FERRONORDIC machines

Ferronordic Machines AB

Interim Report January - June 2012

Second Quarter 2012

- Sales revenue amounted to EUR 69.9 m (74.7m)*
- Revenue decrease of 6% Y-o-Y
- Operating profit amounted to EUR 1.1m (4.8m)
- The Operating margin was 1.6% (6.4%)
- EBITDA amounted to EUR 3.4m (6.2m)
- The after-tax result amounted to EUR -3.6m (2.0m)
- Cash flow from operating activities amounted to EUR -10.1m (12.1m)

January - June 2012

- Sales revenue amounted to EUR 127.5 m (116.8m)
- Revenue growth of 9% Y-o-Y
- Operating profit amounted to EUR 0.3m (4.4m)
- The Operating margin was 0.2% (3.8%)
- EBITDA amounted to EUR 4.9m (7.2m)
- The after-tax result amounted to EUR -4.0m (1.3m)
- Cash flow from operating activities amounted to EUR -0.5m (-5.5m)

*Comparative figures for last year are in brackets

Lars Corneliusson, CEO (left) and Erik Eberhardson, Executive Vice Chairman (right)

Lars Corneliusson, the CEO of Ferronordic Machines comments:

Slow-down in market growth

Ferronordic Machines achieved a 9% revenue growth during the first half of 2012 with the number of new machines sold increasing 19% to 648 units. The growth in revenue was slower than the unit growth due to a shift towards smaller machines in the product mix. Revenue from parts and service grew almost 20% and revenue from the rental business grew significantly. EBITDA for the first half 2012 was EUR 4.9m, a decrease with EUR 2.3m compared to H1 2011. The lower earnings were primarily related to increased selling, general and admin expenses as the business and organization expanded throughout Russia and a changed product mix. Cash flow from operating activities was almost breakeven and cash used in investing activities was EUR 5m, resulting in an ending net debt position of EUR 70m.

In the second quarter, the Company experienced for the first time a decline in revenue compared to the same period the year before. Both revenue and new units were below the year before with revenue decreasing 6% and new units 2%. The slowdown in revenue from machine sales was primarily related a slower than expected market development.

We mentioned in our Q1 report published in May 2012 that there were indications of an increased market growth in mid-June. This did not happen and we currently do not anticipate any major changes of the market demand short-term.

The uncertainty created by the Euro crisis has also had an impact on the Russian market and clearly negatively affected the short-term spending decisions among our customers. We continue to monitor the situation closely.

The oil price also dropped significantly during the second quarter from USD 125 / barrel in the beginning of April to approximately USD 90 / barrel during the last few days of June. Since the low point on June 22 when the oil price closed at USD 88.5 / barrel, the price has increased 23% and closed at USD 108.9 / barrel on August 3. In addition, and adding to the uncertainties during the quarter, there were significant changes in the ruble rates vs. major currencies. The difference between the high and low rate versus the EUR was 9% and 15% versus the USD. The closing rates on June 30 had the RUB at almost the weakest rate during the quarter.

Despite the uncertainties and the slowdown in the retail market, the import statistics for construction machines for the first half 2012 have shown stronger numbers than ever before. This has of course led to several distributors, including ourselves, building up fairly high inventory levels. We expect to normalize these levels during the next few months.

The Company has continued to grow throughout Russia, both in terms of number of outlets as well as employees, albeit at a lower pace and more selective than in previous periods. The main driver for opening up new location is the existence of a local population of machines, providing for possibilities for profitability already in a very short term horizon. We have today 62 outlets throughout Russia compared to 53 in the beginning of the year. Number of employees has also increased, from 540 at the end of 2011 to 615 at the end of the quarter.

There are mixed signals from the market as to the situation. Whereas our direct competitors report exactly the same pattern as we do, other closely related industries are not experiencing any signs of a slowdown, not even in the construction segment. In addition, as mentioned above, the oil price is now moving upwards again.

