



FERRONORDIC

ANNUAL REPORT 2019





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ABOUT THE ANNUAL REPORT

The annual report describes Ferronordic's operations and financial result for 2019 and includes a corporate governance report and a sustainability report. The statutory annual report comprises pages 30-39 and pages 48-105. The statutory sustainability report according to the Annual Accounts Act can be found on pages 30-39.



This is Ferronordic

	2016	2017	2018	2019
REVENUE (SEK M)	1,658	2,567	3,241	3,747
OPERATING PROFIT (SEK M)	132*	187	274	358
NET INCOME (SEK M)	84	151	209	251
EMPLOYEES	782	848	1,032	1,239
OUTLETS	73	74	79	92

*Refers to adjusted EBIT, i.e. operating profit excluding amortisation of transaction-related intangible assets until May 2016 and write-downs of non-current assets during the fourth quarter 2016.

Russia

- ◆ Dealer of Volvo Construction Equipment
- ◆ Dealer of Terex, Dressta, Rottne and Mecalac
- ◆ Aftermarket dealer for Volvo Trucks and Renault Trucks in parts of Russia
- ◆ Dealer for Volvo Penta in parts of Russia
- ◆ Sales of new and used construction equipment
- ◆ Service and technical support
- ◆ Sales of used trucks
- ◆ Growing contracting services business

Kazakhstan

- ◆ Dealer of Volvo Construction Equipment
- ◆ Dealer of Mecalac
- ◆ Sales of new and used construction equipment
- ◆ Service and technical support

Germany*

- ◆ Dealer of Volvo Trucks and Renault Trucks in parts of Germany
- ◆ Sales of new and used trucks
- ◆ Service and technical support

Group

- ◆ Founded in 2010
- ◆ About 1,500 employees**
- ◆ Listed on Nasdaq Stockholm



* From January 2020
 ** As of March 2020

The year **in brief**

Sales increased by 16% to SEK 3,747m. Since 2016, sales have increased by a total of 126%.

Operating margin increased by 1.1 percentage points to 9.5% and operating profit grew by 31% to SEK 358m, the highest margin and level of operating profit in Ferronordic's history.

Sales and margin levels were driven by strong growth in aftermarket and contracting services.

Ferronordic became importer of Volvo CE equipment and parts, having previously purchased the equipment in Russia.

Ferronordic expanded beyond Russia as it became dealer for Volvo CE and Mecalac in Kazakhstan.

Expansion beyond the CIS region initiated. Ferronordic to become a dealer for Volvo and Renault Trucks in parts of Germany covering about 20% of Europe's largest market for heavy trucks.

Investment and launch of a center for component and used machines rebuild in Ekaterinburg, Russia.

The Parent Company changed its name from Ferronordic Machines to Ferronordic.

Ferronordic awarded EMEA Dealer of the year by Volvo CE in 2019.

SEK M	2014	2015	2016	2017	2018	2019
New units sold (units)	1,335	523	479	738	948	965
Revenue	2,335	1,469	1,658	2,567	3,241	3,747
<i>Growth (%)</i>	(6%)	(37%)	13%	55%	26%	16%
EBITDA	172	128	154	214	322	494
<i>Margin (%)</i>	7.4%	8.7%	9.3%	8.3%	9.9%	13.2%
Operating profit*	102	87	132	187	274	358
<i>Margin (%)</i>	4.4%	5.9%	7.9%	7.3%	8.4%	9.5%
Result per ordinary share (SEK)	(3.13)	(2.12)	3.03	8.06	13.22	17.26
Net debt / (Net cash)	109	(82)	(173)	(312)	(303)	593
Return on capital employed (%)	15%	18%	32%	36%	41%	27%
Working capital / Revenue (%)	8%	7%	7%	5%	1%	20%
Total assets	1,173	808	1,033	1,414	1,727	2,343
Equity / Total assets (%)	32%	40%	43%	43%	38%	36%

*2014–2016 refer to adjusted EBIT, i.e. operating profit excluding (i) amortisation of transaction-related intangible assets until May 2016, and (ii) write-downs of non-current assets during the fourth quarter 2016.

Record sales and result with focus on **business development!**



Lars Corneliusson, CEO

"Our operating profit increased 31% to SEK 358m, our best ever result"

AN EVENTFUL YEAR WITH STRONG GROWTH, MORE DIVERSIFIED REVENUE AND GEOGRAPHICAL EXPANSION

WE LAUNCHED OUR INTERNATIONAL EXPANSION

as we became dealer for Volvo CE and Mecalac in Kazakhstan. We started from scratch in January, only to close the year with seven workshops, 36 employees and a well-functioning service and sales organisation. Our ambition is to continue our expansion in Kazakhstan in 2020.

WE ANNOUNCED PLANS TO BECOME DEALER FOR VOLVO AND RENAULT TRUCKS IN PARTS OF GERMANY

covering 20% of the largest market for heavy trucks in Europe. We are excited about this opportunity to develop our business and grow in line with our strategy to expand geographically. We see good opportunities to employ our business model to grow the German operations by gaining a larger share of the aftermarket, enhancing customer satisfaction and increasing Volvo and Renault Trucks' market shares in our area. Thanks to great efforts from our own employees and our partners at Volvo, we started operations as targeted in January 2020. Over time, we believe the business in Germany can contribute about a third of our overall revenue.

