
	(41,719)	(21.6%)	(23,800)	(22.2%)

**Parent Company**

SEK '000	2017		2016	
Result for the year	15,816		57,207	
Total income tax expense	(4,477)		(16,163)	
Result before income tax	20,294	100%	73,370	100%
Income tax at applicable tax rate	(4,465)	(22.0%)	(16,141)	(22.0%)
Other items	(12)	-	(22)	-
	(4,477)	(22.0%)	(16,163)	(22.0%)

**NOTE 11 » PROPERTY, PLANT AND EQUIPMENT****Group**

SEK '000	Land	Buildings	Machinery and equipment	Rental fleet	Office equipment	Cars	Under construction	Total
<b>Cost or deemed cost</b>								
Balance 1 January 2017	12,889	45,598	43,886	6,676	8,959	69,269	12,258	199,535
Additions	-	383	9,250	-	1,946	32,193	934	44,706
Transfers from inventory	-	-	19,939	-	-	-	-	19,939
Disposals	-	(24)	(950)	-	(106)	(11,048)	(498)	(12,626)
Transfers to inventory	-	-	(5,419)	(6,676)	-	-	-	(12,095)
Transfers	483	1,128	161	-	208	-	(1,980)	-
Translation difference	(702)	(2,054)	(2,433)	-	(497)	(3,520)	(390)	(9,596)
Balance 31 December 2017	12,670	45,031	64,434	-	10,510	86,894	10,324	229,863
<b>Depreciation and impairment losses</b>								
Balance 1 January 2017	3,725	14,781	23,755	301	8,218	24,833	7,554	83,167
Depreciation for the period	-	4,144	8,263	-	572	12,402	-	25,381
Disposals	-	(24)	(697)	-	(83)	(8,846)	-	(9,650)
Transfers to inventory	-	-	(990)	(301)	-	-	-	(1,291)
Translation difference	(286)	(732)	(1,171)	-	(416)	(1,144)	(215)	(3,964)
Balance 31 December 2017	3,439	18,169	29,160	-	8,291	27,245	7,339	93,643
<b>Carrying amounts</b>								
1 January 2017	9,164	30,817	20,131	6,375	741	44,436	4,704	116,368
31 December 2017	9,231	26,862	35,274	-	2,219	59,649	2,985	136,220

**Group**

SEK '000	Land	Buildings	Machinery and equipment	Rental fleet	Office equipment	Cars	Under construction	Total
<b>Cost or deemed cost</b>								
Balance 1 January 2016	9,829	34,853	24,171	10,869	6,502	37,688	9,587	133,499
Additions	-	486	10,121	-	399	27,282	310	38,598
Transfers from inventory	-	-	-	6,422	-	-	-	6,422
Disposals	-	(574)	(318)	-	(80)	(10,381)	-	(11,353)
Transfers to inventory	-	-	-	(12,872)	-	-	-	(12,872)
Transfers	-	-	577	-	-	-	(577)	-
Translation difference	3,060	10,833	9,335	2,257	2,138	14,680	2,938	45,241
Balance 31 December 2016	12,889	45,598	43,886	6,676	8,959	69,269	12,258	199,535
<b>Depreciation and impairment losses</b>								
Balance 1 January 2016	-	6,641	13,794	4,431	6,065	19,213	-	50,144
Depreciation for the period	-	4,036	4,880	1,631	239	8,189	-	18,975
Impairment	3,567	1,757	-	-	-	-	7,234	12,558
Disposals	-	(499)	(141)	-	(56)	(8,641)	-	(9,337)
Transfers to inventory	-	-	-	(6,351)	-	-	-	(6,351)
Translation difference	158	2,846	5,222	590	1,970	6,072	320	17,178
Balance 31 December 2016	3,725	14,781	23,755	301	8,218	24,833	7,554	83,167
<b>Carrying amounts</b>								
1 January 2016	9,829	28,212	10,377	6,438	437	18,475	9,587	83,355
31 December 2016	9,164	30,817	20,131	6,375	741	44,436	4,704	116,368

Depreciation was allocated as follows: SEK 13,154 thousand (SEK 10,040 thousand) was recognised in cost of sales, SEK 5,248 thousand (SEK 3,457 thousand) was recognised in selling expenses, and SEK 6,979 thousand (SEK 5,478 thousand) was recognised in general and administrative expenses.

*Machines and cars under finance leases*

SEK '000	Rental fleet	Machinery and equipment	Cars	Total
<b>Cost or deemed cost</b>				
Balance 1 January 2017	-	4,927	36,076	41,003
Additions	-	8,002	28,119	36,121
Transfers to inventory	-	(3,251)	-	(3,251)
Buy-out from finance lease	-	-	(7,887)	(7,887)
Translation difference	-	(319)	(2,029)	(2,348)
Balance 31 December 2017	-	9,359	54,279	63,638
<b>Depreciation and impairment losses</b>				
Balance 1 January 2017	-	821	5,193	6,014
Depreciation for the year	-	1,833	7,412	9,245
Transfers to inventory	-	(990)	-	(990)
Buy-out from finance lease	-	-	(3,406)	(3,406)
Translation difference	-	(49)	(296)	(345)
Balance 31 December 2017	-	1,615	8,903	10,518
<b>Carrying amounts</b>				
1 January 2017	-	4,106	30,883	34,989
31 December 2017	-	7,744	45,376	53,120
<b>SEK '000</b>				
<b>Cost or deemed cost</b>				
Balance 1 January 2016	10,868	-	12,644	23,512
Additions	-	4,195	24,129	28,324
Transfers to inventory	(12,134)	-	-	(12,134)
Buy-out from finance lease	-	-	(7,529)	(7,529)
Translation difference	1,266	732	6,832	8,830
Balance 31 December 2016	-	4,927	36,076	41,003
<b>Depreciation and impairment losses</b>				
Balance 1 January 2016	4,432	-	4,114	8,546
Depreciation for the year	1,403	699	3,570	5,672
Transfers to inventory	(6,351)	-	-	(6,351)
Buy-out from finance lease	-	-	(3,742)	(3,742)
Translation difference	516	122	1,251	1,889
Balance 31 December 2016	-	821	5,193	6,014
<b>Carrying amounts</b>				
1 January 2016	6,436	-	8,530	14,966
31 December 2016	-	4,106	30,883	34,989

Cash flows attributable to purchases and disposals of machines in the Group's rental fleet are classified as

operating cash flows in the consolidated statement of cash flows.