It is currently difficult to estimate the short- and medium term market development. Underlying long-term market fundamentals are strong, but uncertainty is higher than before, thus leading to higher variances in working capital. The increased working capital need together with our lower than expected sales performance during three consecutive months have made us continue and intensify our efforts in consolidating our organization and making it more efficient in order to even better serve our large customer base. Our aim is that these efforts will improve our cash flow and overall profitability of the Company already in 2012.

The business

Ferronordic Machines AB (the "Company") together with its subsidiaries (the "Group") has been the authorized dealer for Volvo Construction Equipment ("Volvo CE") in Russia since 1 June 2010. The business consists of distribution and sales of new Volvo construction equipment, sales of used equipment, sales of other brands' equipment, sales of parts and providing of services and technical support to customers.

Net sales

Consolidated revenue for Q2 2012 decreased by 6% from EUR 74.7m to EUR 69.9m as compared to the same period of 2011. Revenue from sales of new machines decreased by 11% while revenue from spare parts and services increased by 8%.

Consolidated revenue for the first half 2012 increased by 9% from EUR 116.8m to EUR 127.5m compared to the first half 2011. Revenue from sales of new machines increased by 5% and from spare parts and services by 18%.

Gross profit and results from operating activities

Gross profit in Q2 2012 amounted to EUR 10.2m, a 16% decrease as compared to the previous year when the gross profit amounted to EUR 12.2m. Gross profit decreased primarily as a result of changed product mix.

Results from operating activities for Q2 2012 amounted to EUR 1.1m as compared to EUR 4.8m in Q2 2011 due to:

- EUR 2.0m decrease in Q2 2012 gross profit, and
- an increase in selling, general and admin expenses of EUR 1.6m as a result of increased personnel costs and depreciation & amortization expenses. Personnel costs are rising with the opening of new dealer centers.

Gross profit for the first half 2012 increased slightly from EUR 18.3m to EUR 18.4m as compared to the previous year. The revenue increase of 9% was compensated by a decrease in margin from 15.7% to 14.4%, primarily as a result of changed product mix.

Results from operating activities for the first half 2012 amounted to EUR 0.3m as compared to EUR 4.4m in the same period 2011 mainly because of an increase in selling, general and admin expenses of EUR 4.1m.

Result before income tax

The result before income tax for Q2 2012 was EUR 7.1m lower than the same period of 2011, primarily due to:

- the lower results from operating activities of EUR -3.6m;
- an increase in net finance costs of EUR 1.0m; and
- a significant increase in unrealized foreign exchange loss by EUR 2.5m compared to the same period in 2011. The unrealized foreign exchange loss in the amount of EUR 2.7m is primarily related to the appreciation of the Swedish Krona (SEK), the currency in which Group's bonds are denominated, versus the Group's functional currency (RUB).

The result before income tax for the first half 2012 was EUR 7.0m lower than the same period in 2011. The decrease is primarily related to:

- the lower results from operating activities of EUR -4.2m;
- an increase in net finance costs of EUR 2.5m. The Group had double the amount of average outstanding debt in the first half 2012 compared to the same period in 2011 as well as an increased borrowing cost of over 2% compared to the same period in 2011, which resulted in the higher net finance costs; and
- an increase in unrealized foreign exchange loss of EUR 0.4m.

Loss for the period

The result for Q2 2012 in comparison to the same period of 2011 decreased from EUR 2.0m to -3.6m due to the EUR 7.1m decrease in results before income tax, which was partially off-set by EUR 1.5m change in tax

The result for the first half 2012 in comparison to the same period of 2011 decreased from EUR 1.3m to -4.0m due to the EUR 7.0m decrease in results before income tax, again off-set by a positive EUR 1.7m change in tax.

The income tax benefit resulted from a tax loss carry-forward accrued in the first half 2012.

Cash flow

Cash flow used in operating activities in Q2 2012 amounted to EUR -10.1m, compared to EUR 12.1m in cash inflow from operating activities in the same period of 2011. The decrease in cash flow in Q2 2012 is primarily a result of a significant increase in inventory levels as compared to the end of Q1 2012, moreover in Q2 2012 the Group paid bond interest of EUR 5.4m.

