Ferronordic Machines AB

Annual Report 2012

Contents

Directors' Report

The Board of Directors of Ferronordic Machines AB, corp. id. 556748-7953, hereby presents their annual report and consolidated financial statements for the financial year 2012. All amounts in EUR millions ("EUR m") unless otherwise stated. Amounts in brackets refer to the financial year 2011 if not otherwise stated.

The business

Ferronordic Machines AB (the "Company"), organised under the laws of Sweden with registered number 556748-7953, and its subsidiaries comprise the Group (the "Group"). The Company's registered office is Hovslagargatan 5B, SE-111 48 Stockholm, Sweden. The Group has administrative offices in Stockholm, Sweden and Moscow, Russian Federation ("Russia"). The Group's Moscow office provides support functions including purchasing, business development, IT, communications, HR, legal affairs, and accounting and finance. In addition, the Group has sales and service locations throughout Russia.

The Group was created to acquire and operate, as its principal activity, the Volvo Construction Equipment (Volvo CE) distribution business in Russia. The acquisition occurred on 27 May 2010, see note 5 to the financial statements for year 2011. Through this transaction, the Group became the authorized Volvo CE dealer in Russia. The Group's operation consists of distribution and sales of new Volvo construction equipment, sales of used equipment, rental of equipment, sales of other brands' equipment, sales of parts and providing of services and technical support to customers.

The Group's customers operate in Russia in many different industries including oil and gas, mining, forestry, road and general construction, public utilities, municipal services and other industries.

Activities in 2012 compared to 2011

Ferronordic Machines generated all-time high revenue of EUR 275.8m in 2012, a 2.9% increase compared to 2011. Whereas new machines revenue decreased by 2.8%, the number of new machines sold increased by 4.6% to 1,370 units, which is also all time high deliveries of Volvo CE machines in Russia. Revenue from parts and service grew 16.5%. EBITDA in 2012 was EUR 13.4m, a 9% increase compared to EUR 12.3m in 2011. The Group managed to increase gross margin through a changed revenue mix and improved price realization. The higher gross profit was partly offset by higher operating expenses as the Group continued its expansion throughout Russia, albeit at a slower pace than in 2011. The net loss, excluding amortization of transactions related intangibles, was EUR 1.2m, primarily due to EUR 0.4m of unrealized FX losses and higher financial costs. Cash flow from operating activities was EUR 16.6m and cash used in investing activities was EUR 8.9m, resulting in an ending net debt position of EUR 63.9m[1].

2012 was year with four fairly different quarters.

- The first quarter showed very strong growth 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.
- In the second quarter, the Group experienced for the first time a decline in revenue compared to the same period the year before. Both revenue and sale of new units were below 2011 numbers with revenue decreasing 6% and new units 2%. The slowdown in revenue from machine sales was primarily related to a slower than expected market development, as a result of a relative slowdown in GDP growth, uncertainties surrounding the Russian presidential election and governmental cash disbursement to contractors. The

[1] All the interest-bearing liabilities less cash and cash equivalents.

unexpectedly low total market development started to push inventories up in the industry, including the Group's inventory.

- In the third quarter, despite a continuing weaker market, the Group experienced a 9% increase in revenue compared to the same period the year before. During the period, 391 new units were sold, a 9% increase over the third quarter 2011. During the quarter we managed to capture market opportunities in geographical areas previously operated by smaller independent dealers with low market shares, outside of traditionally stronger territories for Volvo CE in Russia (such as North West and Central Russia).
- The fourth quarter was fairly weak from a revenue and unit perspective as some competitors pushed prices down following the inventory build-up in the second and third quarters. Despite this, we saw a strong improvement in our gross margin during the quarter following several price realization and efficiency measures implemented by the Group.

The management have worked hard during the year in consolidating the organization and making it more efficient. These initiatives produced results mainly in the second half of the year. Furthermore, the Group have been more selective in opening new outlets and in recruiting new personnel. Following a build-up of a high inventory in Q2 and the beginning of Q3, as a result of the slower than expected market, the management have worked hard in optimizing inventory management and reaching an optimal inventory level and mix and believe that we are getting close. The Group's focus on competence development is continuing and our own training centre in Moscow has been operational since mid-year 2012.

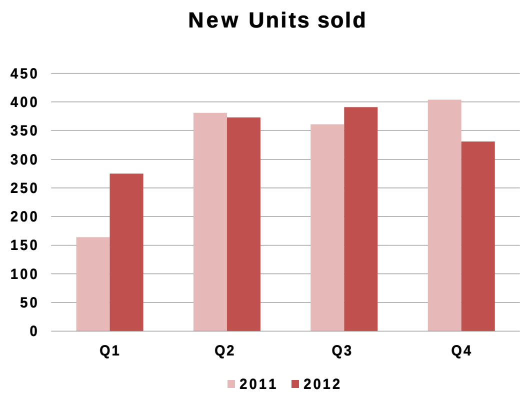
The Company issued bonds on 28 June 2011 with gross proceeds of SEK (Swedish crowns) 400 million (EUR 43,730 thousand). On 5 June 2012, the Company was admitted by NASDAQ OMX Stockholm AB as an Issuer of Fixed Income Securities. The first day of trading was 8 June 2012.

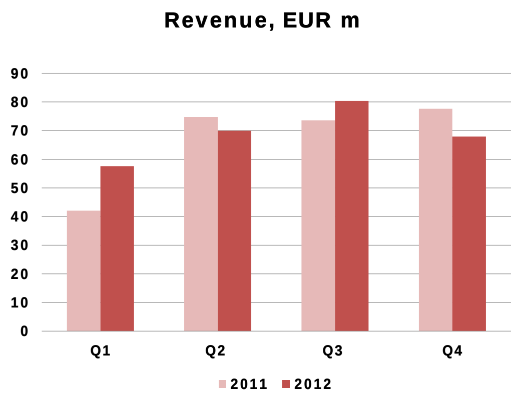
Expansion in Russia

In 2012, the Group continued to increase its presence throughout Russia and have now established a very strong platform from which to further grow the revenue. The number of sales- and/or service locations increased from 53 to 69 and employees from 540 to 654. During the year the Group have established a firm foothold in Siberia and Far East, two regions traditionally weak for the Volvo CE business.

Net sales

Consolidated revenue for the twelve months 2012 increased by 3% from EUR 268.0m to EUR 275.8m compared to the same period of 2011. Revenue from sales of new machines decreased by 3% while revenue from spare parts and services increased by almost 17%.





Gross profit and results from operating activities

Gross profit for the twelve months 2012 increased from EUR 37.4m to EUR 42.0m as compared to the previous year. The margin increased from 13.9% to 15.2%. The improved margin was primarily related to an increased share of spare parts and services sales as well as better price realization on machine sales.

Results from operating activities for 2012 amounted to EUR 3.1m as compared to EUR 5.9m in the same period 2011.Increase in gross profit of EUR 4.6m was offset by an increase in selling, general and administrative expenses of EUR 7.7m.

Earnings after financial items

The result before income tax for the twelve months 2012 was EUR 5.2m lower than the same period in 2011. The decrease is primarily related to:

- the lower results from operating activities of EUR 2.8m;
- an increase in net finance costs of EUR 4.4m. The amount of average outstanding debt of the Group increased by 60% in the twelve months 2012 compared to the same period in 2011 as well as increased borrowing cost of over 2% for short-term debt compared to the same period in 2011, which resulted in the higher net finance costs; and
- unrealized foreign exchange loss decreased by EUR 2.1m, partially offsetting lower operating results and higher finance costs.

Earnings after tax

The result for the twelve months 2012 in comparison to the same period of 2011 decreased from EUR -1.8m to -5.8m due to the EUR 5.2m decrease in results before income tax offset by a positive EUR 1.1m change in income tax.

The income tax benefit resulted from a decrease in deferred tax liability in the twelve months 2012 and recognizing the tax value related to tax loss carry forward in the parent company.

Cash flow and investments

Cash inflow from operating activities during 2012 amounted to EUR 16,6m (EUR -51,1m). During 2012 the Group optimized the inventory levels and increased trade payables.

In 2012 net cash used in investing activities was EUR 8.9m, an increase compared to the same period in 2011 (EUR 4.7m).

Financial position

Consolidated cash and cash equivalents at 31 December 2012 and 31 December 2011 were EUR 19.2m and EUR 12.4m, respectively. At 31 December 2012 and 31 December 2011 the Group had interest-bearing liabilities of EUR 83.1m and EUR 75.4m respectively (interest bearing liabilities include debt and obligations under financial leases, both short term and long term).

Equity at year-end 2012 was EUR 15.1m (EUR 20,0m), representing an equity/assets ratio of 9.8% (14.6%).

Employees

Competence development

The Group provides training to all of its employees. Extensive training is provided to service technicians and to the sales force. A significant portion of the training materials are now provided on line and most of them have been translated into Russian. Volvo provides for and updates much of the training materials. In 2012, the Company performed 22,384 training hours (2011: 17,584 hours).

Recruitment

For each vacant position the Group seeks to identify the individual who has the best skills profile and development potential among the applicants. To be able to offer good career prospects in the company, the Group promotes internal recruitment and personal development.

Code of Conduct

Each employee has been provided a copy of the code of conduct. The Group has in place a program for compliance with international anti-corruption legislation which includes online training and certification. Each year a compliance audit is performed, by an independent audit firm, to check compliance and make suggestions for improvements to the program.

Significant risks and uncertainties

In its operations, the Group is exposed to various types of risk, both operational and financial. Identifying, managing and pricing these risks are of fundamental importance to the Group's profitability. Operational risks are associated with day-to-day operations relating to economic activity, tendering, capacity utilisation, price risks and revenue recognition. During 2012 the Group was recruiting to meet the increase in demand as it expands.

Financial risks arise from the amount of capital tied up and the Group's capital requirements. Fulfilling demand for short term customer financing of machines, parts and services and maintaining proper stock levels might require borrowings and extended payment terms to maintain adequate working capital levels. The Group is exposed to greater operational risks than financial risks.