WE ASSUMED RESPONSIBILITY FOR IMPORTATION

of equipment and spare parts from Volvo CE. We are now responsible for shipping, logistics, customs and all warehousing. In the short-run, the transition has contributed to a higher net working capital position. Over time, assuming importation should be neutral in terms of working capital and cash flows. In the long-term, this increased responsibility will further strengthen our relationship with Volvo CE, give us more control over logistics and ability to further improve parts availability.

WE INVESTED INTO A COMPONENT AND USED MACHINES REBUILD CENTER

in Ekaterinburg. The center stood ready at the end of 2019 and the team rebuilt the first engine in January 2020. Over time, we expect the rebuild center to become an integral part of our business system.

WE EXPANDED OUR CONTRACTING SERVICES in the first half of 2019. This ramp-up delivered strong results in the second half of the year. Contracting services is a way of enhancing customer integration and we see attractive growth potential in this part of our business.

WE CONTINUED TO DEVELOP OUR AFTERMARKET BUSINESS where our investments in staff training and digitalisation of the service and sales platform are yielding both stronger business results, as well as further increasing customer satisfaction and loyalty.

WE CONTINUED TO INCREASE OUR VOLVO AND RENAULT TRUCKS AFTERMARKET business in Russia. We now operate in eleven locations and see opportunities to continue our growth. We also launched a new business of purchasing, restoring and selling used trucks, mainly from Volvo and Renault.

WE WERE AWARDED EMEA DEALER OF THE YEAR BY VOLVO CE as we gained market share in the competitive excavator market but also as a recognition of our customer focus, investments into competence development of our staff, digitising our service and sales channels, as well as developing new business models.

2019 REVENUE UP 16% VS 2018 TO SEK 3,747M. Our efforts to develop our business have paid off. 2019 was the third consecutive year of record sales, implying a 31% average cumulative sales growth rate since 2016.

AFTERMARKET AND CONTRACTING SERVICES SUPPORT REVENUE GROWTH. Our focus on staff training and our service organisation produced results as aftermarket revenue grew 17%. Our investments in contracting services delivered good returns in 2019. Other revenue, mainly consisting of contracting services, grew by 159% compared to 2018.

ALL TIME HIGH OPERATING MARGIN, OPERATING PROFIT AND NET INCOME. Our operating margin grew 1.1pp to 9.5% and our operating profit increased 31% to SEK 358m. Net income grew 20% to SEK 251m, our best result ever.

EARNINGS PER SHARE INCREASED 31% TO SEK 17.26 PER SHARE.

WITH REGARDS TO THE FUTURE, the outbreak and the measures taken to slow down the spread of the novel coronavirus have caused extraordinary uncertainty across our markets. In late March, the Volvo Group and several other producers announced temporary suspension of production in response to a deteriorating demand outlook. While the effects of COVID-19 had relatively limited impact on Ferronordic's business and financial position in the first quarter of the year, we must prepare for disruption on both supply and demand side of our business and for a challenging 2020. We are taking measures to further strengthen our position and are confident that our business model can again prove resilient and that we can continue to deliver great service to our customers and value to our stakeholders. In a longer perspective, we remain positive as we believe that the underlying fundamentals and business opportunities in our markets are strong.



Vision, objectives and strategy

Ferronordic's vision is to be regarded as the leading service and sales company in our markets

STRATEGIC OBJECTIVES

- ◆ Leadership within the market for construction equipment and trucks
- ◆ Expansion into related business areas
- ◆ Geographic expansion
- ◆ Further development of contracting services
- ◆ Aftermarket absorption rate of at least 1.0 x

FINANCIAL OBJECTIVES

- ◆ Tripling of revenue in Russia and CIS from 2016 to 2021
- ◆ Operating margin of 6-8%
- ◆ Net debt/EBITDA of 0-2 x (over a business cycle)

VALUE PYRAMID





STRATEGIC CORNERSTONES

CUSTOMER ORIENTATION

- ◆ Customer centricity
- ◆ Leading service and product availability
- ◆ Tailored customer solutions (including contracting services)
- ◆ Financial services offerings
- ◆ Developed trade-in system
- ◆ Fleet and residual value management

BUILD ON STRONG BRAND – VOLVO

- ◆ World leading manufacturer of trucks and construction equipment
- ◆ Leading brand position in Russia
- ◆ Development through additional strong brands

GREAT TEAM

SUPERIOR INFRASTRUCTURE

- ◆ High density network – many points of presence
- ◆ Mobile workshops and service vans/trucks
- ◆ Well-equipped, purpose-built facilities in selected locations
- ◆ Infrastructure to be used for all brands and business areas

OPERATIONAL EXCELLENCE

- ◆ Strong teams and high employee engagement
- ◆ Safety and sustainability
- ◆ Continuous improvement of practices and processes
- ◆ Business-driven digitalisation solutions
- ◆ Close cooperation with manufacturers

Market overview

Ferronordic operates on the market for construction equipment in Russia since 2010 and since 2019 also in Kazakhstan. The machines are used for various types of construction projects, such as construction of roads and other infrastructure but also operationally in a number of different industries such as mining, oil and gas and forestry.