In Q2 2012 net cash used in investing activities was EUR 4.3m, significantly higher than in the same period in 2011 (EUR 0.2m). These investments were primarily related to acquiring and developing new dealer centers.

Cash flow from operating activities in the first half 2012 amounted to EUR -0.5m compared to EUR -5.5m in the same period of 2011.

In the first half 2012 net cash used in investing activities was EUR 4.8m, an increase compared to the same period in 2011 (EUR 0.8m).

Financial position

Consolidated cash and cash equivalents at 30 June 2012 and 31 December 2011 were EUR 9.7m and EUR 12.4m, respectively. At 30 June 2012 and 31 December 2011, the Group had interest-bearing liabilities of EUR 79.9m and EUR 75.4m respectively (interest bearing liabilities include debt and obligations under financial leases, both short term and long term).

Total equity at 30 June 2012 was EUR 16.3m and EUR 20.0m at 31 December 2011. The decrease in equity is explained by the net loss of EUR 4.0m in first half of 2012.

Material disputes

Litigation is described in note 25 of the 2011 Annual Report. During Q2 2012 this litigation was resolved in favor of the Group. Contingent liability in amount of EUR 165 thousand related to this case was released in financial statements as of 30 June 2012. There have been no other material disputes during the reporting period.

Outlook

The management team continues to monitor and assess the global and Russian economic situation. Management recognizes the uncertainties in evaluating the impact of a potential recession and continuing instability in Western Europe and the US on the Russian economy and the company's market. It is difficult to estimate the short- and medium term market development; however, underlying long-term market fundamentals are strong, but uncertainty is higher than before.

Pledged assets and contingent liabilities

As disclosed in Note 4(a) the Group used its circulating inventory as collateral for its short-term loans used to finance working capital

Parent company

Revenue for the Q2 2012 and for the Q2 2011 was the same, EUR 125 thousand.

Administrative expenses for Q2 2012 decreased by 43% compared to Q2 2011 and amounted to EUR 345 thousand primarily due to one-off professional services expenses in Q2 2011.

The after tax result for Q2 2012 decreased compared to the same period in 2011 from a EUR 540 thousand loss to a EUR 3,006 thousand loss which is primarily related to a net unrealized exchange loss of EUR 2.5m related to non-Euro denominated liabilities.

Revenue for the first half year 2012 and for the comparable period in 2011 was the same, EUR 250 thousand.

Administrative expenses for the first half 2012 decreased by 16% compared to the first half 2011 and amounted to EUR 751 thousand.

The after tax result for the first half 2012 decreased compared to the same period in 2011, from a EUR 554 thousand loss to a EUR 1,565 thousand loss. The decrease is mainly due to the issuance of the bond in June 2011 which both increased the total debt amount at the parent company level as well as the borrowing cost by 2%.

Noteworthy risks and uncertainties

In the Group's operations there are many types of risks. Identifying, managing and pricing these risks are of fundamental importance to the Group's profitability. Risks are normally of a technical, legal and financial nature, but political, ethical, social and environmental aspects are also part of assessing potential risks.

There have been no changes to what was stated by the Group in its Annual Report for 2011 under financial instruments and risk management (pages 50–56). Management continues to monitor any potential effects of the recent volatility in the international financial markets.

Employees

The number of employees at the end of June totaled 615 which is an increase of 75 employees since the start of the year 2012.

Events after the balance sheet date

No events requiring disclosure in the financial statements have occurred after the balance sheet date.

Accounting principles

See note 1 page 12. Unless otherwise specified in the interim report all statements refer to the Group. Figures in parentheses indicate the outcome for the corresponding period in the previous year.