**Parent Company**

SEK '000	Office equipment 2017
<b>Cost or deemed cost</b>	
Balance 1 January 2017	59
Additions	-
Disposals	-
Translation difference	-
Balance 31 December 2017	59
<b>Depreciation and impairment losses</b>	
Balance 1 January 2017	45
Depreciation for the period	5
Disposals	-
Translation difference	-
Balance 31 December 2017	50
<b>Carrying amounts</b>	
Balance 31 December 2017	9

SEK '000	Office equipment 2016
<b>Cost or deemed cost</b>	
Balance 1 January 2016	59
Additions	-
Disposals	-
Translation difference	-
Balance 31 December 2016	59
<b>Depreciation and impairment losses</b>	
Balance 1 January 2016	37
Depreciation for the period	8
Disposals	-
Translation difference	-
Balance 31 December 2016	45
<b>Carrying amounts</b>	
31 December 2016	14

**NOTE 12 » INTANGIBLE ASSETS****Group**

SEK '000	Software and software licences	Customer relationship	Franchise agreement	Total
<b>Cost</b>				
Balance 1 January 2017	3,387	101,348	64,072	168,807
Additions – internally developed	1,165	-	-	1,165
Acquisitions – separately acquired	4,150	-	-	4,150
Disposals	(1,932)	(101,348)	(64,072)	(167,352)
Write-off	-	-	-	-
Translation difference	(317)	-	-	(317)
Balance 31 December 2017	6,453	-	-	6,453
<b>Amortisation</b>				
Balance 1 January 2017	1,310	101,348	64,072	166,730
Amortisation for the year	1,082	-	-	1,082
Disposals	(1,395)	(101,348)	(64,072)	(166,815)
Translation difference	(51)	-	-	(51)
Balance 31 December 2017	946	-	-	946
<b>Carrying amounts</b>				
31 December 2017	5,507	-	-	5,507
<b>SEK '000</b>				
SEK '000	Software and software licences	Customer relationship	Franchise agreement	Total
<b>Cost</b>				
Balance 1 January 2016	7,568	77,290	48,863	133,721
Additions – internally developed	984	-	-	984
Acquisitions – separately acquired	1,867	-	-	1,867
Disposals	(3,285)	-	-	(3,285)
Write-off	(5,765)	-	-	(5,765)
Translation difference	2,018	24,058	15,209	41,285
Balance 31 December 2016	3,387	101,348	64,072	168,807
<b>Amortisation</b>				
Balance 1 January 2016	1,701	71,922	45,469	119,092
Amortisation for the year	2,302	5,992	3,788	12,082
Disposals	(3,285)	-	-	(3,285)
Translation difference	592	23,434	14,815	38,841
Balance 31 December 2016	1,310	101,348	64,072	166,730
<b>Carrying amounts</b>				
31 December 2016	2,077	-	-	2,077

Amortisation of SEK 1,082 thousand (SEK 12,082 thousand) was included in general and administrative expenses.

Franchise agreement and customer relationships related to a license agreement with Volvo that was made in 2010 and was valid for six years until 31 May 2016. Since the Group did not have any right to prolong the agreement, the useful life of the assets was limited to six years. The intangible assets arising from the license agreement were fully amortized upon the expiry of the license agreement.

**Parent Company**

SEK '000	License	SEK '000	License
Balance 31 December 2017	-	Balance 31 December 2016	26,577
Amortisation and impairment losses		Amortisation and impairment losses	
Balance 1 January 2017	-	Balance 1 January 2016	24,731
Amortisation for the period	-	Amortisation for the period	1,846
Balance 31 December 2017	-	Balance 31 December 2016	26,577
Carrying amounts		Carrying amounts	
31 December 2017	-	31 December 2016	-

**NOTE 13 » DEFERRED TAX ASSETS AND LIABILITIES***(a) Deferred tax assets and deferred tax liabilities*

Group SEK '000	31 December 2017			31 December 2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	-	(1,654)	(1,654)	1,385	-	1,385
Intangible assets	-	(1,101)	(1,101)	-	(415)	(415)
Inventories	2,555	-	2,555	3,856	-	3,856
Trade and other receivables	2,236	-	2,236	-	(1,992)	(1,992)
Prepayments	1,271	-	1,271	678	-	678
Provisions	2,634	-	2,634	2,031	-	2,031
Deferred income	2,404	-	2,404	1,326	-	1,326
Short-term portion of finance lease liabilities	-	-	-	234	-	234
Long-term portion of finance lease liabilities	-	-	-	-	(1,628)	(1,628)
Trade and other payables	6,527	-	6,527	8,680	-	8,680
Tax loss carry-forwards	26,202	-	26,202	27,438	-	27,438
Tax assets/(liabilities)	43,829	(2,755)	41,074	45,628	(4,035)	41,593
Set off of tax	(1,893)	1,893	-	(3,741)	3,741	-
Net tax assets/(liabilities)	41,936	(862)	41,074	41,887	(294)	41,593

**Parent Company**

SEK '000	31 December 2017			31 December 2016		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Tax loss carry-forwards	20,890	-	20,890	19,343	-	19,343
Net tax assets/(liabilities)	20,890	-	20,890	19,343	-	19,343



*(b) Changes in deferred tax***Group**

SEK '000	1 January 2017	Recognised in profit or loss	Recognised in equity	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2017
Property, plant and equipment	1,385	(3,042)	-	-	3	(1,654)
Intangible assets	(415)	(720)	-	-	34	(1,101)
Inventories	3,856	(1,154)	-	-	(147)	2,555
Trade and other receivables	(1,992)	4,229	-	-	(1)	2,236
Prepayments	678	636	-	-	(43)	1,271
Trade and other payables	8,680	(1,807)	-	-	(346)	6,527
Provisions	2,031	708	-	-	(105)	2,634
Deferred income	1,326	1,161	-	-	(83)	2,404
Short-term portion of finance lease liabilities	234	(229)	-	-	(5)	-
Long-term portion of finance lease liabilities	(1,628)	1,590	-	-	38	-
Tax loss carry-forwards	27,438	(9,068)	6,024	2,114	(306)	26,202
Net tax assets/(liabilities)	41,593	(7,697)	6,024	2,114	(960)	41,074

**Parent Company**

SEK '000	1 January 2017	Recognised in profit or loss	Recognised in equity	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2017
Tax loss carry-forwards	19,043	(4,477)	6,024	-	-	20,590
Other items	300	-	-	-	-	300
Net tax assets/(liabilities)	19,343	(4,477)	6,024	-	-	20,890

**Group**

SEK '000	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2016
Property, plant and equipment	10,139	(10,140)	-	1,386	1,385
Intangible assets	(2,877)	2,858	-	(396)	(415)
Inventories	2,979	(43)	-	920	3,856
Trade and other receivables	(6,358)	5,403	-	(1,037)	(1,992)
Prepayments	216	336	-	126	678
Trade and other payables	3,545	3,433	-	1,702	8,680
Provisions	724	921	-	386	2,031
Deferred income	858	172	-	296	1,326
Short-term portion of finance lease liabilities	385	(230)	-	79	234
Long-term portion of finance lease liabilities	(134)	(1,237)	-	(257)	(1,628)
Tax loss carry-forwards	35,506	2,047	(11,317)	1,202	27,438
Net tax assets/(liabilities)	44,983	3,520	(11,317)	4,407	41,593

**Parent Company**

SEK '000	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2016
Tax loss carry-forwards	35,206	(16,163)	-	-	19,043
Other items	300	-	-	-	300
Net tax assets/(liabilities)	35,506	(16,163)	-	-	19,343

**NOTE 14 » INVENTORIES**

SEK '000	Group		Parent Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Raw materials and consumables	6,829	3,139	-	-
Work in progress	8,080	7,039	-	-
Goods for resale	617,627	456,994	-	-
	632,536	467,172	-	-

Inventories of SEK 1,866,601 thousand (SEK 1,141,380 thousand) were sold during the year and included in cost of sales.