Further, as aftermarket dealer for Volvo and Renault Trucks, we operate service stations for trucks in certain locations in Russia. From 2020, Ferronordic is a dealer of Volvo Trucks and Renault Trucks in parts of Germany.

Russia's economy

Russia is the largest country in the world measured by area and has a population of 144 million people. It is the world's third largest producer of oil, the second largest producer of natural gas and a leading producer and exporter of minerals and gold. Furthermore, Russia is the largest forestry country in the world with approx. 800 million hectares of forest land (1/5 of the world's total). These natural resources are, and are expected to remain, important to Russia's economy.

From 2000 to 2008, Russia's GDP grew on average 7% per year. The global financial crisis of 2008 also affected Russia, but without causing long-term damage. A short-term downturn was followed by strong recovery beginning at the end of 2009. After several years of strong growth, the economy slowed down and in 2013 grew by only 1.3%.

In 2014, sanctions were imposed on Russia related to Crimea and eastern Ukraine. This combined with falling oil prices led to a severe weakening of the Russian ruble and limited access to capital. In 2014,

Russia's economy thus grew by a mere 0.6%, followed by a decline of 3.8% in 2015 and a decline of 0.7% in 2016. Starting from 2017, Russia's economy began to recover again and GDP grew by 1.5%. The economic recovery continued in 2018 with GDP growing by 2.3%.

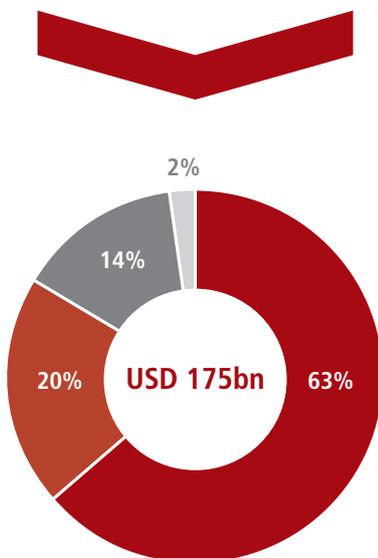
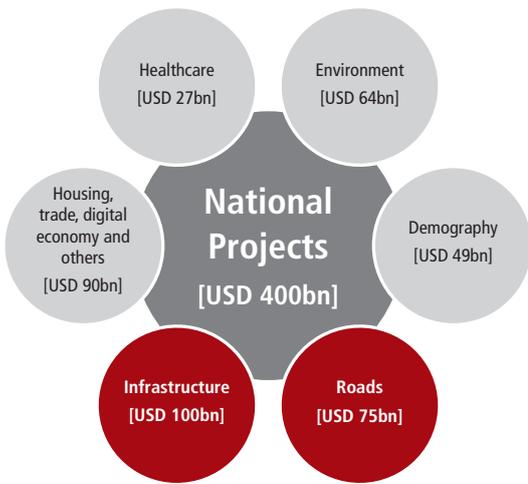
In 2019, Russia's GDP growth decelerated to 1.3% but growth improved towards the year-end. The oil price was lower in 2019 than in 2018 and averaged USD 64/barrel (compared to average USD 71/barrel in 2018). The ruble strengthened against the Swedish krona from 7.7 at the beginning of the year to 6.6 at the end of the year.

Inflation amounted to 3%, compared to 4.3% in 2018, 3.7% in 2017 and 7.1% in 2016. Consensus forecasts for 2020 have been for economic growth of 1.6-1.9% and inflation at around 4.5%. As a result of the outbreak of COVID-19, forecasts are likely to be revised lower.

In the long term, our expectation is that Russia's economy will continue to grow, partly because of the country's significant natural resources, and partly because of the infrastructure investments that will be necessary in the country in the long term.

The importance of infrastructure investments is a significant part of the 2018 May Decrees, where the President set new targets to modernise Russia's economy and upgrade the country's infrastructure. The so-called National Projects is a USD 400bn investment program designed to transform the economy and promote economic growth. Approx. USD 175bn relate to infrastructure investments, including the road network.





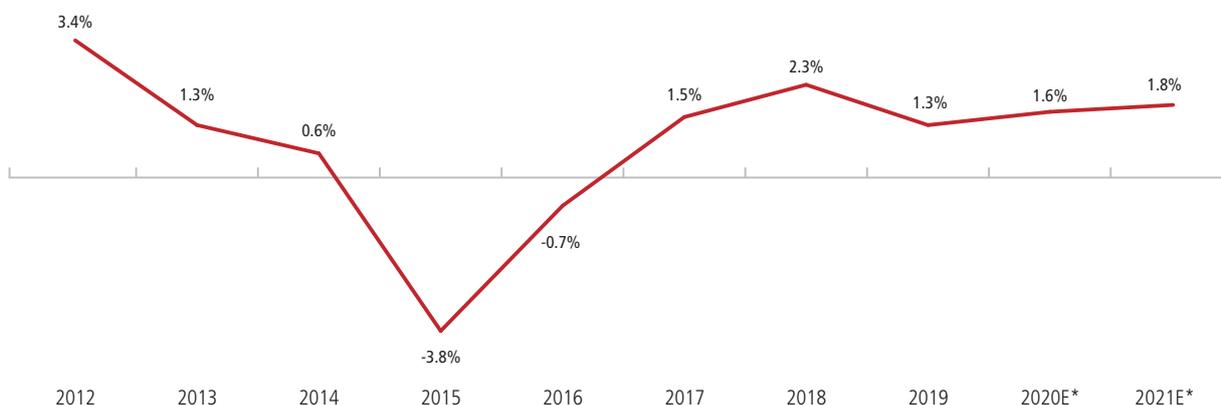
■ Roads ■ Railways ■ Waterways ■ Airports