Risk management

The management of operational risks is a continuous improvement process covering a large number of ongoing projects and assignments. It is therefore particularly important that the Group's employees consistently comply with standardised methods and work methods as they are developed to ensure that operational risks remain under control. The Group continuously works on quality improvement. The Group's financial risks and credit risks are managed centrally for the purpose of minimising and controlling the risk exposure. Management continues to monitor any potential effects of the recent volatility in the financial markets.

Operational risks

Economic activity

Fluctuations in the economy and government spending affect the construction equipment sector, which is sensitive to market fluctuations and political decisions that can have an impact on demand for new residential and commercial buildings and investments in industry and infrastructure. However on a longer term, demand for construction equipment is driven by a countrywide need for a renovation of existing fleet of equipment, majority of which is old and outdated and has limited production capacities. Demand for service and parts are not as sensitive to fluctuations in the economic cycle.

Capacity utilisation

The Group is building and has plans to build additional capacities. An unforeseen decline in capacity utilisation generally results in a loss of revenue which in the short term cannot be offset by a corresponding cost reduction. The Group seeks to mitigate these risks through continuous resource planning, monitoring and by utilizing rapid start up methodologies to address new markets.

Price risks

Volvo CE and the Group work closely together on monitoring market process and market shares and addressing the prices the Group pays for machines and parts. Unforeseen variations in other input prices and prices charged by Volvo CE constitute a risk. The Group believes that the acquisition pricing arrangement with Volvo CE constitutes a flexible framework to share and to offset the risk of rising prices through the partnership with Volvo CE, the Group's main supplier.

Revenue recognition

The Group recognises revenue from sales of goods when the significant risks and rewards of ownership are transferred to the buyer. The revenue from rendering of services is recognized when service work is complete and accepted by the customer.

Insurances

In Sweden, The Group has an adequate insurance cover for its operations.

The insurance industry in the Russian Federation is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have full business interruption coverage for its facilities, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position. The Group is investigating the potential of obtaining product liability insurance for risk mitigation in excess of what is covered by Volvo. With the increase in the number of locations, the risk that a single incident at a single site, will have a material adverse effect is reduced.

Financial risks

The Group is exposed to financial risks, which arise partly as a result of changes in debt levels, interest rates and forex movements. For information about financial risks, including interest, currency, financing and credit risks, see note 22 to the consolidated financial statements.

Material disputes

Litigation is described in note 25. During Q2 2012 this litigation was resolved in favor of the Group in the first instance. Contingent liability in the amount of EUR 165 thousand related to this case was released in financial statements as of 30 June 2012. In Q3 2012 the claimant gave a notice of appeal. In November 2012 the litigation again was resolved in favor of the Group in the appeal instance.

The Group does not expect any outflow of financial resources related to this case. The contingent liability in respect of this case was released in financial statement as of 31 December 2012.

There have been no other material disputes during the reporting period.

Outlook

There have been two positive market developments in late 2012 which hopefully will have an effect on the market in 2013. Firstly, the government announced that property tax (2% annually) will be abolished on machines starting with registrations in January 2013. Secondly, the government around Christmas time fully cleared its debts ranging from up to a year with some selected road construction companies. Given that road construction customers is our largest customer segment we hope this could have a positive effect on the Company in 2013.

Overall, the management remains cautiously optimistic as the management looks forward into 2013, but continue to follow the key risks created by the international economic instability and the potential effects on business conditions in Russia.

Shareholders as of 31 December 2012

The Company's Shareholders are:

Russian CE Distribution Investors LLC (Noonday)	42,9%
Mellby Gård AB	12,2%
Ferronordic Machines Holdings Ltd	11,0%
Creades AB	7,2%
Investment AB Öresund	5,0%
Fastighetsaktiebolaget Granen	4,9%
AltoCumulus S.A.	3,6%
Anista Sárl	3,6%
Ferronordic Group Ltd	3,0%
Board of Directors	1,8%
Others	4,9%
Total	**100%**

There is a shareholders' agreement in place between all shareholders and the Company. The shareholders' agreement, inter alia, includes provisions which serve to ensure that most of the control of the Company (except for agreed reserved matters which require qualified approval), rests with Ferronordic Machines Holdings Ltd, i.e. the holding company of Erik Eberhardson, Lars Corneliusson and Anders Blomqvist. As a consequence of the shareholders' agreement, Ferronordic Machines Holdings Ltd's ownership in the Company may increase under certain circumstances.

The initial net equity contribution amounted to EUR 12,4m. In addition, the Investors loaned the Group EUR 24,9m via an Investor Loan Facility Agreement. The amount under the Investor Loan Facility was repaid in full on 28 June 2011.

The work of the Board of Directors

In 2012, the Board convened on 12 occasions. The Board addressed strategic issues, business plans, financial statements, expansion plans and other significant events. Reporting on the activities and financial positions of the Group has been a standing agenda item. The Board's work has continued to be focused on improving the profitability of the Group's operations.

Corporate Governance Report

Information on corporate governance and a description of the Group's system of internal controls is included in a Corporate Governance Report which has placed separately after this annual report on pages 67 and 68.

Parent company

Revenue for 2012 was EUR 545 thousand (EUR 567 thousand).

Administrative expenses for the twelve months 2012 decreased by 19% compared to the twelve months 2011 and amounted to EUR 1,528 thousand primarily due to the process of optimization of the company expenses.

The after tax result for the twelve months 2012 increased compared to the same period in 2011, from a EUR 2,118 thousand loss to a EUR 1,757 thousand loss.

Cash outflow for 2012 was EUR 652 thousand (EUR 148 thousand).

As of 31 December 2012, the Parent company's Net assets were EUR 8,270 thousand (EUR 10,027 thousand).

The Parent company had two employees.

Events after the balance sheet date

On 30 January 2013 the Group purchased a 100% share of the company LLC "Ferronordic Machines Archangelsk". The purchase price was EUR 2.2m. The acquisition of subsidiary is classified as acquisition of assets.

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

Proposed allocation of profit

The Board proposes that the Parent company's non-restricted equity at 31 December 2012 of EUR 8,170,000 be allocated as follows:

Carried forward EUR -4,173,932
Whereof 12,343,932 to the Share premium reserve
Total EUR 8.170,000

For more information about the Group's results and financial position, see the following section with income statements, balance sheets and the notes to the accounts.

Consolidated Statement of Comprehensive Income

EUR ’000	Note	1 January 2012 to 31 December 2012	1 January 2011 to 31 December 2011
Revenue	6	**275,806**	**268,017**
Cost of sales		(233,823)	(230,629)
Gross profit		**41,983**	**37,388**
Selling, general and administrative expenses	7	(38,204)	(30,511)
Other income		208	80
Other expenses	8	(912)	(1,064)
Results from operating activities		**3,075**	**5,893**
Finance income	9	247	224
Finance costs	9	(9,850)	(5,382)
Net foreign exchange losses		(383)	(2,471)
Loss before income tax		**(6,911)**	**(1,736)**
Income tax benefit/(expense)	10	1,105	(29)
Loss for the year		**(5,806)**	**(1,765)**
Other comprehensive income			
Exchange differences on translating to presentation currency		946	(852)
Other comprehensive income for the year, net of income tax benefit		**946**	**(852)**
Total comprehensive income for the year		**(4,860)**	**(2,617)**
Earnings per share (EUR)	31	(58.06)	(17.65)

The consolidated statement of comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

Consolidated Statement of Financial Position

EUR ’000	Note	31 December 2012	31 December 2011
ASSETS			
Non-current assets			
Intangible assets	12	16,483	20,256
Property, plant and equipment	11	27,273	18,005
Deferred tax assets	13	1,305	898
Total non-current assets		**45,061**	**39,159**
Current assets			
Inventories	14	58,675	62,624
Trade and other receivables	15	31,715	22,835
Prepayments		221	170
Cash and cash equivalents	16	19,227	12,403
Other assets		89	-
Total current assets		**109,927**	**98,032**
TOTAL ASSETS		**154,988**	**137,191**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

Consolidated Statement of Financial Position

EUR '000	Note	31 December 2012	31 December 2011
EQUITY AND LIABILITIES			
Equity	17		
Non-restricted share capital		95	95
Additional paid in capital		10,579	10,579
Translation reserve		(730)	(1,676)
Retained earnings		5,205	11,011
TOTAL EQUITY		**15,149**	**20,009**
Non-current liabilities			
Loans and borrowings	18	45,628	43,517
Deferred income	19	396	714
Deferred tax liabilities	13	2,415	3,438
Long-term portion of finance lease liabilities	18	6,942	5,596
Total non-current liabilities		**55,381**	**53,265**
Current liabilities			
Loans and borrowings	18	27,345	23,997
Trade and other payables	21	50,486	33,994
Deferred income	19	430	440
Provisions	20	2,997	3,198
Short-term portion of finance lease liabilities	18	3,200	2,288
Total current liabilities		**84,458**	**63,917**
TOTAL LIABILITIES		**139,839**	**117,182**
TOTAL EQUITY AND LIABILITIES		**154,988**	**137,191**
Pledged Assets and Contingent Liabilities			
Pledged Assets	18	21,066	20,337
Contingent Liabilities	25	762	830

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

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 year					
Loss for the year	-	-	(5,806)	-	(5,806)
Other comprehensive income					
Exchange differences on translating to presentation currency	-	-	-	946	946
Total comprehensive income for the year	**-**	**-**	**(5,806)**	**946**	**(4,860)**
Balance at 31 December 2012	**95**	**10,579**	**5,205**	**(730)**	**15,149**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

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 2011	**95**	**10,537**	**12,776**	**(824)**	**22,584**
Total comprehensive income for the year					
Loss for the year	-	-	(1,765)	-	(1,765)
Other comprehensive income					
Exchange differences on translating to presentation currency	-	-	-	(852)	(852)
Total comprehensive income for the year	**-**	**-**	**(1,765)**	**(852)**	**(2,617)**
Contributions by and distributions to owners					
Warrant issue	-	42	-	-	42
Total contributions by and distributions to owners	**-**	**42**	**-**	**-**	**42**
Balance at 31 December 2011	**95**	**10,579**	**11,011**	**(1,676)**	**20,009**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