Condensed consolidated statement of comprehensive income	Note	For the three months ended 30-Jun-12 Unaudited EUR ’000	For the three months ended 30-Jun-11 Unaudited EUR ’000	For the six months ended 30-Jun-12 Unaudited EUR ’000	For the six months ended 30-Jun-11 Reviewed EUR ’000
Revenue	**2**	**69,941**	**74,742**	**127,535**	**116,794**
Cost of sales		(59,692)	(62,527)	(109,177)	(98,501)
Gross profit		**10,249**	**12,215**	**18,358**	**18,293**
Selling, general and administrative expenses		(9,108)	(7,459)	(17,958)	(13,860)
Other income		57	36	68	41
Other expenses		(63)	(15)	(192)	(47)
Results from operating activities		**1,135**	**4,777**	**276**	**4,427**
Finance income		56	26	119	59
Finance costs		(2,146)	(1,150)	(4,247)	(1,731)
Net foreign exchange gains/(losses)		(2,657)	(204)	(636)	(201)
Result before income tax benefit (expense)		**(3,612)**	**3,449**	**(4,488)**	**2,554**
Income tax benefit (expense)		59	(1,433)	484	(1,246)
Result for the period		**(3,553)**	**2,016**	**(4,004)**	**1,308**
Other comprehensive income					
Exchange differences on translating to presentation currency		(1,295)	88	316	(63)
Other comprehensive income for the period, net of tax		**(1,295)**	**88**	**316**	**(63)**
Total comprehensive income for the period		**(4,848)**	**2,104**	**(3,688)**	**1,245**
Result attributable to:					
Owners of the Company		(3,553)	2,016	(4,004)	1,308
Non-controlling interests		-	-	-	-
Result for the period		**(3,553)**	**2,016**	**(4,004)**	**1,308**
Total comprehensive income attributable to:					
Owners of the Company		(4,848)	2,104	(3,688)	1,245
Non-controlling interests		-	-	-	-
Total comprehensive income for the period		**(4,848)**	**2,104**	**(3,688)**	**1,245**

Condensed consolidated statement of financial position	Note	30-Jun-12 Unaudited EUR ’000	31-Dec-11 Audited EUR ’000
ASSETS			
Non-current assets			
Intangible assets		18,411	20,256
Property, plant and equipment		24,141	18,005
Deferred tax assets		982	898
Total non-current assets		**43,534**	**39,159**
Current assets			
Inventories		69,230	62,624
Trade and other receivables		25,282	22,835
Prepayments		211	170
Cash and cash equivalents		9,742	12,403
Other current assets		92	-
Total current assets		**104,557**	**98,032**
TOTAL ASSETS		**148,091**	**137,191**
EQUITY AND LIABILITIES			
Equity			
Non-restricted share capital		95	95
Additional paid in capital		10,579	10,579
Retained earnings		11,011	12,776
Result for the period		(4,004)	(1,765)
Translation reserve		(1,360)	(1,676)
Total equity attributable to equity holders of the Company		**16,321**	**20,009**
TOTAL EQUITY		**16,321**	**20,009**
Non-current liabilities			
Loans and borrowings	3	44,705	43,517
Deferred income		634	714
Deferred tax liabilities		3,068	3,438
Long-term portion of finance lease liabilities		5,979	5,596
Total non-current liabilities		**54,386**	**53,265**
Current liabilities			
Loans and borrowings	3	26,621	23,997
Trade and other payables		44,277	33,994
Deferred income		531	440
Provisions		3,337	3,198
Short-term portion of finance lease liabilities		2,618	2,288
Total current liabilities		**77,384**	**63,917**
TOTAL LIABILITIES		**131,770**	**117,182**
TOTAL EQUITY AND LIABILITIES		**148,091**	**137,191**
Pledged Assets and Contingent Liabilities			
Pledged Assets		20,508	20,337
Contingent Liabilities		904	830

Consolidated statement of changes in equity

EUR '000	Attributable to equity holders of the Company				
	Share capital	**Additional paid in capital**	**Retained earnings**	**Translation reserve**	**Total equity**
Balance at 1 January 2012	**95**	**10,579**	**11,011**	**(1,676)**	**20,009**
Total comprehensive income for the period					
Profit/(loss) for the period	-	-	(4,004)	-	(4,004)
Other comprehensive income	-	-	-	316	316
Total comprehensive income for the period	**-**	**-**	**(4,004)**	**316**	**(3,688)**
Balance at 30 June 2012	**95**	**10,579**	**7,007**	**(1,360)**	**16,321**