Write-down of inventories to net realisable value of SEK -919 thousand (SEK -168 thousand) was included in cost of sales.

**NOTE 15 » TRADE AND OTHER RECEIVABLES**

SEK '000	Group		Parent Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Trade receivables	201,671	153,808	-	-
Trade receivables due from subsidiaries	-	-	70,607	50,781
VAT receivable	3,830	-	655	78
Warranty claims	9,098	8,095	-	-
Prepaid income tax	4,659	3,473	-	-
Other receivables	23,701	37,063	459	2,157
	242,959	202,439	71,721	53,016

The Group's exposure to credit and currency risks and losses related to trade and other receivables is disclosed in Note 22 (*Financial instruments and risk management*).

**NOTE 16 » CASH AND CASH EQUIVALENTS**

SEK '000	Group		Parent Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Bank balances	225,404	74,261	76,116	5,797
Call deposits	126,834	124,585	34	34
Cash and cash equivalents	352,238	198,846	76,150	5,831

The Group's exposure to interest rate and currency risks and a sensitivity analysis for financial assets and liabilities is disclosed in Note 22 (*Financial instruments and risk management*).

**NOTE 17 » CAPITAL AND RESERVES***(a) Share capital and additional paid-in capital*

Number of shares	Ordinary shares		Preference shares	
	2017	2016	2017	2016
In issue 1 January	10,000,000	10,000,000	500,000	500,000
Issue of new shares in connection with listing	1,333,333	-	-	-
Issue of new shares and share redemption in connection with conversion of preference shares	3,199,101	-	(366,544)	-
Cash redemption of preference shares	-	-	(66,728)	-
In issue 31 December, fully paid	14,532,434	10,000,000	66,728	500,000
Par value per share	SEK 0.089	SEK 0.089	SEK 0.089	SEK 0.089

Each ordinary share entitles to one vote at the general meeting. Each preference share entitles to 1/10 vote at the general meeting.

*Preference shares*

During 2013, Ferronordic issued 500,000 preference shares at a subscription price of SEK 1,000 each. Until the last payment before the AGM 2016, each preference share carried a preferential right to an annual dividend of SEK 100 (provided that the general meeting decides to pay dividends). From the first payment following the AGM 2016 until the first payment after the AGM 2023, the dividend increases by SEK 10 per year. If no dividend is paid, the unpaid amount ("Outstanding Amount") shall be added to future dividends. The Outstanding Amount is increased by 20% per year from the time when the payment should have been made until the dividend is paid in full. No dividends can be paid to the holders of ordinary shares until the preference shareholders have received full payment of any potential Outstanding Amount. The terms of the preference shares are set out in the parent company's articles of association.

*Listing and issue of ordinary shares*

On 29 September 2017, it was announced that Ferronordic intended to list its ordinary shares on Nasdaq Stockholm and to diversify the ownership of the company, partly through an issue of new ordinary shares and partly through a sale of existing shares. The offer in connection with the listing was announced on 16 October 2017. The outcome of the offer was announced on 27 October 2017. The offer was heavily over-subscribed.

Trading in the ordinary shares commenced on 27 October 2017 under the ticker "FNM".

The offer price was SEK 150 per ordinary share, corresponding to a market value of the ordinary shares after the completion of the offer of SEK 1,700 million (excluding ordinary shares attributable to the conversion of preference shares).

The offer comprised 3,002,821 ordinary shares, of which 1,333,333 were new ordinary shares issued by the company. The remaining 1,669,488 ordinary shares were offered by the "Selling Shareholders" (i.e. Skandinavkonsult i Stockholm AB (related party to Håkan Eriksson), Erik Eberhardson (through company), Lars Corneliusson (through company), Fastighets-aktiebolaget Granen, Staffan Jufors, Anders Blomqvist (through company), Onur Gucum (through company), Henrik Carlborg (through company), Kjell Åkesson, Marika Fredriksson and Sixbees AB).

The offer corresponded to 26% of the ordinary shares after completion of the offer (excluding ordinary shares attributable to the conversion of preference shares).

In order to cover potential over-allotment in connection with the offer, certain Selling Shareholders undertook, at the request of Carnegie Investment Bank AB (publ), to sell up to 449,673 additional ordinary shares, corresponding to 15% of the ordinary shares included in the offer and 4% of the ordinary shares after completion of the offer. Carnegie exercised the over-allotment option in full on 3 November 2017.

*Conversion and redemption of preference shares*

In view of the listing of the ordinary shares, on 29 September 2017, the preference shareholders were offered the possibility to convert preference shares to ordinary shares in accordance with the articles of association. On 12 October 2017, it was announced that, as an outcome of the offer, 366,544 preference shares, corresponding to 73% of the preference shares, had been submitted for conversion.

On 6 November 2017, it was announced that, in accordance with the articles of association, the submitted preference shares would be redeemed in exchange for 3,199,101 ordinary shares of series 2. On 27 December 2017, these ordinary shares of series 2 were converted into an equal amount of ordinary shares (which thus became tradable on Nasdaq Stockholm). As a result, the number of ordinary shares increased by 3,199,101 shares from 11,333,333 to 14,532,434.

On 17 November 2017, the Board decided to redeem 66,728 preference shares (corresponding to half of the remaining preference shares) for a total redemption price of approx. SEK 81m.

By reason of the above, the number of shares and votes in Ferronordic increased by 4,099,162 shares and 4,489,106.8 votes. The total number of shares and votes in Ferronordic is currently 14,599,162 shares and 14,539,106.8 votes, divided among 14,532,434 ordinary shares and 66,728 preference shares. The share capital amounts to approximately SEK 1,303,457.

*Expenses related to issue of ordinary shares and conversion of preference shares*

Expenses related to the issue and redemption of shares in connection with the listing of the ordinary shares and the conversion of preference shares amounted to SEK 24,014 thousand (net of tax), of which SEK 23,314 thousand (net of tax) were recognized in equity.

*(b) Translation reserve*

The translation reserve comprises foreign currency differences arising out of translation of financial information of foreign operations from functional currency to presentation currency.