Consolidated Statement of Cash Flows

EUR ’000	**Note**	**1 January 2012 to 31 December 2012**	**1 January 2011 to 31 December 2011**
Cash flows from operating activities			
Result before income tax		(6,911)	(1,736)
Adjustments for:			
Depreciation and amortisation	11, 12	10,330	6,381
Loss from write off of receivables		560	486
Profit on disposal of rental fleet		(472)	(64)
Finance cost	9	9,850	5,382
Finance income	9	(247)	(224)
Net foreign exchange losses		383	2,471
Cash from operating activities before changes in working capital and provisions		**13,493**	**12,696**
Change in inventories		1,969	(45,502)
Change in trade and other receivables		(8,326)	(8,124)
Change in prepayments for current assets		(46)	(87)
Change in trade and other payables		15,437	(8,121)
Change in provisions and employee benefits		(318)	1,962
Change in other assets		(89)	-
Change in deferred income		(548)	(730)
Cash flows from operations before interest paid and tax paid		**21,572**	**(47,906)**
Proceeds from sale of rental fleet		4,426	527
Income tax paid		(210)	(1,210)
Interest paid		(9,222)	(2,484)
Net cash from/(used in) operating activities		**16,566**	**(51,073)**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

Consolidated Statement of Cash Flows

EUR ’000	Note	1 January 2012 to 31 December 2012	1 January 2011 to 31 December 2011
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		29	10
Interest received		113	224
Acquisition of property, plant and equipment		(8,451)	(4,910)
Acquisition of intangible assets		(584)	(740)
Closing of deposits		-	747
Net cash used in investing activities		**(8,893)**	**(4,669)**
Cash flows from financing activities			
Proceeds from issue of warrants		-	45
Proceeds from bonds		-	42,645
Proceeds from borrowings		88,713	67,895
Repayment of loan from Investors		-	(24,880)
Repayment of other loans		(86,207)	(43,436)
Leasing financing received		1,478	6,764
Leasing financing paid		(4,900)	(589)
Net cash (used in)/from financing activities		**(916)**	**48,444**
Net increase/(decrease) in cash and cash equivalents		**6,757**	**(7,298)**
Cash and cash equivalents at start of the year		**12,403**	**20,776**
Effect of exchange rate fluctuations on cash and cash equivalents		67	(1,075)
Cash and cash equivalents at year-end	16	**19,227**	**12,403**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

Parent Company Income Statement

	Note	1 January 2012 to 31 December 2012 EUR '000	1 January 2011 to 31 December 2011 EUR '000
Revenue		545	567
Gross profit		**545**	**567**
Administrative expenses	7	(1,528)	(1,895)
Results from operating activities		**(983)**	**(1,328)**
Finance income	9	5,363	4 006
Finance costs	9	(5,953)	(4,121)
Net foreign exchange gains/(losses)		(498)	(1,439)
Loss before income tax benefit		**(2,071)**	**(2,882)**
Income tax benefit	10	314	764
Total comprehensive losses for the year*		**(1,757)**	**(2,118)**

*"Loss for the year" corresponds to "Total comprehensive losses for the period".

The income statement is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

Parent Company Balance Sheet

	Note	31 December 2012 EUR '000	31 December 2011 EUR '000
ASSETS			
Non-current assets			
Property, plant and equipment	11	2	3
Intangible assets	12	1,708	2,208
Financial assets			
Holdings in group Companies	28	15,426	15,426
Loans to group companies	26	35,984	34,738
Deferred tax assets	13	1,224	870
Total financial assets		52,634	51,034
Total non-current assets		**54,344**	**53,245**
Current assets			
Trade and other receivables	15	2,771	2,503
Prepayments		66	53
Cash and cash equivalents	16	193	845
Total current assets		**3,030**	**3,401**
Total assets		**57,374**	**56,646**

The balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

Parent Company Balance Sheet

	Note	31 December 2012	31 December 2011
		EUR '000	**EUR '000**
EQUITY AND LIABILITIES			
Equity	17		
Restricted equity			
Share capital (100,000 shares)		100	100
Unrestricted Equity			
Share premium reserve		12,344	12,344
Retained earnings		(2,417)	(299)
Loss for the year		(1,757)	(2,118)
Total equity		**8,270**	**10,027**
Non-current liabilities			
Loans and borrowings	18	45,628	43,517
Total non-current liabilities		**45,628**	**43,517**
Current liabilities			
Trade and other payables	21	3,476	3,102
Total current liabilities		**3,476**	**3,102**
Total liabilities		**49,104**	**46,619**
Total equity and liabilities		**57,374**	**56,646**

There were no pledged assets and contingent liabilities as of 31 December 2012 and 31 December 2011..

The balance sheet is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

Parent Company Statement of Changes in Equity

EUR '000	Attributable to equity holders of the Company			
	Share capital	**Share premium reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2011	**100**	**12,302**	**(294)**	**12,108**
Total comprehensive income for the period				
Profit/(loss) for the year	-	-	(2,118)	(2,118)
Total comprehensive income for the period	**-**	**-**	**(2,118)**	**(2,118)**
Transactions with owners, recorded directly in equity				
Result of merger with FNM AB	-	-	(5)	(5)
Warrant issue	-	42	-	42
Balance at 31 December 2011	**100**	**12,344**	**(2,417)**	**10,027**
Total comprehensive income for the period				
Profit/(loss) for the year	-	-	(1,757)	(1,757)
Total comprehensive income for the period	**-**	**-**	**(1,757)**	**(1,757)**
Balance at 31 December 2012	**100**	**12,344**	**(4,174)**	**8,270**

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

Parent Company Statement of Cash Flows

	Note	1 January 2012 to 31 December 2012	1 January 2011 to 31 December 2011
		EUR '000	**EUR '000**
Cash flows from operating activities			
Loss for the year before income tax benefit		(2,071)	(2,882)
Adjustments for:			
Depreciation and amortisation	11,12	501	500
Finance costs	9	5,953	4,121
Finance income	9	(5,363)	(4,006)
Unrealized net foreign exchange losses/(gains)		187	718
Cash from/(used in) operating activities before changes in working capital and provisions		**(793)**	**(1,549)**
Change in trade and other receivables		11	(71)
Change in prepayments for current assets		(13)	(46)
Change in trade and other payables		(131)	191
Cash flows from/(used in) operations before income tax benefit and interest paid		**(926)**	**(1,475)**
Interest paid		(5,349)	(1,244)
Net cash from/(used in) operating activities		**(6,275)**	**(2,719)**
Cash flows from investing activities			
Acquisition of property, plant and equipment		-	(2)
Interest received		5,623	1,586
Holdings in Group Companies		-	(16,913)
Net cash from/(used in) investing activities		**5,623**	**(15,329)**
Cash flows from financing activities			
Proceeds from bonds		-	42,645
Repayment of borrowings		-	(24,787)
Proceeds from warrant issue		-	42
Net cash from/(used in) financing activities		**-**	**17,900**
Net increase/(decrease) in cash and cash equivalents		**(652)**	**(148)**
Cash and cash equivalents at beginning of year		845	993
Cash and cash equivalents at year-end	16	**193**	**845**

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 22 to 64.

1 Background

Russian business environment

The Group operations are primarily located in the Russian Federation. Consequently, the Group exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Company. The future business environment may differ from management's assessment.

Organisation and operations

Ferronordic Machines AB (the "Company") and its subsidiaries comprise the Group (the "Group"). The Company is organised under the laws of Sweden with registered number 556748-7953. The Company's registered office is Hovslagargatan 5B, SE-111 48 Stockholm, Sweden. The Group has administrative offices in Stockholm Sweden and Moscow, Russian Federation ("Russia").

The Company's principal activity is sales and service of construction equipment throughout the territory of the Russian Federation. The Company is the official dealer for Volvo Construction Equipment, (Volvo CE), and also sells and services high quality construction equipment from other manufacturers.

2 Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Financial Standards Board (IASB) as well as interpretations from the IFRS Interpretations Committee, as adopted by the EU. Recommendation RFR 1 on Supplementary Accounting Rules for Groups as issued by Swedish Financial Reporting Boards has been applied in the preparation of the report. The parent company applies with the Swedish Annual Accounts Act and Recommendation RFR 2, Accounting for Legal Entities, of the Swedish Financial Reporting Boards. In cases where the parent applies other accounting policies than the Group this is stated at the end of this note.

Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

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 financial statements of Ferronordic Machines, AB and Ferronordic Machines, LLC and the Group the functional currency is the national currency of the Russian Federation the Russian Rouble ("RUB"). The Group and Parent company have selected the Euro ("EUR") as the currency for presentation purposes. The RUB is not a readily convertible currency outside the Russian Federation and, accordingly, any conversation of RUB to EUR should not be construed as a representation that the RUB amounts have been, could be, or will be in the future, convertible into EUR at the exchange rate disclosed, or at any other exchange rate.

The Parent Company functional currency, for Swedish Reporting purposes, is the Euro.

All financial information presented in EUR has been rounded to the nearest thousand, except as otherwise noted.

Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 3 – useful lives and residual value of property, plant and equipment;
- Note 12 –useful life of intangible assets acquired in business combination;
- Note 14 – inventory obsolescence provisions;
- Note 20 – warranty provision;
- Note 22 – allowances for trade receivables.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 25 – contingencies.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

Business combinations

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date the control commences until the date that control ceases.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

Acquisitions

For acquisitions, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus,
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less

- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Group's subsidiaries at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is 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 assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

Translation to presentation currency

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to EUR at exchange rates at the reporting date. The income and expenses of foreign operations are translated to EUR at exchange rates at the dates of the transactions. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans, receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

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

The Group classifies non-derivative financial assets into loans and receivables.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables category comprise the following classes of assets: trade and other receivables.

Cash and cash equivalents

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

Non-derivative financial liabilities

Financial liabilities are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The Group classifies non-derivative financial liabilities into other financial liabilities category.

Other financial liabilities comprise loans and borrowings, bank overdrafts, and trade and other payables.

Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses.

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

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

Subsequent costs

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

Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment are as follows:

- buildings and constructions 2-40 years
- machinery and equipment 1-16 years
- machines end equipment for rent 3 years
- office equipment 2-10 years
- transportation 3-6 years

Residual value established for all groups of property, plant and equipment as nil except machines and equipment for rent where residual value accepted at 25% of the cost of assets after a three years rental period.

