



# First Quarter 2016

20 May 2016



## First quarter in summary

- ◇ The decline of the Russian economy continued
- ◇ Market for construction equipment decreasing
  - ◇ Ferronordic Machines continued to gain market share
- ◇ Most profitable first quarter ever for Ferronordic Machines
- ◇ Strong result and cash flow
  - ◇ Positive earnings per share
  - ◇ Positive cash flow from operations
- ◇ More evenly distributed revenue between regions in Russia
- ◇ However, continuous challenges ahead

## First quarter

- ◇ The Russian economy continues to be weak
  - ◇ GDP down 1.2%
  - ◇ Sanctions remain
  - ◇ Political tension continues
- ◇ The market for construction equipment decreasing another 22%
  - ◇ 80% decrease compared to two years ago
- ◇ However, Ferronordic Machines delivered the most profitable first quarter ever
  - ◇ New units sold increased almost 50%
  - ◇ Increased aftermarket sales
  - ◇ Well executed price realization on used and new machines
  - ◇ Lower costs – OPEX down 15%
  - ◇ Reduced inventory and with a very strong net cash position as a result





## First quarter (cont'd)

- ◇ Strong cash flow during the quarter
  - ◇ Operating cash flow amounted to SEK 43m
- ◇ Continued shift in our revenue mix from western Russia to the eastern parts of Russia
  - ◇ The country wide coverage has been important in this weak market
- ◇ Clear challenges ahead of us, and the rest of the year is likely to become even more demanding
  - ◇ There are no clear signs that the Russian economy and our market would improve in the short term
  - ◇ Strained pricing environment – pressure on margins
- ◇ We are still optimistic about the future of our business as the long-term fundamentals in the Russian construction equipment market remain strong



## Important events

- ◇ On 4 April 2016, the EGM in Ferronordic Machines resolved on dividends on the preference shares corresponding to SEK 50 per preference share, i.e. in total SEK 25m. The dividend was paid on 28 April 2016. No dividends was paid on ordinary shares.
- ◇ On 5 April 2016, Ferronordic Machines received a claim in the amount of SEK 12.2m from a customer, relating to administrative documentation regarding service orders performed since 20 March 2013. We do not accept the claim and assesses that the claim will be rejected by the court.
- ◇ Similar to last year, the Board's proposal to AGM is to postpone the decision to pay dividends on the preference shares. The Board proposes to call for an extraordinary general meeting in October 2016 and/or April 2017 where the dividend payments can be decided.



