Ferronordic Machines AB

Interim Report January - March 2012

First Quarter 2012

- Revenue growth of 37% Y-o-Y
- Sales revenue amounted to EUR 57.6m (42.1m)
- Operating profit amounted to EUR 1.2m (-0.3m)
- The Operating margin was 2.0% (-0.8%)
- EBITDA for the first quarter was EUR 1.5m (1.1m)
- The after-tax result amounted to EUR -0.5m (-0.7m)
- Cash flow from (used in) operating activities amounted to EUR 9.6m (-17.6m)
- Lars Corneliusson appointed President and CEO of Ferronordic Machines LLC

VCE groundbreaking event on April 18th, 2012 for a new excavator factory in Kaluga, 200 km South-West of Moscow.

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

Lars Corneliusson, the CEO of Ferronordic Machines comments:

Ferronordic Machines experienced strong growth in the first quarter of 2012 with the number of machines sold increasing almost 70% Y-o-Y to 294 units. The product mix however shifted somewhat towards smaller machines, e.g. backhoe loaders, resulting in a smaller increase in revenue of 37% to EUR 58 million. Revenue from machine sales increased 35%, from parts 30% and from service 35%. In addition, revenue from the rental business grew significantly. EBITDA for the quarter was EUR 1.5m, an increase with approximately 34% compared to Q1 2011. Cash flow from operating activities was solid, resulting in a decrease in net debt from EUR 63 million at the end of 2011 to EUR 56 million at the end of the quarter.

In the first quarter we have continued to reduce our inventory levels and improve the quality of our inventory. In total, the value of the inventory was reduced almost EUR 10 million. This is a result of a more centralized approach to inventory management as well as a close dialogue and improved logistics process with Volvo CE. In the first quarter we have also made significant efforts in consolidating our organization and making it more efficient in order to even better serve our large customer base.

The Company has also continued to grow throughout Russia, both in terms of number of outlets as well as employees. We have today 56 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 561 at the end of the quarter.

The lower revenue in Q1 2012 compared to Q4 2011 was expected. The first quarter of the year is traditionally the weakest quarter of the year due to the holiday period in January, the shorter month of February and extreme weather conditions in more or less the entire country.

The construction equipment market also grew significantly with the number of imported units almost doubling in quantity during the first two months of the year compared to the same period last year. Out of the main product lines the importation of Backhoe loaders increased by 117%, whereas Excavators enjoyed a somewhat smaller increase of 48%.

Despite the strong growth in our sales many customers have experienced a slowdown in governmental disbursements in the last few months. Contractors are performing works, and are awarded new contracts, but they are not getting paid. Reportedly, the main contributing factor to this is the perceived uncertainty of potential personnel changes within the Government and different authorities following Mr. Putin's inauguration as President on May 7th. Obviously, this has a negative effect in investment decisions into new construction machinery. We expect the effects of this relative slowdown in growth to continue until mid-June but do not expect any long term impact on demand in the market.

With an oil price forecasted to continue at above 100 USD/barrel and a budget deficit as low as around 1% of GDP the consensus forecast for the GDP development of the Russian economy in 2012 remains one of the highest in the World at close to 4%. The financial instability in the Eurozone however continues to affect the sentiment to a certain extent. Overall, we remain cautiously optimistic as we look forward through the remaining quarters of 2012, but continue to follow the key risks created by the international economic instability and the potential effects on business conditions in Russia.

The business

Ferronordic Machines AB (the "Company") together with its subsidiaries (the "Group") 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 Q1 2012 increased by 37% (from EUR 42.1m to 57.6m) as compared to the same period of 2011.

Revenue from sales of new machines increased by 35% and from spare parts and services by 31%.

Gross profit and results from operating activities

Gross profit in Q1 2012 amounted to EUR 8.1m, a EUR 2.1m, or 33%, increase as compared to the previous year when gross profit amounted to EUR 6.0m. Gross profit increased in line with revenue and the margin was down slightly to 14.1% compared to 14.5% in 1Q 2011, primarily as a result of the changed product mix.

Results from operating activities for Q1 2012 amounted to EUR 1.2m as compared to a loss of EUR 0.3m in Q1 2011. The EUR 2.0m increase in gross profit was offset by an increase in selling and general expenses of EUR 2.4m. The increase in selling and general expenses was primarily related to increased personnel costs and depreciation & amortization expenses. Other income in Q1 2012 includes unrealized foreign exchange gain in the amount of EUR 2.0m primarily related to the Group's non-Euro denominated liabilities.