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

Intangible assets

Intangible assets

Intangible assets that are acquired by the Group, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the profit or loss as incurred.

Amortisation

Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use since this most closely reflects the expected pattern of consumption of future economic benefits embodied in the asset. The estimated useful lives are as follows:

- software and software licenses — 2-5 years
- customer relations — 6 years
- franchise agreement — 6 years

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

Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Leases in terms of which the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised on the Group's statement of financial position.

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 them to their existing location and condition.

The cost of construction equipment items is assigned by using specific identification of their individual costs.

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

Impairment

Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will enter bankruptcy, adverse changes in the payment status of borrowers in the Group, economic conditions that correlate with defaults.

Loans and receivables

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

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

Employee benefits

Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into the State Pension fund and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

Warranties

In accordance with the Dealer Agreement signed with Volvo Construction Equipment, the Group is to provide a 1 year warranty on all new machines. Volvo Construction Equipment will reimburse the Group for the costs incurred at rates and amounts as provided in the agreement. The Group records both the gross provision amount and a receivable from Volvo Construction Equipment. The provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data.

Revenue

Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been 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 discount is recognised as a reduction of revenue as the sales are recognised.

The timing of the transfers of risks and rewards can vary depending on the individual shipping and delivery terms of the sales agreement. Generally, the buyer has no right of return and transfer occurs upon receipt by the customer.

Services

Revenue from services rendered is normally recognised in profit or loss when billed at the completion of the performance of the service. Revenue from services rendered on uncompleted work is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed and estimates of time to completion.

Other expenses

Lease payments

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

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

Finance income and costs

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis depending on whether foreign currency movements are in a net gain or net loss position.

Income taxes

Income tax expense and benefit comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

New Standards and Interpretations not yet adopted

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2012, and have not been applied in preparing these consolidated financial statements. Except for IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2015 consolidated financial statements, and could change the classification and measurement of financial assets, the new Standards are not expected to have a significant effect on the consolidated financial statements of the Company. IFRS 10 and IAS 27 may have impact on financial statements, but the impact has not been analysed yet.IFRS 12 Disclosures of Interests in other Entities and IFRS 13 Fair Value Measurement will lead to extended disclosures for the group.

Information about the Parent Company

Parent company accounting principles

The parent company prepares its annual accounts in accordance with the Swedish Annual Accounts Act and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. RFR 2 states that the parent company's annual accounts for the legal entity should be prepared by applying all EU-adopted IFRS statements 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 in the parent company's financial statements.

Differences between the Group and parent company accounting policies

Differences between the Group and parent company accounting policies are described in the following.

Classification and presentation

The Parent Company presents an income statement and a statement of comprehensive income while the group present one total comprehensive income statement. The Parent company uses the terms 'Balance sheet' and 'Cash flow statement' for the reports where the Group uses 'Consolidated statement of financial position' and 'consolidated statement of cash flow' respectively. Profit and loss account and balance sheet for the Parent Company are presented according to the Swedish Annual Accounts Act structure, while the statement of comprehensive income, 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.

Subsidiaries

Participations in subsidiaries are recognized by the Parent Company in accordance with the cost method. For Parent Company expenses attributable to business combinations are included in the acquisition cost. Contingent consideration is valued according to the likelihood that the consideration will be paid. Any changes to the provision/receivable result in an increase/decrease to the cost of acquisition. In the consolidated financial statements, conditional consideration is reported at fair value, with changes in value reported in the income statement.

Financial instruments and hedge accounting

In view of the connection between accounting and taxation, the rules on financial instruments and hedge accounting in IAS 39 are not applied by the parent company as a legal entity.

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

Leases

The Parent Company classifies all leases as operating leases, which means that the lease expense is recorded as an operating expense in the profit and loss account.

Shareholders' contribution for legal entities

Shareholders' contribution is implemented directly to equity with the recipient and is capitalized in shares and participations with the giver unless impairment is required.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Trade and other receivables

The fair value of trade and other receivables with a maturity of less than one year is estimated at the recorded value. Trade and other receivables with a longer term maturity are discounted to determine the fair value.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Acquisitions and disposals of subsidiary

There were no acquisitions or disposals of subsidiaries during the year 2012 and 2011.

6 Operating segment

Management has determined the operating segments based on reports reviewed by the chief operating decision maker. The Group 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:

	Group	
EUR '000	**1 January 2012 to 31 December 2012**	**1 January 2011 to 31 December 2011**
Equipment Sales	211,114	215,782
Equipment Rentals	6,325	2,040
Product Support	58,366	50,091
Other revenue	-	104
Total revenues	275,806	268,017

The Group operates in one geographical area – Russian Federation. In 2012 no customer represented more than 2% of the Group's total revenue.

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

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

EUR '000	**2012**	**2011**
EBITDA	13,405	12,274
Depreciation and amortisation	(10,330)	(6,381)
Net foreign exchange losses	(383)	(2,471)
Finance income	247	224
Finance costs	(9,850)	(5,382)
Profit before income tax	(6,911)	(1,736)
Income tax benefit/(expense)	1,105	(29)
Profit/(loss) for the year	(5,806)	(1,765)

Total assets, Equity and Liabilities, Capital expenditure provided to chief operating decision maker is measured in a manner consistent with that in the consolidated accounts for twelve months January to December 2012 and for comparative period in 2011.

7 Selling, general and administrative expenses

EUR '000	**Group**	
	1 January 2012 to 31 December 2012	**1 January 2011 to 31 December 2011**
Personnel related expenses	20,571	15,399
Depreciation & Amortisation	7,354	5,065
Rent	4,458	3,908
Other Operating Expenses	5,821	6,139
	38,204	30,511

EUR '000	**Parent**	
	1 January 2012 to 31 December 2012	**1 January 2011 to 31 December 2011**
Personnel related expenses	768	972
Depreciation & Amortisation	501	500
Other Operating Expenses	259	423
	1,528	1,895

8 Other expenses

	Group	
EUR ’000	**1 January 2012 to 31 December 2012**	**1 January 2011 to 31 December 2011**
Bank services	256	191
Impairment loss on trade receivables	560	486
Sundry	96	387
	912	1,064

9 Finance income and finance costs

The Group recognized finance income and expense of:

EUR ’000	**Group**	
	1 January 2012 to 31 December 2012	**1 January 2011 to 31 December 2011**
Recognised in profit or loss		
Interest income on bank deposits	247	224
Finance income	247	224
Interest expense on finance leasing obligation	(1,728)	(428)
Interest expenses on debentures	(5,953)	(2,784)
Interest expense on banking and related parties loans	(2,169)	(2,170)
Finance costs	(9,850)	(5,382)
Net finance costs recognised in profit or loss	**(9,603)**	**(5,158)**

EUR ’000	**Parent**	
	1 January 2012 to 31 December 2012	**1 January 2011 to 31 December 2011**
Recognised in profit or loss		
Interest income on loan to subsidiary	5,363	3,971
Interest income on bank deposits	-	35
Finance income	5,363	4,006
Interest expenses on debentures	(5,953)	(2,784)
Interest expense on related parties loans	-	(1,337)
Finance costs	(5,953)	(4,121)
Net finance costs recognised in profit or loss	**(590)**	**(115)**

All interest income and expenses are related to financial instruments that are not fair value through profit or loss.

10 Income tax benefit

The Group is a tax resident of Sweden with corporate tax rate of 26.3%, applying during the year 2012. Since the year 2013 the corporate tax rate in Sweden was decreased to 22%. Subsidiaries pay income taxes in accordance with the legislative requirements of their respective tax jurisdictions. For subsidiaries domiciled in Russia the applicable tax rate is 20%; for Cyprus the rate is 10%.

	1 January 2012 to 31 December 2012	1 January 2011 to 31 December 2011	1 January 2012 to 31 December 2012	1 January 2011 to 31 December 2011
EUR ’000	**Group**	**Group**	**Parent**	**Parent**
Current tax expense	(416)	(729)	-	-
Deferred tax benefit	1,521	700	314	764
Total income tax benefit/(expense)	1,105	(29)	314	764

Reconciliation of effective tax rate:

	Group			
	1 January 2012 to 31 December 2012		1 January 2011 to 31 December 2011	
	EUR ’000	**%**	**EUR ’000**	**%**
Loss for the year	(5,806)		(1,765)	
Total income tax benefit/(expense)	1,105		(29)	
Loss excluding income tax	(6,911)	100	(1,736)	100
Income tax at applicable tax rate	1,630	(23,6)	657	(37,8)
Changes in tax rate	(231)	3,3	-	-
Non-deductible expenses	(294)	4,3	(686)	39,5
	1,105	(16,0)	(29)	1,7

	Parent			
	1 January 2012 to 31 December 2012		1 January 2011 to 31 December 2011	
	EUR ’000	**%**	**EUR ’000**	**%**
Loss for the year	(1,757)		(2,118)	
Total income tax benefit	314		764	
Loss excluding income tax	(2,071)	100	(2,882)	100
Changes at income tax rate	(231)	11,2	-	-
Income tax at applicable tax rate	545	(26,3)	764	(26,5)
	314	(15,2)	764	(26,5)

11 Property, plant and equipment

Group

EUR '000	**Land**	**Buildings and constructions**	**Machinery and equipment**	**Machinery and equipment for rent**	**Office equipment**	**Transport-ation**	**Under construction**	**Total**
Cost or deemed cost								
Balance at 1 January 2012	-	688	1,156	13,134	997	652	3,188	19,815
Additions	2,081	1,489	1,342	4,663	155	5,583	3,563	18,876
Disposals	-	-	-	(5,261)	(18)	(43)	(240)	(5,562)
Transfers	-	-	37	-	164	-	(201)	-
Translation difference	(17)	12	31	476	30	(21)	89	600
Balance at 31 December 2012	2,064	2,189	2,566	13,012	1,328	6,171	6,399	33,729
Depreciation and impairment losses								
Balance at 1 January 2012	-	73	174	1,071	406	86	-	1,810
Depreciation for the period	-	189	331	2,976	408	1,306	-	5,210
Disposals	-	-	-	(554)	(18)	(19)	-	(591)
Translation difference	-	1	3	19	12	(8)	-	27
Balance at 31 December 2012	-	263	508	3,512	808	1,365	-	6,456
Carrying amounts								
At 1 January 2012	-	615	982	12,063	591	566	3,188	18,005
At 31 December 2012	2,064	1,926	2,058	9,500	520	4,806	6,399	27,273