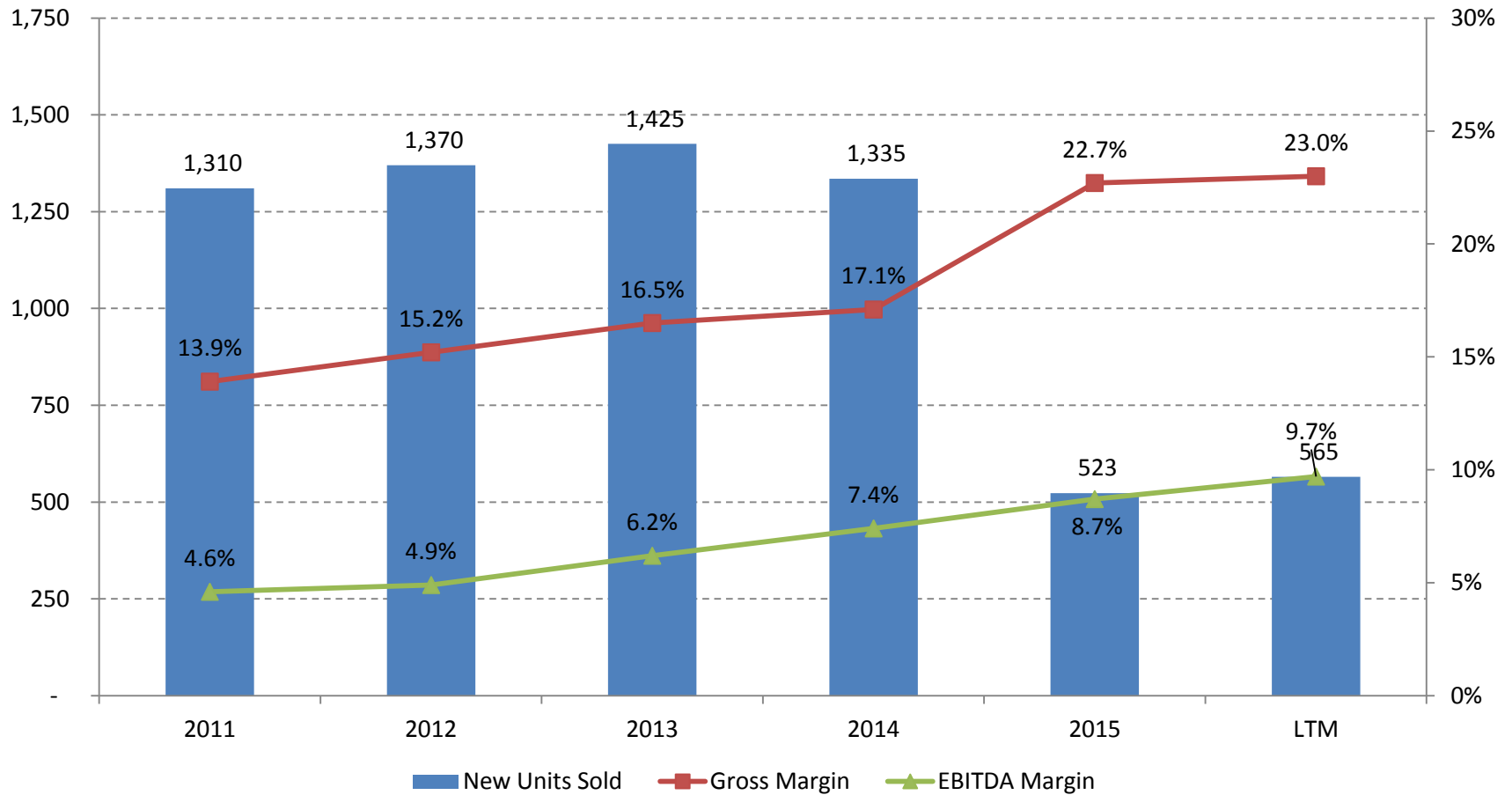
## Q1 2016 Profit & Loss

SEK MM	Q1 2016	Q1 2015	% Change SEK	% Change RUB
<i>Total Units</i>	<b>182</b>	<b>146</b>	<b>25%</b>	<b>25%</b>
<b>Revenue</b>	310	252	23%	43%
Gross Profit	72	53	35%	58%
<i>% Margin</i>	23.1%	21.0%		
EBITDA	27	7	265%	326%
<i>% Margin</i>	8.6%	2.9%		
<b>EBIT*</b>	<b>22</b>	<b>(6)</b>	<b>NM</b>	<b>NM</b>
Net Income*	18	(6)	NM	NM
Net Debt/(Cash)	(131)	81	NM	NM

\* Excludes amortisation of transaction related intangibles.

- ◇ Total sold units increased 25%
  - ◇ New units up 49%
  - ◇ Used units down 10%
- ◇ Revenue increased by 23% (43% decrease in rubles)
  - ◇ Sale of equipment increased by 61% in rubles
  - ◇ Aftermarket increased by 28% in rubles
- ◇ Improved gross margin given higher proportion of aftermarket revenue and strong price realization on machine sales
- ◇ Reduction in operating expenses
  - ◇ 15% decrease vs. Q1 2015
  - ◇ 11% decrease vs. Q4 2015
- ◇ Net financial income
- ◇ Positive earnings per share