THE NATIONAL PROJECTS

- ◆ As outlined in the Russian President’s 2018 May Decrees, the program for national development targets three strategic areas: human capital, economic environment and economic growth
- ◆ The three strategic areas are divided into 13 so-called national projects with approx. 150 development goals
- ◆ Special focus is placed on sustainable population growth and poverty reduction
- ◆ The projects imply a total spending of USD 400bn and are planned to be implemented by 2024
- ◆ Approx. 70% of the total investment is to be funded by federal and regional budgets with the balance from private partners
- ◆ Almost half of the budget for the projects is earmarked for infrastructure development, particularly regional road networks, railways and airports
- ◆ Aim to bring over 50% of regional roads and 85% of roads in large metropolitan areas in line with national quality standards
- ◆ Objective to transform regional roads to improve links between Russian cities
- ◆ The railway program includes high-speed rail and increase of the freight capacity between key logistical hubs
- ◆ The waterways development plan aims at growing sea port capacity and developing the Northeast Passage

Sources: Russian Government Information Bulletin, February 2019, InfraOne Research, Executive Order No. 204 On National Goals and Strategic Objectives of the Russian Federation until 2024 (May 2018)

RUSSIA'S GDP DEVELOPMENT*



Sources: World Bank, IMF and OECD.

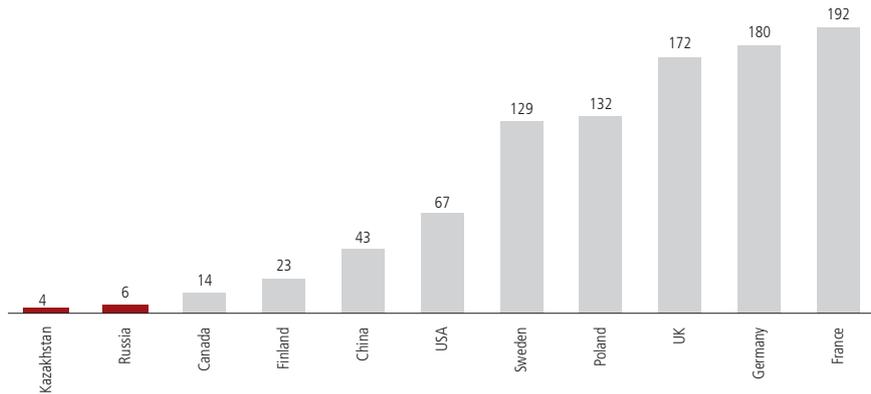
* Forecasts have not been adjusted to reflect the impact of the outbreak and the measures taken to slow down the spread of COVID-19.

Underinvested infrastructure

The construction equipment market is expected to capitalise on the long-term growth in Russia. An important driver for this will be the need to improve the country’s aging infrastructure, the bulk of which was built during the Soviet era and generally needs to be upgraded. A clear example of underdeveloped infrastructure is the Russian road network, which is

not only in poor condition but also low in density. According to the Global Competitiveness Report, issued by the World Economic Forum in 2019, Russia is ranked 99 out of 141 countries in terms of road quality (behind e.g. Tunisia and Uganda). The road density amounts to only 6 km per 100 km², compared to 129 km per 100 km² in Sweden and 14 km per 100 km² in Canada.

ROAD DENSITY IN SELECTED COUNTRIES (KM ROAD PER 100 KM² LAND AREA)

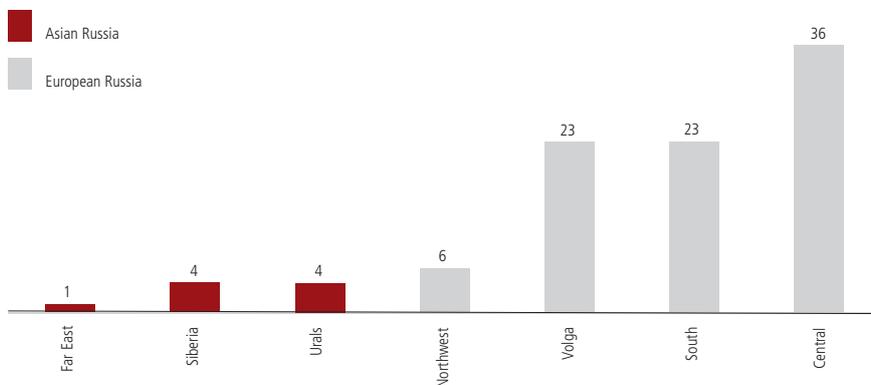


Source: The World Bank.

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

Sweden, despite the fact that the district has a significantly higher population density (60 people per km², compared to 22 people per km² in Sweden). The same applies to other districts with relatively high population density, such as South (40 people per km²) and Volga (29 people per km²). This highlights the great need for investments in the Russian road network.