*(c) Dividends*

At the EGM on 22 March 2017 it was decided to pay dividends on preference shares in an amount of SEK 55 per preference share, corresponding to a total dividend of SEK 27.5m. The dividend was paid in April 2017.

At the AGM on 19 May 2017, it was decided to pay dividends on the preference shares in an amount of SEK 60 per preference share, corresponding to a total dividend of SEK 30m. The dividend was paid in October 2017. No decision was made with regard on the preference share dividend in April 2018. Further, it was decided that no dividend should be paid on the ordinary shares.

SEK '000	2017	2016
Dividends paid	60,043	52,500

*Proposed allocation of profit*

The following amount is available for allocation by the AGM:

SEK 450,063,682

The Board proposes that this amount be allocated as follows:

SEK	
Dividend on preference shares	4,030,371
Dividend on ordinary shares	25,141,111
Amount carried forward	420,892,200
<i>of which to the share premium reserve</i>	673,044,392
<b>Total amount allocated</b>	<b>450,063,682</b>

**NOTE 18 » BORROWINGS***a) Short-term borrowings***Group**

SEK '000	31 December 2017		31 December 2016	
	Outstanding balance	Credit facility limit	Outstanding balance	Credit facility limit
<b>Current liabilities</b>				
Secured short term borrowings	-	71,531	-	224,551
Unsecured short term borrowings	-	329,043	-	-
	-	400,574	-	224,551

In February, Rosbank issued a bank guarantee to Volvo for RUB 550m (SEK 79m) as security for the Group's payables. In June 2017, Sberbank issued an additional bank guarantee for RUB 500m (SEK 72m) as security for the Group's payables to Volvo.

In June 2017, Ferronordic Torgovaya Kompaniya LLC entered into a new framework agreement for financial leases with Raiffeisen Leasing. The contract is for an amount of RUB 360m (SEK 52m) and is valid for two years. The facility will partly be used to finance machines used in the Group's contracting services operations.

In June 2017, Ferronordic Machines LLC increased its financial lease agreement with RB Leasing by RUB 50m (SEK 7m) up to RUB 300m (SEK 43m). The increased facility will be used to replace cars in the Group's car fleet.

In August 2017, Ferronordic entered into a new credit agreement with Sberbank regarding a credit facility for RUB 1,300m (SEK 186m). The facility is available until 30 August 2019.

In September 2017, SMP Bank agreed to prolong its existing credit facility of RUB 500m (SEK 72m) to Ferronordic until 27 August 2019.

In December 2017 Sberbank prolonged an existing RUB 1,000m (SEK 143m) credit facility with a new agreement with Ferronordic through May 2019.

*b) Finance lease liabilities*

Future minimum lease payments for machines included in property, plant and equipment and cars in the Group's carpool at 31 December 2017 and 31 December 2016:

**Group**

SEK '000	2017			2016		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	22,541	(3,773)	18,768	13,680	(2,965)	10,715
Between one and five years	23,300	(1,664)	21,636	16,993	(1,669)	15,324
	45,841	(5,437)	40,404	30,673	(4,634)	26,039

At 31 December 2017, the future minimum lease payments for car leasing, payable within one year, amounted to SEK 19,114 thousand (SEK 12,059 thousand), while the corresponding minimum lease payments payable within one to three years amounted to SEK 18,692 thousand (SEK 14,831 thousand).

In 2017 machines with a carrying value of SEK 6,063 thousand were sold to lessor for SEK 7,794 thousand and immediately leased back. The excess of sales proceeds over carrying amount, SEK 1,731 thousand, was deferred over the lease term, see Note 19 (*Deferred income*).

In 2016, the Group did not enter in a sale and leaseback arrangements which resulted in finance leases.

*c) Reconciliation of movements of liabilities to cash flows arising from financing activities*

SEK '000	Finance lease liabilities	Share capital / Additional paid in capital	Retained earnings	Translation reserve	Total
Balance 1 January 2017	26,039	595,216	(13,466)	(139,340)	468,449
<b>Changes from financing cash flows:</b>					
Issue of shares	-	200,000	-	-	200,000
Transaction costs related to issue of shares and redemption of preference shares	-	(27,384)	(700)	-	(28,084)
Redemption of preference shares	-	(80,074)	-	-	(80,074)
Finance lease payments	(20,203)	-	-	-	(20,203)
Leasing financing received	7,794	-	-	-	7,794
Dividend on preference shares	-	-	(58,364)	-	(58,364)
Total changes from financing cash flows	(12,409)	92,542	(59,064)	-	21,069
<b>Other changes equity-related:</b>					
Issue of shares related to conversion of preference shares	-	239,932	-	-	239,932
Redemption of preference shares related to conversion of preference shares	-	(238,253)	-	-	(238,253)
Transaction costs related to issue of shares	-	(1,954)	-	-	(1,954)
Dividend conversion of preference shares	-	-	(1,679)	-	(1,679)
Transaction costs related to issue of share capital recognised in profit and loss statement	-	-	700	-	700
Tax effect on transaction costs recognised in equity	-	6,024	-	-	6,024
Result for the year	-	-	151,296	-	151,296
The effect of changes in foreign exchange rates	(1,553)	-	-	(20,876)	(22,429)
Total changes equity-related	(1,553)	5,749	150,317	(20,876)	133,637
<b>Other changes liability-related:</b>					
New finance leases	28,327	-	-	-	28,327
Total changes liability-related	28,327	-	-	-	28,327
Balance 31 December 2017	40,404	693,507	77,787	(160,216)	651,482

**NOTE 19 » DEFERRED INCOME**

SEK '000	Group		Parent Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred income relating to lease back transactions (short-term)	772	-	-	-
Deferred income relating to service contracts (short-term)	11,248	6,632	-	-
<b>Total</b>	<b>12,020</b>	<b>6,632</b>	<b>-</b>	<b>-</b>
SEK '000	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Deferred income relating to lease back transactions (long-term)	449	-	-	-
<b>Total</b>	<b>449</b>	<b>-</b>	<b>-</b>	<b>-</b>

**NOTE 20 » PROVISIONS**

Group			
SEK '000	Warranties	Other	Total
Balance 1 January 2017	8,095	2,061	10,156
Provisions made during the year	17,659	2,353	20,012
Provisions used during the year	(16,267)	(205)	(16,472)
Translation difference	(389)	(136)	(525)
<b>Balance 31 December 2017</b>	<b>9,098</b>	<b>4,073</b>	<b>13,171</b>
Non-current	-	-	-
Current	9,098	4,073	13,171
	<b>9,098</b>	<b>4,073</b>	<b>13,171</b>

Group			
SEK '000	Warranties	Other	Total
Balance 1 January 2016	3,485	137	3,622
Provisions made during the year	9,187	1,755	10,942
Provisions used during the year	(6,185)	(153)	(6,338)
Translation difference	1,608	322	1,930
<b>Balance 31 December 2016</b>	<b>8,095</b>	<b>2,061</b>	<b>10,156</b>
Non-current	-	-	-
Current	8,095	2,061	10,156
	<b>8,095</b>	<b>2,061</b>	<b>10,156</b>

**Warranties on new machines and components**

The Group's suppliers provide warranties on new machines and components sold to the Group. The Group provides equivalent warranties on new machines and new components sold to its customers. The suppliers of the Group also offer extended warranties for an additional charge, which the Group offers to its customers, also for an additional charge. The costs incurred in respect of provided warranties are reimbursed to the Group at rates and amounts

agreed with the suppliers. The Group records both the gross provision amount of the standard warranties and a receivable from the supplier. Provisions for standard warranties are recognised when the products that the warranties relate to are sold. Warranty provisions are based on historical data. Amounts of expected reimbursement as of 31 December 2017 and 31 December 2016, respectively, are disclosed in Note 15 (*Trade and other receivables*).