EUR '000	**Buildings and constructions**	**Machinery and equipment**	**Machinery and equipment for rent**	**Office equipment**	**Transport-ation**	**Under construction**	**Total**
Cost or deemed cost							
Balance at 1 January 2011	185	458	2,603	574	179	304	4,303
Additions	533	800	11,260	456	518	2,949	16,516
Disposals	(15)	-	(513)	(6)	(31)	-	(565)
Translation difference	(15)	(102)	(216)	(27)	(14)	(65)	(439)
Balance at 31 December 2011	688	1,156	13,134	997	652	3,188	19,815
Depreciation and impairment losses							
Balance at 1 January 2011	9	45	33	86	14	-	187
Depreciation for the period	67	133	1,134	330	81	-	1,745
Disposals	(1)	-	(72)	(1)	(7)	-	(81)
Translation difference	(2)	(4)	(24)	(9)	(2)	-	(41)
Balance at 31 December 2011	73	174	1,071	406	86	-	1,810
Carrying amounts							
At 1 January 2011	176	413	2,570	488	165	304	4,116
At 31 December 2011	615	982	12,063	591	566	3,188	18,005

Depreciation expense of EUR 2,976 thousand (EUR 1,316 thousand) has been charged to cost of goods sold, EUR 2,234 thousand (EUR 429 thousand) to administrative expenses.

The Group leases machinery and transportation under finance lease agreements:

’000 EUR	**Machines end equipment for rent**	**Transportation**	**Total**
Cost or deemed cost			
Balance at 1 January 2012	8,126	335	8,461
Additions	1,467	5,414	6,881
Disposals	(1,037)	-	(1,037)
Translation difference	288	(32)	256
Balance at 31 December 2012	8,844	5,717	14,561

Depreciation and impairment losses	**Machines end equipment for rent**	**Transportation**	**Total**
Balance at 1 January 2012	587	30	617
Depreciation for the period	2,205	1,203	3,408
Disposals	(384)	-	(384)
Translation difference	6	(9)	(3)
Balance at 31 December 2012	2,414	1,224	3,638
Carrying amounts			
At 1 January 2012	7,539	305	7,844
At 31 December 2012	6,430	4,493	10,923

’000 EUR	**Machines end equipment for rent**	**Transportation**	**Total**
Cost or deemed cost			
Balance at 1 January 2011	1,533	-	1,533
Additions	6,764	341	7,105
Disposals	-	-	-
Translation difference	(171)	(6)	(177)
			-
Balance at 31 December 2011	8,126	335	8,461

Depreciation and impairment losses	**Machines end equipment for rent**	**Transportation**	**Total**
Balance at 1 January 2011	-	-	-
Depreciation for the period	598	30	628
Disposals	-	-	-
Translation difference	(11)	-	(11)
Balance at 31 December 2011	587	30	617
Carrying amounts			
At 1 January 2011	1,533	-	1,533
At 31 December 2011	7,539	305	7,844

Cash flows relating to acquisition and sale of machinery and equipment for rent are classified as operating cash flows in the Consolidated Statement of Cash Flows.

Parent

EUR '000	**Office equipment 2012**
Cost or deemed cost	
Balance at 1 January 2012	4
Additions	-
Disposals	-
Balance at 31 December 2012	4
Depreciation and impairment losses	
Balance at 1 January 2012	1
Depreciation for the period	1
Disposals	-
Balance at 31 December 2012	2
Carrying amounts	
Balance at 31 December 2012	2

EUR '000	**Office equipment 2011**
Cost or deemed cost	
Balance at 1 January 2011	3
Additions	1
Disposals	-
Balance at 31 December 2011	4
Depreciation and impairment losses	
Balance at 1 January 2011	1
Depreciation for the period	-
Disposals	-
Balance at 31 December 2011	1
Carrying amounts	
At 31 December 2011	3

12 Intangible assets

Group

EUR '000	**Software and software licences**	**Customer relationship**	**Franchise agreement**	**Total**
Cost				
Balance at 1 January 2012	936	16,246	10,271	27,453
Other acquisitions – separately acquired	603	-	-	603
Disposals	(87)	-	-	(87)
Translation difference	29	583	368	980
Balance at 31 December 2012	1,481	16,829	10,639	28,949

Amortisation	Software and software licences	Customer relationship	Franchise agreement	Total
Balance at 1 January 2012	199	4,287	2,711	7,197
Amortisation for the year	505	2,828	1,787	5,120
Disposals	(87)	-	-	(87)
Translation difference	23	131	82	236
Balance at 31 December 2012	640	7,246	4,580	12,466
Carrying amounts				
At 31 December 2012	841	9,583	6,059	16,483

EUR ’000 *Cost*	Software and software licences	Customer relationship	Franchise agreement	Total
Balance at 1 January 2011	184	16,785	10,612	27,581
Other acquisitions – separately acquired	778	-	-	778
Disposals	(6)	-	-	(6)
Translation difference	(20)	(539)	(341)	(900)
Balance at 31 December 2011	936	16,246	10,271	27,453

Amortisation	Software and software licences	Customer relationship	Franchise agreement	Total
Balance at 1 January 2011	40	1,632	1,032	2,704
Amortisation for the year	169	2,722	1,745	4,636
Disposals	(6)	-	-	(6)
Translation difference	(4)	(67)	(66)	(137)
Balance at 31 December 2011	199	4,287	2,711	7,197
Carrying amounts				
At 31 December 2011	737	11,959	7,560	20,256

a) Amortization

In 2012, amortization expense of EUR 5,120 thousand (31 December 2011: EUR 4,636 thousand) has been charged to selling, general and administrative expenses.

Franchise agreement and customer relationships arise from agreements with CJSC Volvo Vostok. The duration of these agreements is six years ending 2016 and the Group does not have an unconditional right to prolong the agreements. Hence, useful life of customer relationships and franchise agreement was limited to six years. The remaining amortization period for customer relationships and franchise agreement is 3 years 5 months.

Parent

EUR '000	License 2012	EUR '000	License 2011
Balance at 1 January 2012	3,000	Balance at 31 December 2011	3,000
Amortization and impairment losses		**Amortization and impairment losses**	
Balance at 1 January 2012	792	Balance at 1 January 2011	292
Amortisation for the period	500	Amortisation for the period	500
Balance at 31 December 2012	1,292	Balance at 31 December 2011	792
Carrying amounts		***Carrying amounts***	
At 31 December 2012	1,708	At 31 December 2011	2,208

13 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2012		
	Group		
EUR '000	**Assets**	**Liabilities**	**Net**
Property, plant and equipment	-	(280)	(280)
Intangible assets	-	(3,239)	(3,239)
Inventories	-	(124)	(124)
Trade and other receivables	-	(1,138)	(1,138)
Provisions	599	-	599
Deferred income	165	-	165
Short-term portion of finance lease liabilities	113	-	113
Long-term portion of finance lease liabilities	817	-	817
Trade and other payables	753	-	753
Tax loss carry-forwards	1,224	-	1,224
Tax assets/(liabilities)	3,671	(4,781)	(1,110)

	31 December 2012		
	Group		
EUR ’000	**Assets**	**Liabilities**	**Net**
Set off of tax	(2,366)	2,366	
Net tax assets/(liabilities)	1,305	(2,415)	(1,110)

	31 December 2012		
	Parent		
EUR ’000	**Assets**	**Liabilities**	**Net**
Tax loss carry-forwards	1,224	-	1,224
Net tax assets/(liabilities)	1,224	-	1,224

	31 December 2011		
	Group		
EUR ’000	**Assets**	**Liabilities**	**Net**
Property, plant and equipment	-	(1,691)	(1,691)
Intangible assets	-	(3,977)	(3,977)
Inventories	-	(277)	(277)
Trade and other receivables	-	(538)	(538)
Provisions	639	-	639
Deferred income	231	-	231
Short-term portion of finance lease liabilities	458	-	458
Long-term portion of finance lease liabilities	1,119		1,119
Trade and other payables	627	-	627
Tax loss carry-forwards	869	-	869
Tax assets/(liabilities)	3,943	(6,483)	(2,540)
Set off of tax	(3,045)	3,045	
Net tax assets/(liabilities)	898	(3,438)	(2,540)

	31 December 2011		
	Parent		
EUR ’000	**Assets**	**Liabilities**	**Net**
Tax loss carry-forwards	869	-	869
Net tax assets/(liabilities)	869	-	869

(b) Movement in temporary differences during the year

EUR ’000	**1 January 2012**	**Recognised in comprehensive income**	**Translation difference**	**31 December 2012**
Property, plant and equipment	(65)	(214)	(1)	(280)
Intangible assets	(3,978)	888	(149)	(3,239)
Prepaid expenses and accrued income	-	-	-	-
Inventories	(277)	164	(11)	(124)
Trade and other receivables	(538)	(588)	(12)	(1,138)
Trade and other payables	626	105	22	753
Provisions	639	(63)	23	599
Deferred income	231	(74)	8	165
Short-term portion of finance lease liabilities	24	89	-	113
Long-term portion of finance lease liabilities	(73)	900	(10)	817
Tax loss carry-forwards	871	314	39	1,224
Net tax assets/(liabilities)	(2,540)	1,521	(91)	(1,110)

EUR '000	1 January 2012	Recognised in comprehensive income	31 December 2012
Tax loss carry-forwards	869	314	1,183
Changes in exchange rates	-	41	41
Net tax assets/(liabilities)	869	355	1,224

EUR '000	1 January 2011	Recognised in comprehensive income	Translation difference	31 December 2011
Property, plant and equipment	(15)	(52)	2	(65)
Intangible assets	(4,946)	825	143	(3,978)
Prepaid expenses and accrued income	3	(3)	-	-
Inventories	(574)	284	13	(277)
Trade and other receivables	948	(1,483)	(3)	(538)
Trade and other payables	711	(64)	(21)	626
Provisions	200	454	(15)	639
Deferred income	52	184	(5)	231
Short-term portion of finance lease liabilities	-	25	(1)	24
Long-term portion of finance lease liabilities	-	(74)	1	(73)
Tax loss carry-forwards	288	604	(21)	871
Net tax assets/(liabilities)	(3,333)	700	93	(2,540)

EUR '000	1 January 2011	Recognised in comprehensive income	31 December 2011
Tax loss carry-forwards	105	764	869
Net tax assets/(liabilities)	105	764	869

14 Inventories

EUR '000	Group 31 December 2012	Group 31 December 2011	Parent 31 December 2012	Parent 31 December 2011
Raw materials and consumables	595	176	-	-
Work in progress	1,466	1,004	-	-
Finished goods and goods for resale	56,614	61,444	-	-
	58,675	62,624	-	-

In 2012 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to EUR 223,538 thousand (EUR 225,283 thousand). In 2012 the write-down of inventories to net realisable value amounted to EUR 540 thousand (EUR 369 thousand). The write-down is included in cost of sales.