# Margin improvement despite weak market



# Balance sheet

SEK MM	Q1 2016	Q1 2015	2015
Cash & Cash Equivalent	167	66	175
Debt	30	112	86
Financial leases	6	35	8
<b>Net debt</b>	<b>(131)</b>	<b>81</b>	<b>(82)</b>
<i>Net Debt/EBITDA</i>	<i>NM</i>	<i>0.5x</i>	<i>NM</i>
Working capital	77	182	97
<i>% of Revenue</i>	<i>5%</i>	<i>9%</i>	<i>7%</i>
Shareholders Equity	351	384	322
Total Assets	<b>781</b>	<b>1,029</b>	<b>808</b>
<i>Equity/Assets</i>	<i>45%</i>	<i>37%</i>	<i>40%</i>



# Cash Flow

SEK MM	Q1 2016	Q1 2015	2015
<b>Cash flow from:</b>			
Operating Activities	43	30	234
<i>of which change in working capital</i>	26	31	133
Investing Activities	(0)	2	8
<b>Cash Flow before Financing Activities</b>	<b>43</b>	<b>32</b>	<b>242</b>
Financing Activities	(59)	(144)	(211)
<b>Cash Flow (before FX fluctuations)</b>	<b>(16)</b>	<b>(112)</b>	<b>31</b>

## Outlook – CEO comment

“With the continuously difficult economic situation in Russia and the weak market for new machines, we believe that 2016, despite the strong first quarter, will be difficult. All in all, however, we are still optimistic about the future of our business as the long-term fundamentals in the Russian construction equipment market remain strong.”

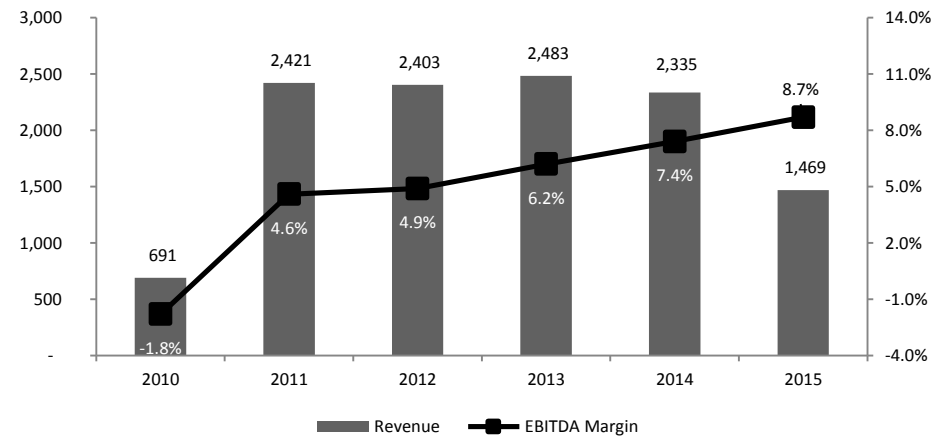


# Ferronordic Machines overview

## Overview

- Authorised dealer of Volvo Construction Equipment and Terex Trucks in Russia
- Distribution and sales of new and used construction equipment, sales of parts as well as providing services and technical support
- Core focus is the Volvo CE brand, a high-quality construction equipment manufacturer and the number one brand in Russia
- Distribution portfolio expanded to include other brands such as Volvo and Renault Trucks (aftermarket), Volvo Penta, Logset, Holms, Terex-trucks