**NOTE 21 » TRADE AND OTHER PAYABLES**

SEK '000	Group		Parent Company	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Trade payables	632,754	435,764	54,457	36,491
Advances from customers	41,629	39,123	-	-
Other payables and accrued expenses	41,643	36,129	13,337	8,752
Income tax payable	118	2,090	-	-
Other taxes payable	20,356	34,149	147	52
	<b>736,500</b>	<b>547,255</b>	<b>67,941</b>	<b>45,295</b>

During 2017, the parent company started to purchase machines and parts from the Group's new suppliers, Mecalac, which the parent company sells to its subsidiaries for resale in Russia.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 22 (*Financial instruments and risk management*).

**NOTE 22 » FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

The Group is exposed to various types of credit risk, liquidity risk and market risk, such as currency risk and interest rate risk. The Group has established policies to identify and analyse these risks, to set appropriate limits and controls, and to monitor risks and adherence to limits. Policies and systems for risk management are reviewed regularly to reflect changes in market conditions and the Group's activities.

Through its policies and procedures, and continuous training, the Group aims to develop a control environment where employees understand their roles and obligations. The Board also oversees how management monitors compliance with the Group's policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group has established an internal audit function. The function currently consists of one person, accountable to the audit committee of the Board. The internal auditor is responsible for developing and implementing control procedures in the Group, thereby reducing different operational risks. The implementation of an internal audit function has led to a general improvement in the Group's risk and control management.



## CREDIT RISK

The Group sells machines, parts and service to customers on credit and is therefore exposed to credit risk. The credit risk is influenced mainly by the characteristics of the individual customers. However, management also considers the demographics of the Group's customer base, including the general default risk in the industries where the customers operate.

At 31 December 2017, the top 20 trade receivable balances comprised 52% of the total trade receivable balance.

To minimize credit risk, the Group strives to sell as much as possible without credit. For sales of machines, customers are usually financed by leasing companies that purchase the machines from the Group in cash. For sales of parts and service, the Group typically require payments in advance. However, there are cases where the Group itself offers credits to its customers, both for machine sales and sales of parts and services.

For machines, the Group can sometimes provide credits up to 12 months, but typically with a relatively large down-payment and always with retention right to the sold machines (in some cases, additional

collateral can be requested, usually in the form of sureties from the customers' owners). To satisfy the customers' financing needs, the Group can also offer short-term rental agreements, also up to 12 months, where the Group retains ownership in the machine. Often the customer then purchases the machines from the Group at the expiry of the rental agreement. For parts and service, the Group typically does not require any collateral, but in individual cases, personal sureties are required.

Following the review of the internal audit, the Group's credit policy was updated during 2016 to implement a more structured and robust process for approving credits and setting credit limits. New customers are analysed individually for creditworthiness by the Group's finance and security departments before any credit is offered. The review includes external ratings, when available, searches in various databases, and in some cases bank references. New credits and/or new credit limits are then referred to the regional management and/or to the Group's credit committee for approval, depending on the size of the credit and the recommendation of the finance and security departments.

### (i) Exposure to credit risk

Group			2017	2016
SEK '000	Note		Carrying amount	Carrying amount
Trade receivables	15		201,671	153,808
Cash and cash equivalents	16		352,238	198,846
			553,909	352,654

The risk for trade receivables is entirely related to operations in Russia. Cash and cash equivalents are

mainly held by banks who are rated Ba2 (Moody's) and BBB- (Fitch).

### (ii) Impairment of receivables

#### Aging of trade receivables

Group	31 December 2017		31 December 2016	
	Gross	Impairment	Gross	Impairment
SEK '000				
Not past due	159,734	-	112,615	-
Past due 0-30 days	23,348	-	20,170	-
Past due 31-120 days	15,842	(628)	19,193	(1,420)
Overdue above 120 days	24,236	(20,861)	30,884	(27,634)
	223,160	(21,489)	182,862	(29,054)

*Movement in provisions for trade receivables during the year***Group**

SEK '000	Individual impairments	
	2017	2016
Balance 1 January	(29,054)	(19,539)
Increase during the year	(4,243)	(9,622)
Amounts written off against trade receivables	5,936	1,847
Decrease due to reversal	4,425	4,678
Translation differences	1,447	(6,418)
Balance 31 December	(21,489)	(29,054)

**LIQUIDITY RISK**

The Group strives to maintain sufficient cash and cash equivalents to meet its operational needs and financial commitments. The Group's treasury department continuously monitors cash deficit risks and that the financial liabilities of the Group are discharged on time, using a payment calendar tool.

The treasury department of the Group performs annual, monthly and daily planning to control cash flow.

The cash flows included in the maturity analysis below are not expected occur significantly earlier, or at significantly different amounts.

*Maturities of financial liabilities (including estimated interest payments)***31 December 2017**

SEK '000	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs
Finance lease liabilities	40,404	45,841	11,270	11,271	18,333	4,967
Borrowings	-	-	-	-	-	-
Trade and other payables	674,397	674,397	674,397	-	-	-
	714,801	720,238	685,667	11,271	18,333	4,967

**31 December 2016**

SEK '000	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs
Finance lease liabilities	26,039	30,673	7,057	6,623	11,932	5,061
Borrowings	-	-	-	-	-	-
Trade and other payables	471,893	471,893	471,893	-	-	-
	497,932	502,566	478,950	6,623	11,932	5,061

**CURRENCY RISK**

While most of the Group's sales and purchases are made in Russian rubles, the Group is exposed to currency risk on purchases and borrowings that are denominated in other currencies. These transactions primarily occur in euro, US-dollar, British pound or Swedish krona.