15 Trade and other receivables

EUR '000	Group 31 December 2012	Group 31 December 2011	Parent 31 December 2012	Parent 31 December 2011
Trade receivables	23,284	13,288	10	2
Trade receivables due from related parties	-	-	2,700	2,420
VAT receivable	677	3,327	1	13
Warranty claims	2,980	3,172	-	-
Other receivables	4,774	3,048	60	68
	31,715	22,835	2,771	2,503

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 22.

16 Cash and cash equivalents

EUR '000	Group 31 December 2012	Group 31 December 2011	Parent 31 December 2012	Parent 31 December 2011
Bank balances	4,809	12,403	193	845
Call deposits	14,418	-	-	-
Cash and cash equivalents in the statement of cash flows	19,227	12,403	193	845

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 22.

17 Capital and reserves

Group

(a) Share capital and share premium

	2012	2011
	Ordinary shares	Ordinary shares
Number of shares unless otherwise stated	EUR	EUR
Authorised shares	100,000	100,000
Par value	1	1
On issue at 1 January	100,000	100,000
On issue at 31 December, fully paid	100,000	100,000

Ordinary shares

All shares rank equally with regard to the Group's residual assets.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group. In respect of the Group's shares that are held by the Group, all rights are suspended until those shares are reissued. The Group policy is not to pay dividends.

(b) Translation reserve

The translation reserve comprises all foreign currency differences arising out of conversion the Group's financial statements from functional currency to currency of presentation.

(c) Warrants

In accordance with the Shareholders' decision of 7 June 2011, the Group has offered members of the Board of the Directors the option to acquire newly issued warrants in the Company. Each warrant grants the warrant holder a right, under certain conditions, to subscribe for new shares in Ferronordic Machines AB against payment of the exercise price. The fair market value of the warrants has been assessed by an independent appraiser. The warrants were subscribed at market value. Warrants in amount of EUR 42 thousand was included in additional paid in capital.

Warrants weren't issued during the year 2012.

18 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 22.

a) Short-term borrowings

Short term borrowings as at 31 December 2012 and 2011 consisted of the following:

	Group			
	31 December 2012		31 December 2011	
EUR'000	**Outstanding balance**	**Credit facility limit**	**Outstanding balance**	**Credit facility limit**
Current liabilities				
Secured short term borrowings	17,402	17,402	16,798	16,798
Unsecured short term borrowings	9,943	12,429	7,199	11,998
Total	27,345	29,831	23,997	28,796

During Q4 2012 the Group entered into a new short-term loan agreement with a credit facility limit of EUR 27,345 thousand. A part of this facility, up to EUR 17,402 thousand, is secured by circulating inventory with net book value of EUR 21,066 thousand and a part above EUR 17,402 thousand is unsecured. The outstanding amount of the secured part of the short-term loan as of 31 December 2012 was EUR 17,402 thousand. The average interest rate of these loans was 11.45% p.a (2011: 9,8% p.a.) and maturity dates for these loans vary between 51 and 162 days after the reporting date. The facility availability period equals to 15 months after the reporting date.

The outstanding amount of unsecured short term loans as of 31 December 2012 was EUR 9,943 thousands. The average interest rate of these loans was 11.45% p.a. (2011: 10,8% p.a.) In addition to the above mentioned loan facility the Group has unused unsecured overdraft facilities in an amount of EUR 2,485 thousand.

b) Long-term borrowings

Long-term borrowings as at 31 December 2012 and 2011 consisted of the following:

	Group		Parent	
EUR '000	**31 December 2012**	**31 December 2011**	**31 December 2012**	**31 December 2011**
Non-current liabilities				
Bonds	45,628	43,517	45,628	43,517
	45,628	43,517	45,628	43,517

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 December 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 proceeds from the issuance was applied by the Company towards repayment of the o loan from Investors in full and general corporate purposes primary toward financing Group's operating activity. As of 28 June 2011, the loan from Investors was fully repaid in amount of EUR 24.9 million.

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.

c) Finance lease liabilities

During the year 2012, the Group entered into a sale and leaseback arrangement which resulted in a finance lease: machines with carrying value of EUR 1,207 thousand (2011: 5,599 thousand) were sold to the lessor for EUR 1,455 thousand (2011: 6,622 thousand) and immediately leased back. The leased equipment is Volvo CE machines. The excess of sales proceeds over carrying amount was in the amount of EUR 248 thousand (1,023 thousand) which was deferred over the lease term, see note 19 deferred income.

Future minimum lease payments were as follows as at 31 December 2012 and 2011:

	Group					
	2012			**2011**		
EUR '000	**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	5,054	(1,854)	3,200	3,317	(1,029)	2,288
Between one and five years	7,919	(977)	6,942	6,606	(1,009)	5,596
	12,973	(2,831)	10,142	9,923	(2,038)	7,884

Finance lease liabilities consist of lease liabilities due to sales and lease back transactions of Volvo CE machines and lease of cars. Future minimum lease payments for car leasing payable within one year after reporting date amount to EUR 2,867 thousand as at 31 December 2012 (2011: EUR 131 thousand) and payable between one and three years after reporting date - EUR 3,763 thousand as at 31 December 2012 (2011: EUR 258 thousand).

19 Deferred income

	Group		Parent	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
EUR '000				
Deferred income short-term due to lease back transaction	430	440	-	-
Deferred income long-term due to lease back transaction	396	714	-	-
	826	1,154	-	-

20 Provisions

	Group		
EUR '000	**Warranties**	**Other**	**Total**
Balance at 1 January 2012	3,198	-	3,198
Provisions made during the period	3,437	22	3,459
Provisions used during the period	(3,777)	-	(3,777)
Translation difference	117	-	117
Balance at 31 December 2012	2,975	22	2,997
Non-current	-	-	-
Current	2,975	22	2,997
	2,975	22	2,997

	Group	
EUR '000	**Warranties**	**Total**
Balance at 1 January 2011	998	998
Provisions made during the period	4,830	4,830
Provisions used during the period	(2,556)	(2,556)
Translation difference	(74)	(74)
Balance at 31 December 2011	3,198	3,198
Non-current	-	-
Current	3,198	3,198
	3,198	3,198

(a) Warranties

As of the business acquisition date the Group entered into the Dealer Agreement signed with CJSC Volvo Vostok, who presented Volvo Construction Equipment (VCE) in Russian Federation. The Group confirmed warranty conditions on all machines (a 1 year and/or certain machines working hours). As settled in the agreement, Volvo will reimburse the Group for a portion of the costs incurred. The Group records both the gross provision amount and a receivable from VCE. The provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data.

Amounts of expected reimbursement from Volvo as of 31 December 2011 and 31 December 2012 are disclosed in the Note 15.

21 Trade and other payables

	Group		Parent	
EUR '000	**31 December 2012**	**31 December 2011**	**31 December 2012**	**31 December 2011**
Trade payables	39,128	19,638	206	349
Other taxes payable	2,288	291	37	25
Other payables and accrued expenses	6,285	11,347	448	-
Accrued interest	2,785	2,728	2,785	2,728
	50,486	33,994	3,476	3,102

Other payables are primarily advances from customers.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 22.

22 Financial instruments and risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors also oversee how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. In the Russian Federation, a significant area of risk is associated with the environment of corruption which the Russian Government is working to improve. The Board of Directors is assisted, here, in its oversight role by an additional compliance audit. This audit undertakes an annual review of compliance with the Group's Anti-corruption policy. The results of this audit are reported to the Board and Shareholders.

(b) **Credit risk**

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

*(i) **Trade and other receivables***

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk. As at 31 December 2012 top 16 trade receivables balances comprise 61% of total trade receivables balance.

The Group's standard payment terms require payment in advance of delivery. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. In addition, the Group also offers limited (less than 150 days) credit to some customers for sales and services. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and represent the maximum open amount; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

About 32% of the Group's customers have been transacting with the Group or Volvo CE for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the Risk Management Committee, and future sales are made on a prepayment basis with approval of the Risk Management Committee.

Machines sold are subject to a lien until fully paid, so that in the event of non-payment the Group may have a secured claim. Usually the Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The components of this allowance are a specific loss component that relates to individually significant exposures.

(ii) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		Group	
		2012	**2011**
EUR '000	**Note**	**Carrying amount**	**Carrying amount**
Trade receivables	15	23,284	13,287
Cash and cash equivalents	16	19,227	12,403
		42,511	25,690

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	Group	
	2012	**2011**
EUR '000	**Carrying amount**	**Carrying amount**
Russia	23,284	13,287
	23,284	13,287

Impairment losses

The aging of trade receivables at the reporting date was as follows:

	Group			
EUR'000	**31 December 2012**		**31 December 2011**	
	Gross	**Impairment**	**Gross**	**Impairment**
Not past due	19,222	-	7,283	-
Past due 0-30 days	2,760	-	5,228	-
Past due 31-120 days	2,341	(1,039)	1,254	(477)
	24,323	**(1,039)**	**13,765**	**(477)**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group	
EUR'000	**Individual impairments**	
	2012	**2011**
Balance at beginning of the year	(477)	-
Increase during the year	(698)	(486)
Decrease due to reversal	133	-
Translation differences	3	9
Balance at end of the year	(1,039)	(477)

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses.