Operating loss before income tax

The operating loss before income tax for Q1 2012 slightly decreased as compared to the same period of 2011. The higher results from operating activities of EUR 1.5m were offset by an increase in net finance costs of EUR 1.5m. The Group had higher amount of average outstanding debt in Q1 2012 as compared to the same period of the previous year which resulted in the higher net finance costs.

Loss for the period

The loss in Q1 2012 in comparison to the same period of 2011 decreased from EUR -0.7m to -0.5m due to EUR 0.2m increase in income tax benefit. The increased income tax benefit resulted from a tax loss carry-forward.

Cash flow

Cash flow from operating activities in Q1 2012 amounted to EUR 9.6m, compared to EUR -17.6m used in operating activities in the same period of 2011. The increase in cash inflow in Q1 2012 is a result of an overall increase in trading activity and decrease in inventory levels as compared to the end of year 2011.

For Q1 2012 net cash used in investing activities amounted to EUR 0.5m, slightly less than in the same period in 2011.

The Group used its cash inflow from operating activities in Q1 2012 (EUR 9.6m) to fund outflow to investing activities (EUR 0.5m), to repay its short term borrowing in the amount of EUR 7.6m (net) and lease liability in the amount of EUR 0.3m. In Q1 2011 the Group used cash available on accounts and net proceeds from short-term borrowing in amount of EUR 7.5m to finance its operating and investing activities.

Financial position

Consolidated cash and cash equivalents at 31 March 2012 and 31 December 2011 were EUR 14.4m and EUR 12.4m, respectively. At 31 March 2012 and 31 December 2011, the Group had interest-bearing liabilities of EUR 70.5m and EUR 75.4m respectively (interest bearing liabilities include debt and obligations under financial leases, both short term and long term).

Total equity at 31 March 2012 was EUR 21.2m and EUR 20.0m at 31 December 2011.

Material disputes

Litigation is described in note 25 of the 2011 Annual Report. There have been no other material disputes during the period in the Group.

Outlook

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

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 first quarter 2012 and for the first quarter 2011 was the same in amount of EUR 125 thousand.

Administrative expenses for the first quarter 2012 increased by 40% to EUR 406 thousand.

The after tax income for the first quarter 2012 increased comparing to the same period 2011 from a EUR14 thousand loss to a EUR 1,441 thousand income which is explained by a net unrealized exchange gain of EUR 1.8m related to non-Euro denominated liabilities.

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 March totaled 561 which is an increase of 21 employees since the start of the year 2012.

Events after the balance sheet date

On April 18, 2012 it was announced that Lars Corneliusson had been appointed President and CEO of Ferronordic Machines LLC. Lars Corneliusson has since March 1, 2011 held the position as COO of the company. Erik Eberhardson was at the same time appointed Executive Vice Chairman of the Board of Directors of Ferronordic Machines AB. Erik Eberhardson will continue to focus on Business Development including investments into the Group's wholly-owned dealer network, new products, and key customer- and investor relations.

No other 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 31 Mar 2012 Unaudited EUR '000**	**For the three months ended 31 Mar 2011 Unaudited EUR '000**
Revenue	**2**	**57,594**	**42,052**
Cost of sales		(49,485)	(35,974)
Gross profit		**8,109**	**6,078**
Selling, general and administrative expenses		(8,850)	(6,401)
Other income		2,031	4
Other expenses		(128)	(29)
Results from operating activities		**1,162**	**(348)**
Finance income		63	33
Finance costs		(2,101)	(581)
Net finance costs		**(2,038)**	**(548)**
Result before income tax benefit (expense)		**(876)**	**(896)**
Income tax benefit (expense)		424	186
Result for the period		**(452)**	**(710)**
Other comprehensive income			
Exchange differences on translating to presentation currency		1,611	(151)
Other comprehensive income for the period, net of income tax benefit		**1,611**	**(151)**
Total comprehensive income for the period		**1,159**	**(861)**
Result attributable to:			
Owners of the Company		(452)	(710)
Non-controlling interests		-	-
Result for the period		**(452)**	**(710)**
Total comprehensive income attributable to:			
Owners of the Company		1,159	(861)
Non-controlling interests		-	-
Total comprehensive income for the period		**1,159**	**(861)**