Interest on borrowings is denominated in the currency of the borrowing. In respect of other financial assets and liabilities denominated in foreign currencies, the policy is to ensure that the net exposure is kept at an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

*Exposure to currency risk***Group**

SEK '000	USD	USD	EUR	EUR	SEK	SEK	GBP	GBP
	2017	2016	2017	2016	2017	2016	2017	2016
Cash and cash equivalents	8,363	7,001	17,375	13,383	3,391	7,075	78,248	20,374
Trade and other payables	-	(1,322)	(30,237)	(27,629)	(6,797)	(13,672)	(126,620)	(46,489)
Net exposure	8,363	5,679	(12,862)	(14,246)	(3,406)	(6,597)	(48,372)	(26,115)

*Foreign exchange rates applied during the period*

IN RUB	Average rate		Reporting date spot rate	
	2017	2017	2016	2016
USD	58.4683	57.5429	67.1170	60.7685
GBP	75.2585	77.6202	90.8732	74.6735
EUR	65.9302	68.8492	74.2489	63.9067
SEK	6.8418	6.9900	7.8455	6.6800

*Sensitivity analysis*

A strengthening (weakening) of the ruble against other currencies would at 31 December 2017 have increased (decreased) profit or loss before taxes by the amounts shown below.

The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2016.

	Strengthening	Weakening
<b>31 December 2017</b>		
USD (20% movement)	(1,673)	1,673
EUR (20% movement)	2,572	(2,572)
GBP (20% movement)	9,674	(9,674)
SEK (20% movement)	681	(681)
<b>31 December 2016</b>		
USD (20% movement)	(1,136)	1,136
EUR (20% movement)	2,849	(2,849)
GBP (20% movement)	5,223	(5,223)

**INTEREST RATE RISK**

The Group seeks to borrow funds at fixed interest rates and is therefore normally exposed to limited interest rate risk during the term of its credit facilities. However, as is common in Russia, most of the Group's credit agreements allow the banks to increase interest rates in case of exceptional changes in the key rate of the Russian Central Bank or other force majeure events.

During the last years, the Group has also limited the interest rate risk through strict working capital management in order to minimize the need for external debt financing.

*Profile of interest-bearing financial instruments*

<b>Group</b>		
SEK '000	31 December 2017	31 December 2016
Fixed rate instruments		
Bank deposits	126,834	124,585
Borrowings	-	-
Finance lease liabilities	(40,404)	(26,039)
	86,430	98,546

**FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS**

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. A change in interest rates at the reporting date would therefore not affect profit and loss or equity.

**CAPITAL MANAGEMENT***The Group's debt to capital ratio*

SEK '000	31 December 2017	31 December 2016
Total liabilities	803,406	590,376
Cash and cash equivalents	(352,238)	(198,846)
Net debt	451,168	391,530
Total equity	611,078	442 410
Debt to capital ratio	0.74	0.88

The Group has no formal policy for capital management but seeks to maintain a sufficient capital base for meeting its operational and strategic needs, and to maintain the confidence of market participants. This is achieved by efficient cash management, constant monitoring of the Group's revenues and profit, and long-term investment plans, mainly financed by the Group's operating cash flows.

**CARRYING VALUES AND FAIR VALUES**

The carrying amounts of the Group's financial assets and liabilities as at 31 December 2017 approximate their fair values.

*Offsetting financial assets and liabilities*

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amounts receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events.

Under Russian law, an obligation can only be offset against a similar claim if it is due, has no maturity or is payable on demand.

*Financial instruments subject to the above agreements*

SEK '000	Trade and other receivables	Trade and other payables
<b>31 December 2017</b>		
Gross amounts	22,789	557,850
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	22,789	557,850
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(10,580)	(10,580)
Net amount	12,209	547,270
<b>31 December 2016</b>		
Gross amounts	63,272	389,532
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	63,272	389,532
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(4,643)	(4,643)
Net amount	58,629	384,889

The net amounts presented above are included in the statement of financial position and form part of trade and other receivables and trade and other payables, respectively.

Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

**NOTE 23 » OPERATING LEASES**

The Group rents premises and facilities used for workshops, warehouses and offices. The Group also rents machines and vehicles used to provide services to customers. These rental arrangements are classified as operational leases since the risk and rewards associated with the ownership of the relevant assets have not passed to the Group.

The Group has an option to purchase one of its leased facilities for RUB 200m (SEK 29m).

*Operating lease expenses recognised in profit or loss*

SEK '000	2017	2016
Lease of premises and facilities	34,661	27,124
Lease of equipment	29,133	19,888
	63,794	47,012

Future minimum lease payments related to the Group's non-cancellable operating leases (all relating to lease of premises):

SEK '000	2017	2016
Within one year	3,202	3,350
Within one to five years	1,868	5,304
	5,070	8,654

**NOTE 24 » CAPITAL COMMITMENTS**

At the reporting date the Group had no significant capital commitments.

**NOTE 25 » CONTINGENCIES***Taxation contingencies*

The Russian tax system has been subject to significant changes in recent years as previous legislation regarding important taxes (e.g. corporate tax, transfer pricing, taxing at source, VAT, property tax for companies) has been gradually replaced. The application of the legislation is in many aspects still unclear. The application of established tax rules, such as existing double-taxation treaties, is also subject to regular review.

The Russian tax authorities have historically been aggressive in their interpretation of tax legislation and their enforcement and collection of tax. In practice, the tax authorities often interpret legislation to the disadvantage of the taxpayers, which thus are required to refer to the courts to defend their positions. Consequently, the Group's tax liability may significantly exceed the amounts which thus far have been booked, paid or recognised in the Group's financial statements.

Additional tax liability, as well as unforeseen changes in Russian tax legislation, could have an adverse effect on the Group's business, result and financial position.

**NOTE 26 » RELATED PARTY TRANSACTIONS***Control relationships*

The Group's annual and interim financial statements are made publicly available.

At the end of the year, the members of the management and the Board controlled 36% of the shares and votes in the parent company (68% of the shares and 71% of the votes at the end of 2016).

*Transactions with employees*

Except for regular salary payments and similar, no transactions were made between the Group and its employees during the year.

Remuneration to executive management is included in personnel costs and presented in Note 29 (*Employees, board and executive management*).

*Transactions with other related parties***Parent Company***Revenue*

SEK '000	2017		2016	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Services provided:				
Subsidiaries	12,551	12,378	14,321	9,254
Interest accrued:				
Subsidiaries	24,770	4,932	27,875	2,888
Equipment sold:				
Subsidiaries	131,807	53,313	38,944	38,614
	169,127	70,623	81,140	50,756

*Expenses*

SEK '000	2017		2016	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Interest payable:				
Subsidiaries	(5,763)	(10,282)	(4,250)	(4,887)

*Other balances*

SEK '000	31 December 2017	31 December 2016
Contributions to subsidiaries	193,088	192,949
Loans to subsidiaries	207,097	216,707
Loans from subsidiaries	(50,930)	(45,509)
	349,255	364,147

Services provided constitute compensation from subsidiaries to the parent company for usage of intangible assets related to the Volvo CE dealership business, usage of the Ferronordic trademark, as well as compensation for sureties provided by the parent company to secure the subsidiaries' obligations. The outstanding balance as of 31 December 2017 represents accrued royalties under an intra-group trademark license agreement.