The Group maintains sufficient cash and cash equivalents to meet its operating and financial commitments. The Group performs continuous monitoring of cash deficit risks and continuous monitoring of repayment of its financial liabilities on time, efficiently, using a payment calendar tool. The Group performs annual, monthly and daily planning to control cash flow.

The following are the contractual maturities of financial liabilities, including estimated interest payments. It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

31 December 2012

EUR '000	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bond issue	48,414[2]	57,563	5,571	-	51,992	-	-	-	-
Finance lease liabilities	10,142	12,973	2,354	2,700	5,984	1,935	-	-	-
Loans and borrowings	27,345	28,478	28,478	-	-	-	-	-	-
Trade and other payables	41,099	41,099	41,099	-	-	-	-	-	-
	127,000	140,113	77,502	2,700	57,976	1,935	-	-	-

31 December 2011

EUR '000	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Unsecured bond issue	43,517	59,183	5,222	-	5,222	48,739	-	-	-
Finance lease liabilities	7,884	9,923	1,627	1,690	3,176	3,430	-	-	-
Loans and borrowings	23,997	24,264	24,264	-	-	-	-	-	-
Trade and other payables	25,389	25,389	25,389	-	-	-	-	-	-
	100,787	118,759	56,502	1,690	8,398	52,169	-	-	-

[2] The carrying amount of unsecured bond issue include interest payable for bonds in amount of EUR 2,786 thousand.

(d) **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(i) ***Currency risk***

Although most sales and purchases are primarily in Russian Ruble (RUB), the Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the RUB. The other currencies in which these transactions primarily occur are denominated in EURO and SEK.

Interest on borrowings is denominated in the currency of the borrowing.

During 2011 the Group issued bonds on 28 June 2011 with gross proceeds of SEK (Swedish crowns) 400 million (EUR 43,730 thousand), which exposed the Group to foreign currency risk. In 2012 the Group obtained RUB-denominated loans which match the currency in which cash flows are generated. See note 18.

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	Group			
	EUR-denominated 2012 EUR '000	**EUR-denominated 2011 EUR '000**	**SEK-denominated 2012 EUR '000**	**SEK-denominated 2011 EUR '000**
Cash and cash equivalents	126	769	66	74
Loans and borrowings	-	-	(45,628)	(43,517)
Trade and other payables	(1,847)	(343)	(2,955)	(3,027)
Net exposure	(1,721)	426	(48,517)	(46,470)

The following exchange rates were applied during the period:

In RUB	**Average rate**	**Reporting date spot rate**	**Average rate**	**Reporting date spot rate**
	2012	**2012**	**2011**	**2011**
EUR	39,9041	40,2286	40,8848	41,6714
SEK	4,5889	4,6688	4,5253	4,6612

Sensitivity analysis

A strengthening (weakening) of the RUB against the EUR couldn't have material impact on consolidated financial statements.

A strengthening (weakening) of the RUB, as indicated below, against the SEK at 31 December would have increased (decreased) profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2011.

	Strengthening	Weakening
31 December 2012		
SEK (10% movement)	4,852	(4,852)
31 December 2011		
SEK (10% movement)	4,647	(4,647)

(ii) Interest rate risk

The Group is not exposed to interest rate risk because the Group borrowed funds at fixed interest rate (note 18).

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Group	
	Carrying amount 2012 EUR '000	**Carrying amount 2011 EUR '000**
Fixed rate instruments		
Loans and borrowings	27,344	23,997
Finance lease liabilities	10,142	7,884
Unsecured bond issues	45,628	43,517
	83,114	**75,398**

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. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Accounting classifications and fair values

(i) Fair values versus carrying amounts

The basis for determining fair value is disclosed in note 4. Management believes that the fair value of the Group's financial assets and liabilities approximates their carrying amounts.

Capital management

The Board's policy is to monitor and evaluate opportunities to strengthen the Group's capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on invested capital, which the Group defines as result from operating activities divided by total shareholders' equity.

The Group's debt to capital ratio at the end of the reporting period was as follows:

	2012	**2011**
	EUR '000	**EUR '000**
Total liabilities	139,839	117,182
Less: cash and cash equivalents	(19,227)	(12,403)
Net debt	120,612	104,779
Total equity	15,149	20,009
Debt to capital ratio at 31 December	8.0	5.2

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

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group		**Parent**	
EUR '000	**1 January 2012 to 31 December 2012**	**1 January 2011 to 31 December 2011**	**1 January 2012 to 31 December 2012**	**1 January 2011 to 31 December 2011**
Future lease commitments				
Less than one year	-	1,721	-	-
Between one and five years	-	2,222	-	-
More than five years	-	-	-	-
	-	**3,943**	**-**	**-**
Future commitments, rent for premises				
Less than one year	-	3,215	-	-
Between one and five years	-	1,028	-	-
More than five years	-	-	-	-
	-	**4,243**	**-**	**-**

The Company leases a number of cars and premises facilities under operating leases. During 2011 the Company leased a number of cars under non-cancellable operating leases, which had been transferred into financing lease during 2012.

During the year ended 31 December 2012 an amount of EUR 1,123 thousand was recognised as an operating expense in profit or loss in respect of cars (2011: EUR 2,044 thousand) and EUR 3,335 thousand in respect of rented premises (2011: EUR 2,767 thousand).

The leases for rented premises typically run for one year, with an option to renew the lease after that date.

The Company has no contingent rent arrangements and subleases.

24 Capital commitments

During the year 2012 the Group entered into a number of design, development and construction contracts. These contracts related to the development of new sales and servicing centers located in Ekaterinburg, Moscow East, Archangelsk and Petrozavodsk.

As at 31 December 2012 the Group had capital commitment for design and development of sales and servicing centers in the amount of EUR 38 thousand.

The Group also has capital commitments for construction of a new sales and servicing center in Moscow East in the amount of EUR 34 thousand.

In accordance with the dealer agreement with Volvo Vostok CJSC the Group approved an investment plan to invest EUR 70,000 thousand in acquisition/construction of property, plant and equipment until 2015. In 2012 the Group invested in investment plan EUR 6,660 thousand. The investments comprised acquisition of land and acquisition/construction of buildings. The expected amount of payment for 2013 is EUR 1,057 thousand.

25 Contingencies

(a) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(b) Litigation

As of 31 December 2011 the Group was a defending party in accident related litigation. During Q2 2012 this litigation was resolved in favour of the Group in the first instance. Contingent liability in the amount of EUR 165 thousand related to this case was released in financial statements as of 30 June 2012. In Q3 2012 the claimant gave a notice of appeal. In November 2012 the litigation again was resolved in favour of the Group in the appeal instance.

The Group does not expect any outflow of financial resources related to this case. The contingent liability disclosure in respect of this case was released in financial statement as of 31 December 2012.

There have been no other material disputes during the reporting period.

26 Related party transactions

(a) Control relationships

The Group’s consolidated annual and quarterly financial statements are made publicly available.

Key management control 14,58% of the voting shares of the Group.

Management remuneration

Key management received remuneration during the years 2012 and 2011, which is included in personnel costs and presented in note 29.

(b) Transactions with other related parties

The Group

The Group’s related party transactions are disclosed below.

Expenses

	1 January 2012 to 31 December 2012		1 January 2011 to 31 December 2011	
EUR '000	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Services received:				
Other related parties (i)	-	-	19	-
Interest accrued:				
Investors (ii)	-	-	-	-
Other related parties	-	-	1,337	-
	-	-	1,356	-

The Group transacts with other related parties, which are entities under the control of its shareholders:

(i) Fee for the professional services performed in 2011;
(ii) Interest accrued in respect of investor’s loan for the period from 1 January 2011 to the date of repayment investors’ loan.

Loans

The Group issued bonds on 28 June 2011 with gross proceeds of SEK (Swedish crowns) 400m (EUR 43,730 thousand).

The proceeds from the issuance was applied by the Group towards repayment of the o loan from Investors in full and general corporate purposes primary toward financing Group’s operating activity. As of 28 June 2011, the loan from Investors was fully repaid in amount of EUR 24.9m, including interest accrued in amount of EUR 1.3m.

Revenue

	1 January 2012 to 31 December 2012		1 January 2011 to 31 December 2011	
EUR '000	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Services provided:				
Other related parties (i)	1	-	5	-
	1	-	5	-

(i) The Group received revenue from entity under the control of its shareholders for rent of premises;

The Parent

Revenue

	1 January 2012 to 31 December 2012		1 January 2011 to 31 December 2011	
EUR '000	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Services provided:				
Subsidiary (i)	500	-	500	-
Interest accrued:				
Subsidiary (ii)	5,363	2,700	3,971	2,420
	5,863	-	4,471	2,420

(i) Payment received from Ferronordic Machines LLC for Volvo business sub-licence liabilities;
(ii) For terms of interest accrued from Ferronordic Machines LLC see (iv).

Expenses

	1 January 2012 to 31 December 2012		1 January 2011 to 31 December 2011	
EUR '000	**Transaction value**	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Interest expense:				
Investors (iii)	-	-	1,337	-
	-	-	1,337	-

(iii) Interest accrued in respect of investors' loan.

Other balances

EUR '000	**31 December 2012**	**31 December 2011**
Investments in subsidiaries	15,426	15,426
Loans to related parties (group companies) (iv)	35,984	34,738
	51,410	50,164

(iv) Loans given to Ferronordic Machines LLC are unsecured and bear interest rates of 15% per annum. In 2011, the Parent concluded amendment to loan agreement with subsidiary. According to the amendment, the loan is payable on 1 January 2015. On 10 August 2011 this loan was converted into Russian roubles in order to minimize the Group's currency risks. During 2011, Ferronordic Machines LLC took an additional unsecured loan with 15% interest rate in the amount of EUR 13,938 thousand payable on 8 June 2014. During 2012 the amount of loans in rubbles didn't change, the change of EUR 1,246 thousand is the result of exchange differences on translating to presentation currency.