ROAD DENSITY PER DISTRICT (KM ROAD PER 100 KM² LAND AREA)

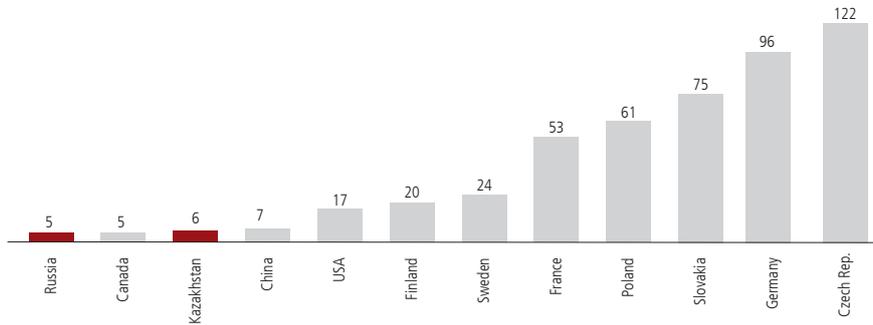


Source: Rosstat (Federal State Statistics Service) Russia in Figures 2018.



Railway density is also low in Russia. Below is a description of the railway density in a number of countries.

RAIL DENSITY IN SELECTED COUNTRIES (KM RAILWAY PER 1,000 KM² LAND AREA)

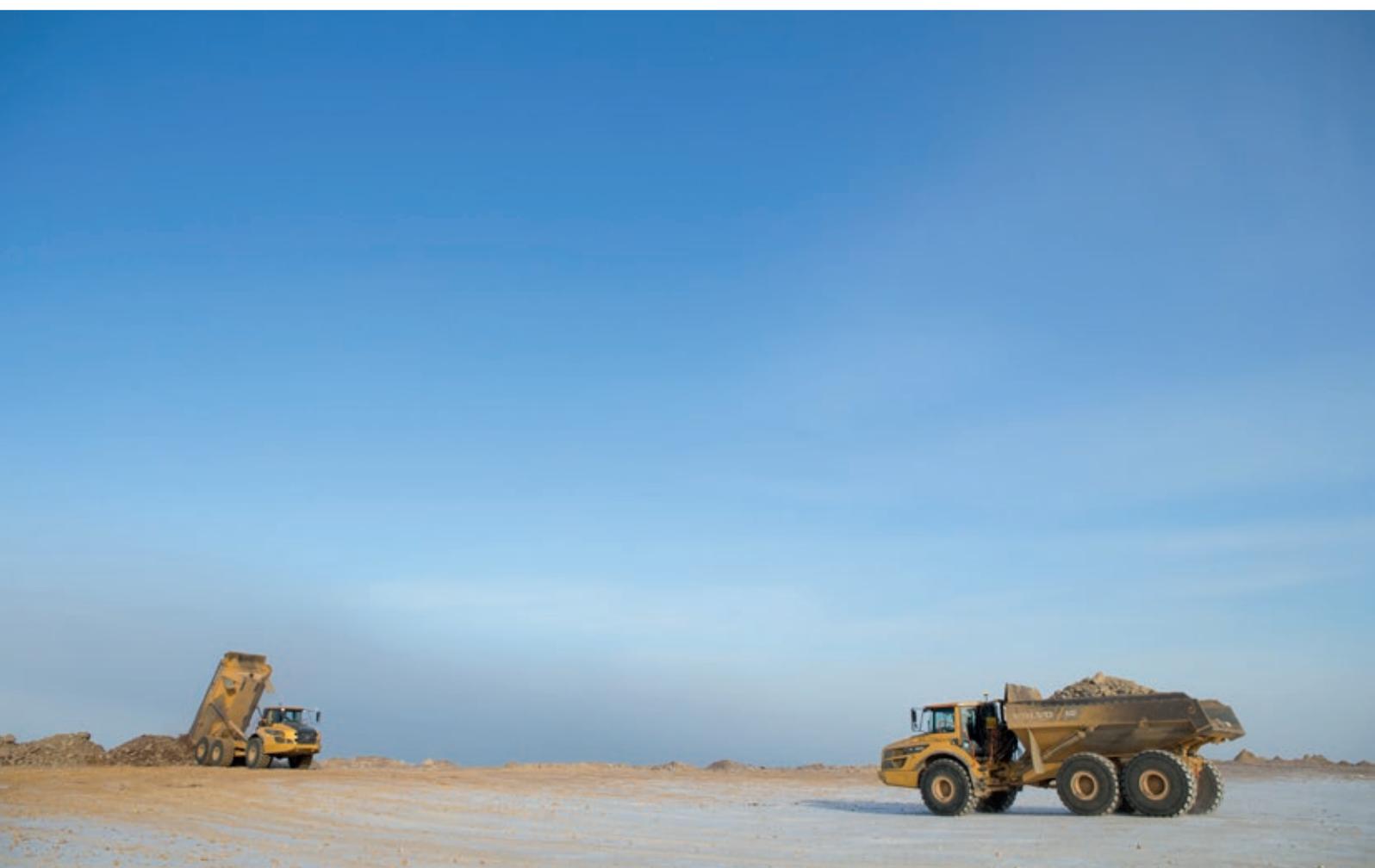


Source: Global Competitiveness Report 2019.