Interest accrued relates to loans from the parent company to subsidiaries in Russia. The loans are unsecured and carry interest at a rate of 9.5% p.a. The loans are in rubles in order to minimize the Group's currency risks.

Equipment sold relates to machines and parts from Dressta, Rottne and Mecalac that the parent company sells to the subsidiaries for resale in Russia.

**NOTE 27 » EVENTS SUBSEQUENT TO THE REPORTING DATE**

Except as described elsewhere in this report, no events requiring disclosure in the financial statements have occurred after the reporting date.

**NOTE 28 » INTERESTS IN GROUP COMPANIES**

As of 31 December 2017, the Group consisted of the following legal entities:

Subsidiary	Corporate Identity Number	Country of incorporation	2017		2016	
			Ownership/ voting	Carrying amount	Ownership/ voting	Carrying amount
Ferronordic Machines AB	556748-7953	Sweden	Parent Company	-	Parent Company	-
Ferronordic Machines LLC		Russia	100%	192,105	100%	192,105
Ferronordic Machines Arkhangelsk LLC		Russia	100%	12,566	100%	12,566
Ferronordic Torgovaya Kompaniya LLC		Russia	100%	2	100%	2
Ferronordic Torgoviy Dom LLC		Russia	100%	981	100%	842
				205,654		205,515

**NOTE 29 » EMPLOYEES, BOARD AND EXECUTIVE MANAGEMENT***(a) Average number of employees*

	2017	of which women	2016	of which women
<b>Parent Company – Citizenship</b>				
Sweden	1	0%	1	0%
<b>Total in Parent Company</b>	<b>1</b>	<b>0%</b>	<b>1</b>	<b>0%</b>
<b>Subsidiaries – Citizenship</b>				
Russia	793	15%	725	15%
Sweden	3	0%	3	0%
Ukraine	2	0%	1	0%
Belarus	1	0%	1	0%
United Kingdom	1	0%	-	0%
Turkey	1	0%	1	0%
<b>Total in subsidiaries</b>	<b>801</b>	<b>15%</b>	<b>731</b>	<b>15%</b>
<b>Total Group</b>	<b>802</b>	<b>15%</b>	<b>732</b>	<b>15%</b>

*(b) Breakdown between men and women in management*

	<b>Group</b>		<b>Parent Company</b>	
	Female representation		Female representation	
	2017	2016	2017	2016
Board	17%	6%	17%	6%
CEO and executive management	14%	16%	0%	0%

*(c) Personnel costs*

SEK '000	2017		2016	
	Salaries and other remuneration	Social security expenses	Salaries and other remuneration	Social security expenses
<b>Parent Company</b>	<b>5,256</b>	<b>2,832</b>	<b>5,703</b>	<b>2,710</b>
(of which pension costs)		1,379		1,228
<b>Subsidiaries</b>	<b>203,903</b>	<b>45,652</b>	<b>155,175</b>	<b>34,120</b>
(of which pension costs)		21,835		21,984
<b>Total</b>	<b>209,159</b>	<b>48,484</b>	<b>160,878</b>	<b>36,830</b>
of which pension costs		23,214		23,212

The personnel costs of the parent company include remuneration to the Board members.



The table below shows salaries and other remuneration (excluding pension costs) distributed between the parent company and its subsidiaries and between executive management and other employees.

The members of the Board and executive management in the parent company, the subsidiaries and the Group in 2017, amounted to 9 (9), 8 (8) and 15 (15), respectively.

SEK '000	2017		2016	
	Board and executive management	Other employees	Board and executive management	Other employees
Parent Company	5,256	-	5,703	-
(of which bonuses)	1,288	-	1,288	-
Subsidiaries	22,786	181,117	16,722	138,453
(of which bonuses)	8,210	64,864	6,097	52,367
<b>Total</b>	<b>28,042</b>	<b>181,117</b>	<b>22,425</b>	<b>138,453</b>
(of which bonuses)	9,498	64,864	7,385	52,367

**(d) Remuneration to the Board**

Total remuneration paid to the Board in 2017 amounted to SEK 1.5m (SEK 2.0m).

At the AGM on 19 May 2017 it was resolved that the remuneration to the Board members should be paid in an amount of SEK 1.5m. Of this amount, SEK 600,000 should be paid to the chairman and SEK 300,000 to each of the other Board members, except for Lars Corneliusson and Erik Eberhardson who were employed by the Group. No additional remuneration should be paid for work on the board committees.

**Board remuneration (SEK '000)**

Name	2017	2016
Per-Olof Eriksson (chairman) (resigned May 2017)	250	600
Magnus Brännström	300	300
Lars Corneliusson	-	-
Erik Eberhardson	-	-
Håkan Eriksson (appointed May 2016)	300	175
Staffan Jufors (chairman) (appointed May 2017)	350	-
Annette Brodin Rampe (appointed May 2017)	175	-
Marika Fredriksson (resigned May 2016)	-	125
Martin Leach (deceased November 2016)	-	500
Kristian Terling (resigned May 2017)	125	300
<b>Total</b>	<b>1,500</b>	<b>2,000</b>

**(e) Remuneration to executive management**

Remuneration to executive management is based on a combination of fixed and variable salaries, with the variable part based on achieved results and individual targets. Potential severance pay to the CEO shall not exceed 12 months salary while severance pay for other senior executives ranges from three to 12 months salary. The principles for remuneration to executive management, as adopted by the AGM, are described in the corporate governance report.

Lars Corneliusson's total remuneration during 2017 amounted to SEK 8,565,000. The right to pension contributions amounts to 12% of the fixed gross salary.

**Executive management**

Name	2017	2016
Nadezhda Arzumanova	full year	full year
Anders Blomqvist	full year	full year
Henrik Carlborg	full year	full year
Lars Corneliusson	full year	full year
Erik Eberhardson	-	until August
Onur Gucum	full year	full year
Alexander Shmakov	full year	from August
Jonathan Tubb	from September	-
Anton Zhelyapov	full year	from August

*Remuneration to the CEO and other members of executive management*

SEK '000	2017			2016		
	CEO	Other executive management	Total	CEO	Other executive management	Total
Fixed salary	4,888	11,423	16,311	4,810	8,201	13,011
Variable salary	2,961	6,537	9,498	2,951	4,434	7,385
Pension costs	716	418	1,134	653	575	1,228
Other benefits	-	710	710	-	71	71
Total	8,565	19,088	27,653	8,414	13,281	21,695

**NOTE 30 » AUDITORS' FEES AND EXPENSES**

SEK '000	Group		Parent Company	
	2017	2016	2017	2016
KPMG				
Audit assignments	1,573	1,433	717	766
Other assignments	185	115	-	
Other				
Other assignments	1,628	193	847	30
	3,386	1,741	1,564	796

**NOTE 31 » EARNINGS PER ORDINARY SHARE**

The calculation of earnings per ordinary share is based on the result attributable to holders of ordinary shares and thus is calculated as the result for the year, less dividends and other value transfers on preference shares related to the period, divided by the average number of ordinary shares outstanding.