Condensed consolidated statement of financial position	**Note**	**31 March 2012** **Unaudited** **EUR ’000**	**31 December 2011** **Audited** **EUR ’000**
ASSETS			
Non-current assets			
Intangible assets		20,381	20,256
Property, plant and equipment		20,466	18,005
Deferred tax assets		1,109	898
Total non-current assets		**41,956**	**39,159**
Current assets			
Inventories		53,911	62,624
Trade and other receivables		25,497	22,835
Prepayments		374	170
Cash and cash equivalents	3	14,423	12,403
Total current assets		**94,205**	**98,032**
TOTAL ASSETS		**136,161**	**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		(452)	(1,765)
Translation reserve		(65)	(1,676)
Total equity attributable to equity holders of the Company		**21,168**	**20,009**
TOTAL EQUITY		**21,168**	**20,009**
Non-current liabilities			
Loans and borrowings	4	44,146	43,517
Deferred income		722	714
Deferred tax liabilities		3,429	3,438
Long-term portion of finance lease liabilities		5,977	5,596
Total non-current liabilities		**54,274**	**53,265**
Current liabilities			
Loans and borrowings	4	17,871	23,997
Trade and other payables		36,281	33,994
Deferred income		493	440
Provisions		3,532	3,198
Short-term portion of finance lease liabilities		2,542	2,288
Total current liabilities		**60,719**	**63,917**
TOTAL LIABILITIES		**114,993**	**117,182**
TOTAL EQUITY AND LIABILITIES		**136,161**	**137,191**
Pledged Assets and Contingent Liabilities			
Pledged Assets		10,818	20,337
Contingent Liabilities		943	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			(452)		(452)
Other comprehensive income				1,611	1,611
Total comprehensive income for the period	**-**	**-**	**(452)**	**1,611**	**1,159**
Balance at 31 March 2012	**95**	**10,579**	**10,559**	**(65)**	**21,168**

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	-	-	(710)	-	(710)
Other comprehensive income	-	-	-	(151)	(151)
Total comprehensive income for the period	**-**	**-**	**(710)**	**(151)**	**(861)**
Balance at 31 March 2011	**95**	**10,537**	**12,066**	**(975)**	**21,723**

Consolidated cash flow statement	For the three months ended 31 Mar 2012 Unaudited EUR '000	For the three months ended 31 Mar 2011 Unaudited EUR '000
Cash flows from operating activities		
Result for the period	(876)	(896)
Adjustments for:		
Depreciation and amortisation	2,315	1,336
Loss from write off of receivables	39	-
Loss (profit) on disposal of property, plant and equipment	-	(64)
Finance costs	2,101	548
Finance income	(63)	-
Net foreign exchange losses/(gains)	(2,021)	17
Cash flows from (used in) operating activities before changes in working capital and provisions	**1,495**	**941**
Change in inventories	11,256	(19,212)
Change in trade and other receivables	(1,140)	(4,983)
Change in prepayments for current assets	(193)	(60)
Change in trade and other payables	(1,090)	4,884
Change in provisions and employee benefits	129	564
Change in deferred income	(121)	264
Change in tax liabilities	-	384
Cash flows from operations before interest paid	**10,336**	**(17,218)**
Income tax paid	(94)	-
Interest paid	(630)	(350)
Net cash from/(used in) operating activities	**9,612**	**(17,568)**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	-	242
Interest received	63	33
Acquisition of property, plant and equipment	(463)	(765)
Acquisition of intangible assets	(94)	(77)
Net cash (used in) investing activities	**(494)**	**(567)**
Cash flows from financing activities		
Proceeds from borrowings	17,752	7,496
Repayment of other loans	(25,360)	-
Net leasing financing received (paid)	(293)	(135)
Net cash from financing activities	**(7,901)**	**7,361**
Net increase in cash and cash equivalents	**1,217**	**(10,774)**
Cash and cash equivalents at start of the period	**12,403**	**20,776**
Effect of exchange rate fluctuations on cash and cash equivalents	803	(76)
Cash and cash equivalents at end of the period	**14,423**	**9,926**

Parent Company statement of comprehensive income	For the three months ended 31 Mar 2012 Unaudited EUR '000	For the three months ended 31 Mar 2011 Unaudited EUR '000
Revenue	125	125
Gross profit	125	125
Administrative expenses	(406)	(291)
Other income/(expenses)	1,824	(5)
Results from operating activities	1,543	(171)
Finance income	1,370	783
Finance costs	(1,472)	(626)
Net finance costs	(102)	157
Result before income tax benefit	1,441	(14)
Income tax benefit	-	-
Result for the period	1,441	(14)
Total comprehensive income for the period	1,441	(14)