## Financial development (SEKm)

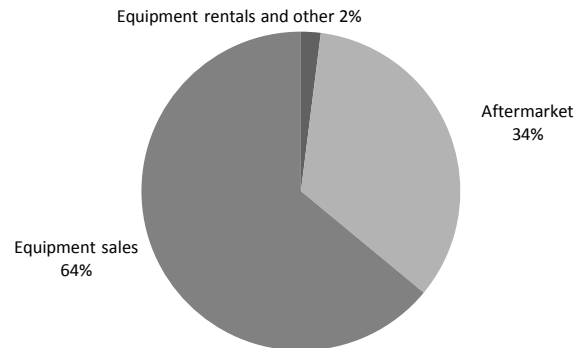


## Development

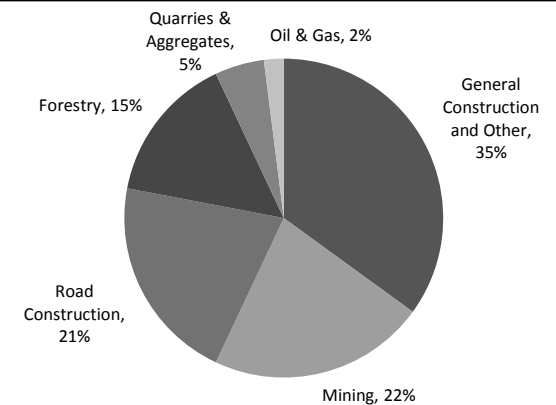
	2010	Q1 2016
Employees	326	699
Revenue (SEK M)	1 184 <sup>(1)</sup>	1 526
Outlets	12	65

(1) Annualized

## Revenue per segment 2015



## Revenue per customer type 2015



# Strong long-term fundamentals

## Key facts

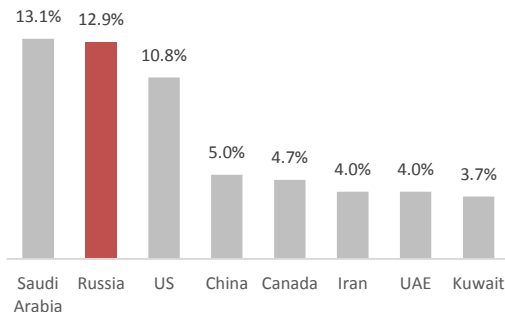
- Capital: Moscow
- Population: ~144 million
- Area:
  - ~2x the size of Canada
  - ~5x the size of India
  - ~38x the size of Sweden
- Rich on forest, oil and minerals
  - World's largest forest land
  - Approx. 50% of revenues for Federal Government relates to oil and gas
- Approx. USD 300 billion in international currency reserves
- In 2012, Russia entered WTO



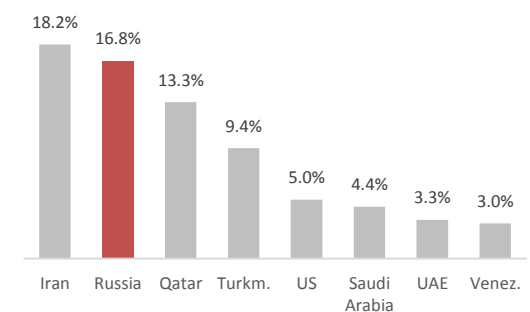
## Major geographic regions

Region	Population (m)	Main use of CE machines
Central	38.8	Road and general construction
North West	13.8	Forestry industries, construction
South	23.6	Residential construction, oil & gas
Volga	29.7	Industrial production
Urals	12.2	Oil and gas extraction
Siberia	19.3	Mineral and metal extraction
Far East	6.2	Gold, diamond, oil and gas extraction

## Oil production (% of total)



## Proved reserves of gas (% of total)



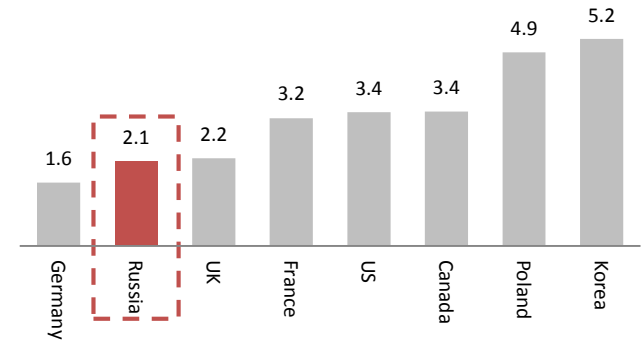
# Infrastructure improvements

## The general quality of infrastructure in Russia is poor

- The bulk of the infrastructure was built during the Soviet era
- As much as 40% of roads do not meet regulatory requirements according to Rosavtodor
- Russia ranks 136 of 148 in terms of road quality (World Economic Forum, Global Competitiveness Report 2013-14)
- Only 63% of airports have paved runways and of these, 70% were built more than 40 years ago (PMR Publications)
- The average age of port facilities in Russia is 30 years and they are operating at ~90% capacity utilisation on average (PMR Publications)