The development of Russia’s road and railway networks is expected to account for an important part of the country’s future economic development. Several large construction projects are planned or ongoing. Among others, these include the construction of a new latitudinal highway with a bridge spanning the Neva River in St. Petersburg, as well as the completion of a new 530 km ring road around Moscow. Projects aimed at improving the country’s railways are also planned, such as the construction of a new 729 km long railway

for high-speed trains between Moscow and Kazan, a railway line extending more than 700 km from the oilfields in western Siberia to the Arctic Ocean (“Northern Latitudinal Railway”), and the construction of a railway line between Kyzyl and Kuragino.

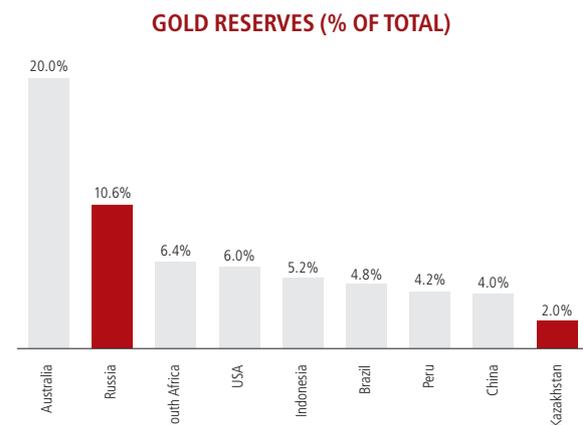
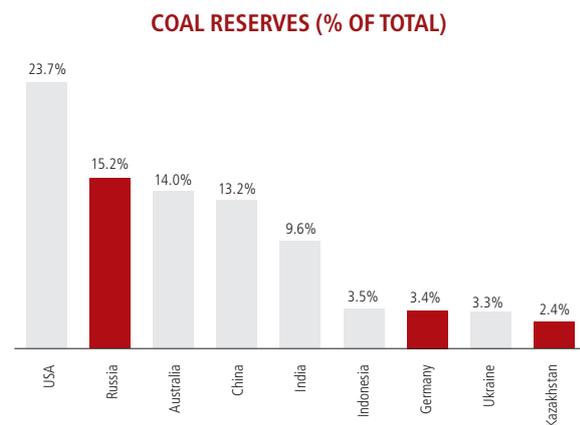
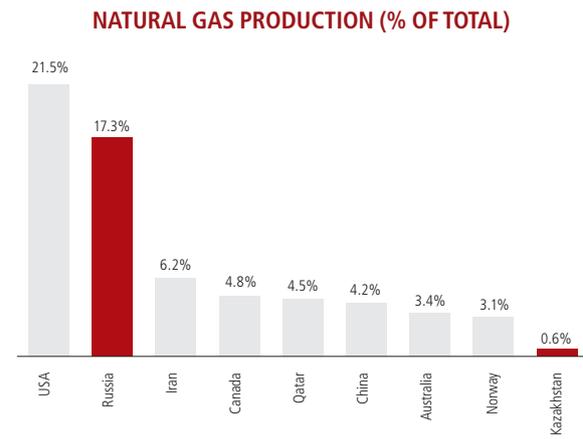
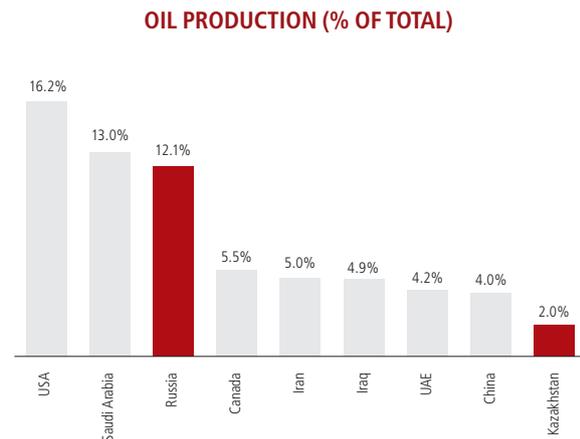
We believe that the number of construction machines in Russia needs to grow significantly in order for these projects to be carried out.



Continued extraction and refinement of natural resources

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

construction projects. Examples of major projects related to the extraction of natural resources include the Vostok Oil project (development of Vankorskoye and Payakhskoye oilfields), the expansion of the Udokan copper field, the development of the Sukhoy Log gold field and the construction of a factory for liquified natural gas at the Gydan peninsula (“Arctic LNG 2”).



Source: British Petroleum Statistical Review of World Energy (2019) and U.S. Geological Survey, Mineral Commodity Summaries, (2020).

KAZAKHSTAN

Kazakhstan is the ninth largest country in the world by area and it is the second largest economy in the former Soviet Union (after Russia). In 2019, the country’s economy grew by 4% (compared to 4.1% in 2018).

The country is rich in oil and other natural resources. For example, it is the world’s 13th largest oil producer, the world’s largest producer of uranium and has the world’s 10th largest coal reserves.

In 2019, the Kazakh machine market within Volvo CE’s product offering (excluding asphalt pavers) amounted to approx. 1,700 units, a decrease of approx. 6% compared to 2018.

As in Russia, the Kazakh machine market is shaped by an economy based on oil and other natural resources. There is also an increasing need to expand and upgrade the country’s infrastructure. According to the 2019 Global Competitiveness Report, Kazakhstan’s road quality is ranked 93 out of 141 countries, which is similar to Russia in terms of quality and density.