Parent Company Balance Sheet	31 March 2012 Unaudited EUR ’000	31 December 2011 Audited EUR ’000
ASSETS		
Non-current assets		
Property, plant and equipment	3	3
Intangible assets	2,083	2,208
Holdings in group Companies	15,427	15,426
Loans to group companies	28,021	34,738
Deferred tax assets	880	870
Total non-current assets	**46,414**	**53,245**
Current assets		
Trade and other receivables	4,155	2,503
Prepayments	62	53
Cash and cash equivalents	9,389	845
Total current assets	**13,606**	**3,401**
Total assets	**60,020**	**56,646**
EQUITY AND LIABILITIES		
Equity		
Restricted equity		
Share capital (100,000 shares)	100	100
Unrestricted Equity		
Share Premium Reserve	12,344	12,344
Retained earnings	(2,417)	(299)
Result for the period	1,440	(2,118)
Total equity attributable to equity holders of the Company	**11,467**	**10,027**
Total equity	**11,467**	**10,027**
Non-current liabilities		
Loans and borrowings	44,146	43,517
Total non-current liabilities	**44,146**	**43,517**
Current liabilities		
Trade and other payables	4,407	3,102
Total current liabilities	**4,407**	**3,102**
Total liabilities	**48,553**	**46,619**
Total equity and liabilities	**60,020**	**56,646**
Pledged Assets and Contingent Liabilities		
Pledged Assets	-	-

1. Basis of presentation and summary of significant accounting policies

Functional and presentation currency

Items included in the various units of the Group and the Parent Company are valued in the currency in which each company primarily operates (functional currency). For the all companies in the Consolidated Group the functional currency is the national currency of the Russian Federation the Russian 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 first 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 the Year-end Report.

Seasonality

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

2. Operational Segments

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

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

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

	For the three months ended 31 Mar 2012 Unaudited	**For the three months ended 31 March 2011 Unaudited**
	EUR 'm	EUR 'm
Sales of goods	55.1	40.9
Revenue from services provided	2.5	1.2
Total revenues	**57.6**	**42.1**

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 first quarter 2012.

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

	For the three months ended 31 Mar 2012 Unaudited EUR ’m	For the three months ended 31 Mar 2011 Unaudited EUR ’m
EBITDA	1.5	1.1
Depreciation and amortisation	(2.3)	(1.3)
Foreign exchange loss	2.0	(0.1)
Finance income	0.1	0.0
Finance costs	(2.1)	(0.6)
Profit before income tax	(0.9)	(0.9)
Income tax benefit/(expense)	0.4	0.2
Profit for the period	(0.5)	(0.7)

3. Cash and cash equivalents

Cash and cash equivalents as of 31 March 2012 included restricted cash in amount of EUR 1.9m. Restricted cash presented the covered letter of credit for future capital investments.

4. Loans and borrowings

(a) Short-term borrowings

Short term borrowings as at 31 March 2012 consisted of the following:

	Outstanding balance as of 31 March 2012 EUR’000	Credit facility limit EUR’000
Secured short term borrowings	8,935	28,082
Unsecured short term borrowings	8,935	12,765
Total	**17,871**	**40,847**

During Q1 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 31 March 2012 amounted to EUR 8,935 thousands. The average interest rate of these loans was 10.8% p.a. and maturity dates for these loans vary between 25 and 48 days after the reporting date. Facilities availability periods vary between 11 and 14 months after the reporting date. These loans are secured by circulating inventory with carrying amount of EUR 10,818 thousands as 31 March 2011.

The outstanding amount of unsecured short term loans (including overdraft) as of 31 March 2012 amounted to EUR 8,935 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 31 March 2012 was set at 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 bonds agreement contains the 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.

5. 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 the Q1 2012, the parent company received EUR 125 thousand (EUR 125 thousand) from Ferronordic Machines LLC for the Volvo business sub-license. The parent company also accrued EUR 1.4 million (EUR 0.8 million) in interest income from subsidiary. During Q1 2012, EUR 6.7 million of the intercompany loan was repaid by Ferronordic Machines LLC.

6. Events after the balance sheet date.

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

Annual General Meeting

The Annual General Meeting will be held on May 28, 2012 in Stockholm. The invitation to the meeting was published on April 27, 2012.

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 reports for 2012 will be published on the following dates:

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

Stockholm, 15 May 2012

Per-Olof Eriksson
Chairman

Anders Blomqvist
Group CFO

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