The parent company has no dilutive effect on its ordinary shares.

*a) Result attributable to holders of ordinary shares*

SEK '000	2017	2016
Result for the year	151,296	83,641
Dividends on preference shares required for the year	(50,813)	(53,333)
Difference between redemption price and carrying value of redeemed preference shares	(13,966)	-
Result attributable to holders of ordinary shares	86,517	30,308

*b) Average number of ordinary shares*

Number of ordinary shares	2017	2016
Ordinary shares outstanding 1 January	10,000,000	10,000,000
Effect of issue of ordinary shares	241,096	-
Effect of conversion of preference shares to ordinary shares	490,821	-
Weighted-average number of ordinary shares during the year	10,731,917	10,000,000

# Board **signatures**

The Board of Directors and the Managing Director warrant that the annual accounts have been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements have been prepared in accordance with the international financial reporting standards referred to in regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The annual accounts and consolidated financial statements give a true and fair view of the parent company's and Group's financial positions and results. The audit report for the parent company and Group gives a true and fair overview of the development of the parent company's and Group's activities, their financial positions and results, and describes significant risks and uncertainties faced by the parent company and the companies included in the Group.

The annual accounts and consolidated financial statements were approved for release by the Board of Directors on 29 March 2018. The consolidated statement of comprehensive income and the consolidated statement of financial position and the parent company income statement and parent company balance sheet will be submitted for adoption at the Annual General Meeting on 27 April 2018.

Stockholm, 29 March 2018

Staffan Jufors  
Chairman

Annette Brodin Rampe  
Director

Magnus Brännström  
Director

Lars Corneliusson  
Director

Erik Eberhardson  
Director

Håkan Eriksson  
Director

Lars Corneliusson  
Managing Director

Our audit report was submitted on 29 March 2018

KPMG AB

Mattias Lötborn  
Authorised Public Accountant

# Auditor's Report

To the general meeting of the shareholders of Ferronordic Machines AB (publ) , corp. id 556748-7953

## Report on the annual accounts and consolidated accounts

### Opinions

We have audited the annual accounts and consolidated accounts of Ferronordic Machines AB (publ) for the year 2017, except for the corporate governance statement on pages 49-56 and the sustainability report on pages 28-33. The annual accounts and consolidated accounts of the company are included on pages 28-33 and 42-99 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2017 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2017 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 49-56. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the group.

Our opinions in this report on the the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

### Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Key Audit Matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

#### Valuation of inventory

See disclosure 14 and accounting principles on page 70 in the annual account and consolidated accounts for detailed information and description of the matter.

#### Description of key audit matter

The consolidated statement of financial position includes inventory amounting to SEK 633m as at 31 December 2017. Inventory represents 45 % of total assets.

Inventory mainly represents goods for resale with a mix of new and used construction machines, spare parts and attachments. Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in-first-out method (FIFO). The net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The valuation of inventory is presented as a key audit matter as the valuation contain several elements of estimates and judgements from management. This is an effect of the general uncertainty in the Russian economy and due to variable demand over time for construction equipment and spare parts within different geographical areas and segments throughout Russia. There is therefore a risk that the net realisable value of inventory could be lower than the book value and that a write-down will have an impact on the reported result.

#### Response in the audit

We have performed the following substantive procedures:

- Review of Group's model for inventory provision and assessment of the application thereto
- Retrospective review of net realizable value of inventories estimated by the Group as at previous reporting dates by comparing estimate to actual outcome;
- Reconciliation of write-down to net realisable value to supporting schedules and testing of data for accuracy and completeness
- Analysis of sales with negative margin after the reporting date
- Inquiries to sales staff about possibility to sell items, which were without movement for significant period of time and discount relevant to sale these items;
- Attendance at inventory counts

We have also evaluated the completeness of the information in the annual report and assessed whether they correspond to applied accounting principles

## Valuation of accounts receivables

See disclosure 15 and 22 and accounting principles on pages 68 and 70 in the annual account and consolidated accounts for detailed information and description of the matter.

### Description of key audit matter

Consolidated statement of financial position includes accounts receivables amounting to SEK 202m after provision for bad debts by SEK 21.5m as at 31 December 2017.

The Group performs regular assessments of outstanding accounts receivables and provision for bad debts.

The provision for bad debts is based upon an individual assessment of customers ability to pay invoices and is also based upon the number of days of outstanding receivables and payment history.

The valuation of accounts receivable is presented as a key audit matter as the valuation contain several elements of estimates and judgments from management. This is one of the key areas of estimation uncertainty, because Russian economic environment in general and construction industry, where significant portion of Group's customers operate, are unstable. There is therefore a risk that the recoverable amount could be lower than the book value and that a write-down or provision will have an impact on the reported result.

### Response in the audit

We have tested design and implementation of controls implemented by the Group over valuation of trade receivables and adherence to relevant accounting principles.

We have performed the following substantive audit procedures in relation to valuation of trade receivables as at 31 December 2017:

- Review of ageing list of receivables as at 31 December 2017 to verify its accuracy and completeness;
- We examined significant balances overdue more than 90 days at reporting date, but not included in the provision and investigated reasons for non-inclusion.
- We have also considered effect of payments from customers received after year end on valuation of trade receivables as at 31 December 2017
- Retrospective review of the provision recognised as at 31 December 2016 by comparing the amount of provision to actual outcome to obtain information regarding the effectiveness of Group's estimation process and identify potential bias

We have also evaluated the completeness of the information in the annual report and assessed whether they correspond to applied accounting principles

## Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-41. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intend to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

## Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Managing Director.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's, use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

## Report on other legal and regulatory requirements

### Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Ferronordic Machines AB (publ) for the year 2017 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

### Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where

deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

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#### The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 49-56 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

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#### The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the sustainability report on pages 28-33, and that it is prepared in accordance with the Annual Accounts Act.

Our examination has been conducted in accordance with FAR:s auditing standard RevR 12 The auditor's opinion regarding the statutory sustainability report. This means that our examination of the statutory sustainability report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinion.

A statutory sustainability report has been prepared.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Ferronordic Machines AB (publ) by the general meeting of the shareholders on the 19 May 2017. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2010.

Stockholm 29 March 2018

KPMG AB

Mattias Lötborn

Authorized Public Accountant





**Produktion:** Nimbus Communication AB  
**Tryck:** E-Print AB  
**Foto:** Ferronordic Machines  
**Papper:** MultiArt Silk





Ferronordic Machines AB (publ)

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