Except for rigid haulers, the Kazakh market for high-quality machines is still relatively small and thus, in our view, has great growth potential, partly because of continued economic development (including increased infrastructure spending), and partly because the customers become more mature and sophisticated.

Ferronordic's market

OVERVIEW

Construction equipment is used in different types of construction projects, e.g. construction and maintenance of infrastructure, roads and different types of facilities.

The machines are also used operationally in numerous sectors, such as mining, quarries and aggregates, as well as oil and gas and forestry.

Industry	Main areas of use	Main geographic areas	% of new machine sales 2019	Comments
 <p>General construction and other</p>	<ul style="list-style-type: none"> Construction, maintenance and demolition of buildings, arenas, industrial facilities, infrastructure, etc. Also includes other areas, such as agriculture, recycling and waste management. 	<ul style="list-style-type: none"> Whole Russia 	28%	<ul style="list-style-type: none"> Customers include everything from large construction companies to smaller subcontractors and machines include everything from larger production machines to smaller and simpler machines.
 <p>Mining</p>	<ul style="list-style-type: none"> Operational use such as excavation and transportation of earth and rock. Construction and maintenance of roads and other infrastructure inside and in connection with mines. 	<ul style="list-style-type: none"> Urals Siberia Far East North West 	23%	<ul style="list-style-type: none"> Customer focus on productivity and efficiency creates high demand on parts availability and service quality, which fits our business model well.
 <p>Road construction</p>	<ul style="list-style-type: none"> Construction and maintenance of roads, landing strips, etc. 	<ul style="list-style-type: none"> Whole Russia 	18%	<ul style="list-style-type: none"> Short season (due to climate) creates high focus on productivity and high demand on parts availability and service quality, which fits our business model well. Large population of Volvo CE machines generates extensive demand in the aftermarket (parts and service).
 <p>Forestry</p>	<ul style="list-style-type: none"> Operational use such as logging, log transportation, stacking, etc. Construction and maintenance of roads and other infrastructure in connection with the forestry operations. 	<ul style="list-style-type: none"> Northwest Siberia Volga Far East Central 	14%	<ul style="list-style-type: none"> The core operations in forestry (e.g. logging) are generally on a higher technical level than, e.g. transportation of logs. The customers' purchasing strategy thus differs for different parts of the value chain.
 <p>Quarries and aggregates</p>	<ul style="list-style-type: none"> Extraction and production of raw materials for the construction industry. 	<ul style="list-style-type: none"> Northwest South Siberia Central Urals 	12%	<ul style="list-style-type: none"> Medium-size and large companies focusing on productivity, which favors high quality brands. High machine utilisation requires regular and efficient service and repairs at the right time, which favors service and repair package solutions.
 <p>Oil and gas</p>	<ul style="list-style-type: none"> Construction and maintenance of pipelines, refineries and other infrastructure (e.g. roads within and to oil- and gas fields). 	<ul style="list-style-type: none"> Volga Urals Siberia 	5%	<ul style="list-style-type: none"> Dominated by a few large companies that often outsource construction works to subcontractors.

MARKET DEVELOPMENT

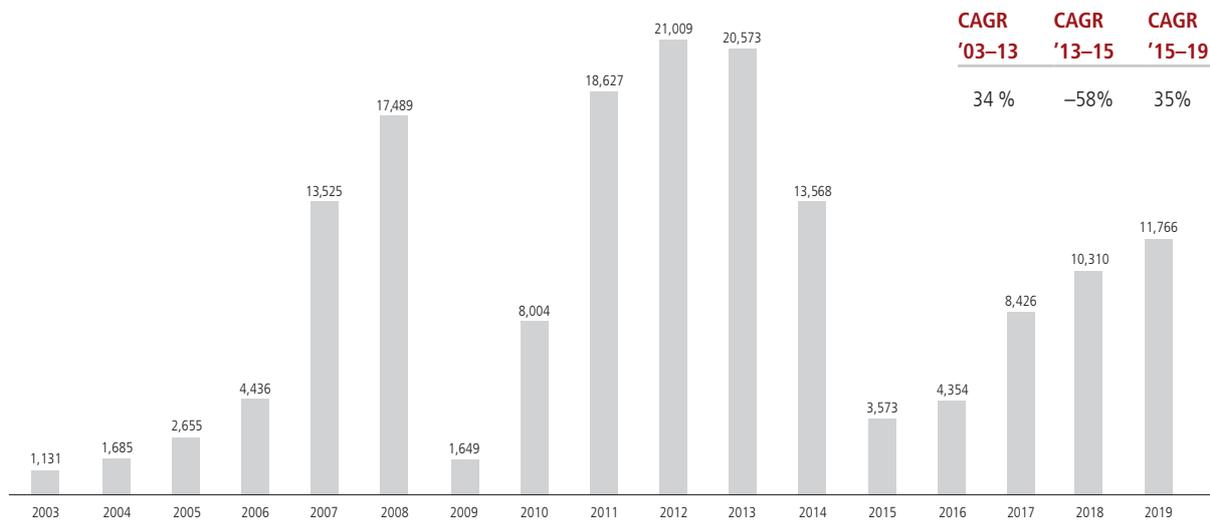
Due to the economic downturn, the number of construction machines imported to Russia in 2014 and 2015 fell by 34% and 74% respectively. The market then started to recover modestly in 2016 and then significantly in 2017, when the number of machines imported to Russia increased by 94% compared to the year before. The recovery slowed down to 22% in 2018 and continued to moderate in 2019.