27 Events subsequent to the reporting date.

On 30 January 2013 the Group purchased a 100% share of the company LLC "Ferronordic Machines Archangelsk" for EUR 2.2 million in order to obtain ownership of a building in Archangelsk region. The acquisition of subsidiary is classified as acquisition of assets.

No other events requiring disclosure in the consolidated financial statements have occurred after the reporting date.

28 Interests in group companies

The Group consists of the following Entities:

			2012		**2011**	
Subsidiary	**Corporate Identity Number**	**Country of incorpo-ration**	**Ownership /voting**	**Carrying amount**	**Ownership /voting**	**Carrying amount**
Ferronordic Machines AB	556748-7953	Sweden	Holding	-	Holding	-
Ferronordic Machines Ltd		Cyprus	100%	5	100%	5
Ferronordic Machines LLC		Russia	100%	15,421	100%	15,421
				15,426		15,426

29 Employees, staff costs and compensation to senior executives

Average number of employees

	2012	of which women	2011	of which women
Parent Company				
Sweden	2	50%	2	50%
Total in Parent Company	2	50%	2	50%
Subsidiaries				
Russia	580	20%	415	23%
Sweden	2	0%	2	0%
Belgium	1	0%	1	0%
USA	1	0%	1	0%
UK	1	0%	1	0%
Italy	0	0%	1	0%
Ukraine	4	0%	1	0%
Finland	1	0%	0	0%
Turkey	1	0%	0	0%
Total in subsidiaries	591	20%	422	23%
Total Group	593	20%	424	23%

Breakdown between men and women in management

	Group		Parent Company	
	Female representation		Female representation	
	2012	2011	2012	2011
The Board of Directors	13%	13%	13%	13 %
Other senior executives	10%	5%	0%	0 %

Key management personnel include CEO and the Board of Directors received the following remuneration during the period, which is included in personnel costs:

	1 January 2012 to 31 December 2012	1 January 2011 to 31 December 2011	1 January 2012 to 31 December 2012	1 January 2011 to 31 December 2011
EUR '000	**Group**	**Group**	**Parent**	**Parent**
Salaries and bonuses	3,778	3,089	422	641
(of which bonuses)	917	646	-	141
Cash compensation and benefits	1,220	605	5	-
Social security contribution	651	338	336	279
(of which pension costs)	527	162	252	125
	5,649	4,032	763	920

Included in Salaries and bonuses to Key Management Personnel is a fee to Board of Directors of EUR 304 thousand with no bonus payments as adopted at the general shareholder's meeting in 2012 (EUR 284 thousand and EUR 61 thousand bonus payments for 2011 year), paid on Parent Company level. Salaries and allowances during business trips are recorded under Cash compensation and benefits. Social-security contribution payment to the Board of Directors amounted EUR 113 thousand (EUR 65 thousand). The compensation paid to senior executives refers mostly to fixed salaries. In case of termination the CEO has a right to severance pay in the form of 12 months' salary. The CEO and Head of Business Development have the individual pension plan designed as a defined contribution plan. A more detailed remuneration for the Key Management Personnel (including details on Lars Corneliusson, CEO of FNM LLC, Anders Blomqvist, CEO of FNM AB and Erik Eberhardson, Vice Chairman and Head of Business Development) and the Board of Directors is provided below. Key Management included 20 persons in 2011 year and 30 persons in 2012.

The Key Management had the following remuneration:

2012

EUR '000	**Lars Corneliusson**	**Anders Blomqvist**	**Erik Eberhardson**	**Other Group Management**	**Total**
Salaries and bonuses	355	232	403	2,597	3,587
(of which bonuses)	119	-	186	612	917
Cash compensation and benefits	264	5	342	609	1,220
Social security contribution	43	121	63	311	538
(of which pension costs)	41	48	61	274	424
	662	358	808	3,517	5,345

2011

EUR '000	**Lars Corneliusson**	**Anders Blomqvist**	**Erik Eberhardson**	**Other Group Management**	**Total**
Salaries and bonuses	356	358	564	1,527	2,805
(of which bonuses)	92	80	216	197	585
Cash compensation and benefits	160	-	230	215	605
Social security contribution	34	173	11	55	273
(of which pension costs)	32	43	9	37	121
	550	531	805	1,797	3,683

The Board of Directors received the following board fees in 2012 and 2011:

Name	Title	2012	2011
Per-Olof Eriksson	Chairman	50	94
Magnus Brännström	Director (elected May 2011)	25	20
Lars Corneliusson	Director & CEO FNM LLC (elected May 2011)	-	-
Erik Danemar	Director (elected May 2011)	25	20
Erik Eberhardson	Vice Chairman and Head of Business Development	-	-
Marika Fredrikson	Director	25	46
Tom Jörning	Director (elected May 2011)	25	20
Martin Leach	Vice Chairman	41	70
Kjell Åkesson	Director (resigned May 2011)	-	14
Total		**191**	**284**

The Other employees received the following remuneration during the period, which is included in personnel costs:

	1 January 2012 to 31 December 2012	**1 January 2011 to 31 December 2011**	**1 January 2012 to 31 December 2012**	**1 January 2011 to 31 December 2011**
EUR '000	**Group**	**Group**	**Parent**	**Parent**
Salaries and bonuses	12,899	10,270	44	33
(of which bonuses)	3,407	569	-	-
Cash compensation and benefits	1,683	726	-	-
Social security contribution	2,984	1,859	18	11
(of which pension costs)	2,311	1,381	4	1
	17,566	12,855	62	44

30 Auditors' fees and expenses

	1 January 2012 to 31 December 2012	**1 January 2011 to 31 December 2011**	**1 January 2012 to 31 December 2012**	**1 January 2011 to 31 December 2011**
EUR '000	**Group**	**Group**	**Parent**	**Parent**
KPMG				
Audit assignments	148	132	67	53
Audit activities in addition to the audit engagement	-	107	-	28
Tax advice	-	27	-	10
Other assignments	93	8	70	8
OTHER				
Other assignments	18	11	-	-
	259	**285**	**137**	**99**

31 Earnings per share

The calculation of basic earnings per share at 31 December 2012 was based on the loss attributable to ordinary shareholders of EUR 5,806 thousand (2011: EUR 1,765 thousand), and a weighted average number of ordinary shares outstanding of 100,000 (2011: 100,000). The Company had no instruments creating a dilutive effect to ordinary shares in 2012.

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 19 April 2013. 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 20 May 2013.

Stockholm, 19 April 2013

Per-Olof Eriksson Chairman	Martin Leach Vice Chairman	Erik Eberhardson Vice Chairman
Magnus Brännström Director	Lars Corneliusson Director	Erik Danemar Director
Marika Fredriksson Director	Tom Jörning Director	Anders Blomqvist Managing Director

Our audit report was submitted on 19 April 2013

KPMG AB

Signed on the original document

Mattias Lötborn

Authorised Public Accountant

Auditor's report

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Ferronordic Machines AB (publ) for the year 2012, except for the corporate governance statement on pages 67 - 68.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

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 2012 and of its financial performance and its cash flows 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 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 67 - 68. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Ferronordic Machines AB (publ) for the year 2012. We have also conducted a statutory examination of the corporate governance statement.

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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act, and that the corporate governance statement on pages 67 - 68 has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have sufficient basis for our opinions. This means that our statutory 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 audit standards in Sweden.

Opinions

We recommend to the annual 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.

A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and consolidated accounts.

Stockholm 19 April 2013

KPMG AB

Mattias Lötborn
Authorized Public Accountant

Corporate Governance Report

Ferronordic Machines AB is a Swedish public limited company, which under the Articles of Association shall directly or through its subsidiaries mainly carry on business consisting of owning and managing holdings in companies operating within the area of distribution and thereto similar operations. : Ferronordic Machines AB has its bonds listed on the Corporate Bond List on NASDAQ OMX Stockholm

Share Capital and Shareholders

Ferronordic Machines AB has 100,000 shares outstanding. Each share entitles the holder to one vote. There are no restrictions as to how many votes a shareholder can vote for at the Annual General Meeting.

There are currently three shareholders controlling more than 10.0 percent of the shares outstanding. Russian CE Distribution Investors LLC (Noonday) owns 42.9 percent (42.9 percent), Mellby Gård AB 12.2 percent (12.2 percent) and Ferronordic Machines Holdings Ltd 11.0 percent (11.0 percent).

Annual General Meeting

The Company follows the Swedish Annual Accounts Act with regards to election and termination of board members and changing of the Articles of Association. There are no specific regulations in the Company's Articles of Association regulating these issues.

The Annual General Meeting has not empowered the Board of Directors to issue shares or acquire own shares.

The Board of Directors' Report on Internal Control for the Financial Year 2012

Ferronordic Machines AB's Board of Directors is responsible for internal control in accordance with the Swedish Companies Act and the Swedish Code of Corporate Governance. Ferronordic Machines ABs financial statements comply with the laws and regulations applicable to companies with bonds listed on NASDAQ OMX Stockholm and the local rules in each country where business is conducted.

When issuing financial statements, Ferronordic Machines AB's objectives are to publish reports which:

− Are complete and correct and comply with applicable laws and rules

− Provide an accurate description of the operations of the company

− Facilitates an informed evaluation of the business

The Board of Directors is responsible for the organization and administration of the Company. This entails the establishment of an effective system of internal control which includes measures taken by the Board, the senior management team and other personnel to ensure that the accounting and the Company's financial condition in general are controlled in a structured and organized way. The Company has written instructions for division of labor between the Board of Directors, the management and other personnel in order to ensure that chain of command and authority are well defined and clearly communicated. Controls have also been carried out to ensure that the IT systems supporting the reporting process are of sufficiently high standards. The Company has established routines and invested in technical solutions to guarantee a fast and reliable way of sharing information internally.

Any internal control weaknesses are followed up and addressed by the senior management team. Potential errors detected are reported are corrected in timely and orderly fashion.

The policies, guidelines and routines are updated on an ongoing basis and introduced to employees regularly via e-mail, meetings or internal training events sessions.

The senior management team and Audit Committee monitor the Company's accounting and financial reporting on a regular basis. These procedures are designed to identify risks, detect errors and correct any weaknesses. Monthly management reports and quarterly financial reports are distributed to the senior management team and the Board of Directors shortly after each period ends.