## Relatively low infrastructure investments historically

### Average public investment 2006-2011 (% of GDP)

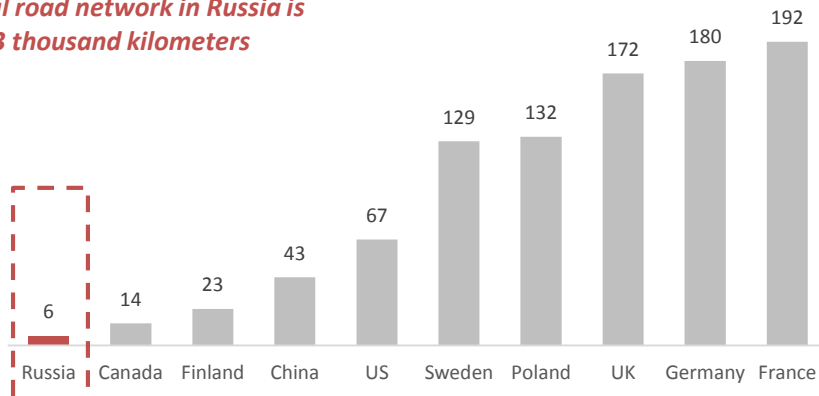


Source: OECD

## Road density in Russia is relatively low...

### Road density (km road per 100 sq. km land area)

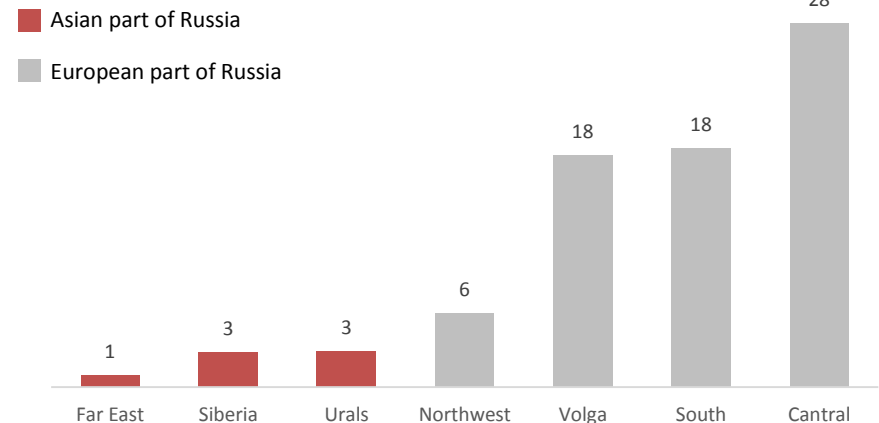
**Total road network in Russia is ~983 thousand kilometers**



Source: World Bank

## ... and there are large difference between Federal Districts

### Road density (km road per 100 sq. km land area)



Source: PMR Publications



# Market demand drivers

## Old and inefficient equipment

- Ferronordic Machines estimates that there is an installed base of ~300,000 machines and would characterize a large share of these machines as old or inefficient
  - Ferronordic Machines estimates 70-80% to be older than 10 years, which is the internationally accepted average efficient lifetime of a machine

## Underlying market activity

- Significant need for infrastructure investments
- Large prestige projects in the pipeline – government commitment to improve infrastructure

## Aftermarket development

- Size and growth of aftermarket business are proportional to machine population and market penetration
- Yearly machine sales significantly increase the machine population
- The continuous improvement of network and services increases the market penetration

## End user maturity drives outsourcing trend

- Historically, Russian customers have been less focused on operational efficiency and hence the quality of aftermarket services than their Western peers
- As customers and the industry matures, the importance of high quality aftermarket services increases as customers are less prone to perform service and repairs "in-house"
- This outsourcing trend is most notable among larger and mid-sized companies

## Substitution effect

- Since early to mid 2000, there has been a trend of substituting Russian equipment with imported equipment, primarily driven by quality, efficiency and aftermarket support
  - Limited supply of Russian machines available in today's CE market

***Strong market fundamentals in the Russian construction equipment market, underpinned by significant needs for infrastructure investments and replacements of old machinery***