EUR '000	Attributable to equity holders of the Company				
	Share capital	**Additional paid in capital**	**Retained earnings**	**Translation reserve**	**Total equity**
Balance at 1 January 2011	**95**	**10,537**	**12,776**	**(824)**	**22,584**
Total comprehensive income for the period					
Profit/(loss) for the period	-	-	1,308	-	1,308
Other comprehensive income					
Exchange differences on translating to presentation currency	-	-	-	(63)	(63)
Total comprehensive income for the period	**-**	**-**	**1,308**	**(63)**	**1,245**
Contributions by and distributions to owners					**-**
Warrant issue	-	42	-	-	42
Total contributions by and distributions to owners	**-**	**42**	**-**	**-**	**42**
Balance at 30 June 2011	**95**	**10,579**	**14,084**	**(887)**	**23,871**

Consolidated cash flow statement	**For the three months ended 30-Jun-12 Unaudited EUR ’000**	**For the three months ended 30-Jun-11 Unaudited EUR ’000**	**For the six months ended 30-Jun-12 Unaudited EUR ’000**	**For the six months ended 30-Jun-11 Reviewed EUR ’000**
Cash flows from operating activities				
Result for the period	(3,612)	3,449	(4,488)	2,554
Adjustments for:				
Depreciation and amortisation	2,308	1,467	4,623	2,802
Loss from write off of receivables	45	283	84	283
Loss (profit) on disposal of property, plant and equipment	-	-	-	(64)
Finance costs	2,146	1,150	4,247	1,731
Finance income	(56)	(26)	(119)	(59)
Net foreign exchange losses/(gains)	2,657	(52)	636	(36)
Cash flows from (used in) operating activities before changes in working capital and provisions	**3,488**	**6,271**	**4,983**	**7,211**
Change in inventories	(20,616)	(68)	(9,360)	(19,279)
Change in trade and other receivables	(1,200)	(4,047)	(2,340)	(9,030)
Change in prepayments for current assets	152	46	(41)	(14)
Change in trade and other payables	14,381	13,000	13,291	17,883
Change in provisions and employee benefits	(12)	(1,164)	117	(600)
Changes in other assets	(96)	-	(96)	-
Change in deferred income	(129)	(786)	(250)	(522)
Change in tax liabilities	-	-	-	384
Cash flows from operations before interest paid	**(4,032)**	**13,252**	**6,304**	**(3,967)**
Income tax paid	-	-	(94)	-
Interest paid	(6,045)	(1,150)	(6,675)	(1,501)
Net cash from/(used in) operating activities	**(10,077)**	**12,102**	**(465)**	**(5,468)**
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment	-	-	-	242
Interest received	24	26	54	59
Acquisition of property, plant and equipment	(4,155)	(951)	(4,585)	(1,715)
Acquisition of intangible assets	(183)	(42)	(277)	(118)
Acquisition of other investments	-	747	-	747
Net cash (used in) investing activities	**(4,314)**	**(220)**	**(4,808)**	**(785)**
Cash flows from financing activities				
Proceeds from issue of warrants	-	16	-	16
Proceeds from bonds	-	42,645	-	42,645
Proceeds from borrowings	43,816	4,954	61,567	12,450
Repayment of loans from investors	-	(24,880)	-	(24,880)
Repayment of other loans	(33,684)	(7,470)	(59,044)	(7,470)
Net leasing financing received (paid)	407	(90)	114	(226)
Net cash from financing activities	**10,539**	**15,175**	**2,637**	**22,535**
Net increase in cash and cash equivalents	**(3,852)**	**27,057**	**(2,636)**	**16,282**
Cash and cash equivalents at start of the period	**14,423**	**9,926**	12,403	20,776
Effect of exchange rate fluctuations on cash and cash equivalents	(829)	(135)	(25)	(210)
Cash and cash equivalents at end of the period	**9,742**	**36,848**	**9,742**	**36,848**

Parent Company statement of comprehensive income	For the three months ended 30-Jun-12 Unaudited	For the three months ended 30-Jun-11 Unaudited	For the six months ended 30-Jun-12 Unaudited	For the six months ended 30-Jun-11 Reviewed
	EUR ’000	EUR ’000	EUR ’000	EUR ’000
Revenue	125	125	250	250
Gross profit	**125**	**125**	**250**	**250**
Administrative expenses	(345)	(601)	(751)	(892)
Results from operating activities	**(220)**	**(476)**	**(501)**	**(642)**
Finance income	1,289	782	2,659	1,565
Finance costs	(1,556)	(757)	(3,028)	(1,383)
Net foreign exchange gains/(losses)	(2,519)	(89)	(695)	(94)
Result before income tax benefit	**(3,006)**	**(540)**	**(1,565)**	**(554)**
Income tax benefit	-	-	-	-
Result for the period	**(3,006)**	**(540)**	**(1,565)**	**(554)**
Total comprehensive income for the period	**(3,006)**	**(540)**	**(1,565)**	**(554)**

Parent Company Balance Sheet	30 June 2012 Unaudited EUR ’000	31 December 2011 Audited EUR ’000
ASSETS		
Non-current assets		
Property, plant and equipment	2	3
Intangible assets	1,958	2,208
Holdings in group Companies	15,426	15,426
Loans to group companies	35,031	34,738
Deferred tax assets	887	870
Total non-current assets	**53,304**	**53,245**
Current assets		
Trade and other receivables	19	2,503
Prepayments	56	53
Cash and cash equivalents	200	845
Total current assets	**275**	**3,401**
Total assets	**53,579**	**56,646**
EQUITY AND LIABILITIES		
Equity		
Non-restricted share capital	100	100
Share Premium Reserve	12,344	12,344
Retained earnings	(2,417)	(299)
Result for the period	(1,565)	(2,118)
Total equity attributable to equity holders of the Company	**8,462**	**10,027**
Total equity	**8,462**	**10,027**
Non-current liabilities		
Loans and borrowings	44,705	43,517
Total non-current liabilities	**44,705**	**43,517**
Current liabilities		
Trade and other payables	412	3,102
Total current liabilities	**412**	**3,102**
Total liabilities	**45,117**	**46,619**
Total equity and liabilities	**53,579**	**56,646**

1. Basis of presentation and summary of significant accounting policies

Functional and presentation currency

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

Accounting policies

The consolidated financial statements for the second quarter of 2012, and financial statements for 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU, the Annual Accounts Act and the Swedish Financial Reporting Board RFR 1, Supplementary Accounting Rules for Groups.
This quarterly report has been prepared in accordance with IAS 34.
The Group uses the same accounting policies as described in the Annual Report for 2011. None of the new or revised standards, interpretations and improvements that have been adopted by the EU and that must be applied from 1 January 2012 has had an effect on the Group.
The Parent Company's financial statements are prepared in accordance with the Swedish Annual Accounts Act (ÅRL) and RFR 2, Accounting for legal entities, and according to the same principles that were applied to the Annual Report for 2011.

Effects of changes in accounting estimates

Significant estimates and assumptions are described in Note 3 in the Annual Report for 2011.
There have been no changes in the significant estimates and assumptions that could have a material impact on this report.

Seasonality

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

2. Operational Segments

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

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

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

	For the three months ended	For the three months ended	For the six months ended	For the six months ended
	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11
	Unaudited	Unaudited	Unaudited	Reviewed
	EUR ’m	EUR ’m	EUR ’m	EUR ’m
Sales of goods	66.6	72.9	121.7	113.8
Revenue from services provided	3.3	1.8	5.8	3.0
Total revenue	**69.9**	**74.7**	**127.5**	**116.8**

The chief operating decision maker assesses the performance of the operating segment based on adjusted earnings before interest, tax, depreciation and amortization (EBITDA). Other information provided to chief operating decision maker is measured in a manner consistent with that in the consolidated accounts for the second quarter 2012.

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

	For the three months ended	For the three months ended	For the six months ended	For the six months ended
	30-Jun-12	30-Jun-11	30-Jun-12	30-Jun-11
	Unaudited	Unaudited	Unaudited	Reviewed
	EUR 'm	EUR 'm	EUR 'm	EUR 'm
EBITDA	3.4	6.2	4.9	7.2
Depreciation and amortisation	(2.3)	(1.5)	(4.6)	(2.8)
Foreign exchange loss	(2.7)	(0.2)	(0.6)	(0.2)
Finance income	0.1	0.0	0.1	0.0
Finance costs	(2.1)	(1.1)	(4.2)	(1.7)
Profit before income tax	(3.6)	3.4	(4.5)	2.5
Income tax benefit/(expense)	0.1	(1.4)	0.5	(1.2)
Profit for the period	(3.6)	2.0	(4.0)	1.3

3. Loans and borrowings

(a) Short-term borrowings

Short term borrowings as of 30 June 2012 consisted of the following:

	Outstanding balance as of 30 June 2012	Credit facility limit
	EUR'000	EUR'000
Secured short term borrowings	16,940	26,620
Unsecured short term borrowings	9,680	12,100
Total	**26,621**	**38,719**

During Q2 2012 the Group used the short term loan facility agreements existing on 31 December 2011. The outstanding amount of secured short term loans as of 30 June 2012 amounted to EUR 16,940 thousands. The average interest rate of these loans was 10.8% p.a. and maturity dates for these loans vary between 123 and 174 days after the reporting date. Facilities availability periods vary between 8 and 11 months after the reporting date. These loans are secured by circulating inventory with carrying amount of EUR 20,508 thousands as of 30 June 2012.

The outstanding amount of unsecured short term loans (including overdraft) as of 30 June 2012 amounted to EUR 9,680 thousands. The average interest rate of these loans was 10.8% p.a.

(b) Long-term borrowings

The Group issued bonds on 28 June 2011 with gross proceeds of SEK (Swedish crowns) 400 million (EUR 43,730 thousand). These bonds are transferable, unconditional, unsecured and unsubordinated debt instrument. The coupon rate for the bonds outstanding as of 30 June 2012 was 12% p.a., with interest payable on an annual basis. Each bond has a nominal amount of SEK one million or full multiples thereof. The redemption date of the bonds is 28 June 2014.

The bond agreement contains a number of covenants including general, information and financial undertakings.
The fees for the bonds issuance were EUR 1.3 million and are recognized against the bond payable amount.
The bonds have initially been recognized at fair value, net of transaction costs incurred. The bonds are subsequently stated at amortized cost; the difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the bonds' period of the bond using the effective interest method.

4. Related party transactions

The Group's related parties and the extent of transactions with related parties are described in note 26 of the 2011 Annual Report.

Parent company

During Q2 2012 and the first half of 2012, the parent company received EUR 125 thousand (EUR 125 thousand) and EUR 250 thousand (EUR 250 thousand) respectively from Ferronordic Machines LLC for the Volvo business sub-license. The parent company also incurred EUR 1.3 million (EUR 0.8 million) and EUR 2.7 million (EUR 1.6 million) in interest income from subsidiary in Q2 2012 and the first half of 2012 respectively. On 19 June 2012 an interest payment in the amount of EUR 5.4m was received by the parent company from Ferronordic Machines LLC.

5. Events after the balance sheet date.

No events requiring disclosure in the financial statements have occurred after the balance sheet date.

Financial reports during 2012

Ferronordic Machines' interim reports as well as the year-end reports are available for downloading on Ferronordic Machines' website, www.ferronordic.ru and can also be ordered from Ferronordic Machines, Investor Relations. The Group's remaining reports for 2012 will be published on the following dates:

November 2012	Interim Report January-September 2012
February 2013	Year-end Report January-December 2012

Stockholm, 15 August 2012

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