Throughout 2019, the number of machines imported to Russia grew by 14%. However, even though the market has partially recovered during the last few years, the number of machines imported is still about half of what it was in 2012–2013.

The market for foreign, high quality construction equipment only took off around 2005–2006 and is still relatively young. In 2003–2013, the number of imported machines grew at a compound annual growth rate (“CAGR”) of 34%. The main reason for the growth was an increase in construction in general, as well as a need to replace and upgrade the existing machine population – a trend we think will continue going forward.*

*These numbers exclude Chinese brands, bulldozers, forestry machines and rigid haulers.

IMPORT OF CONSTRUCTION EQUIPMENT TO RUSSIA (UNITS)



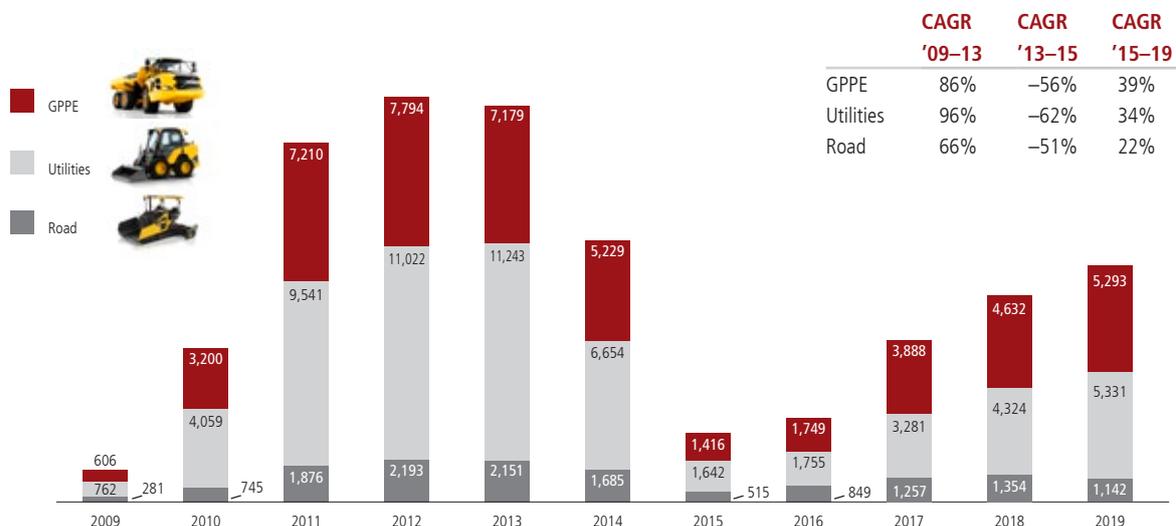
Source: Russian import statistics compiled by Volvo CE.
 Note: Excluding Chinese brands, bulldozers, forestry equipment and rigid haulers.

Ferronordic divides the market for construction equipment into three segments:

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

In recent years, our focus has been on larger and more complex equipment in the GPPE and Road segments.

IMPORT OF CONSTRUCTION EQUIPMENT TO RUSSIA BY SEGMENT (UNITS)



Source: Russian import statistics compiled by Volvo CE.
 Note: Excluding Chinese brands, bulldozers, forestry equipment and rigid haulers.

TRENDS AND DRIVERS

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

Activity in the construction sector

The demand for our products and services is largely driven by the activity in the construction industry, particularly the construction of bridges, railways, oil and gas pipelines, ports and other infrastructure. These projects are dependent on a number of factors such as access to capital and political prioritisations. However, in the long-term, the construction activity in Russia and Kazakhstan is expected to increase, driven by a long-term need to improve the aging and under-invested infrastructure existing in the countries today and which to a large extent was built during the Soviet era. It is believed that these investments could also drive the countries' long-term economic growth going forward. As described above, several major projects are ongoing or planned. In order to realise these projects, we estimate that the number of machines in the countries need to increase significantly.

Ferronordic is well-positioned to capture the opportunities that would be created by the increased demand.

Activity in the commodity sector

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

Pent-up demand

The number of new machines imported to Russia during the last ten years is approx. 120,000 units. Even though the market continued to recover in 2019, Ferronordic estimates that the total need of equipment in Russia, based on the prevailing investment level between 2011–2014, amounts to approx. 180,000 units. Thus, the pent-up demand on the market amounts to at least 60,000 units.

By the end of 2019, over 60% of the new machines imported during the last ten years were over five years old and, thus, in many cases, in need to be replaced with new equipment or undergo overhauls. In addition, there is undoubtedly a large number of machines that have been imported over ten years ago, including the relatively large number of machines imported in the years preceding the financial crisis in 2009, as well as domestic and Chinese machines, which ought to be replaced with new and/or more effective equipment.

The pent-up demand partly explains market recovery during 2017-2019, a trend we anticipate will continue.

Gradually maturing customers

Since the mid-2000s, an increasing number of Russian machines have been replaced by imported machines, a trend driven primarily by demand for better quality, increased efficiency and stronger aftermarket support, and not merely initial purchase price. On more developed markets, purchasers of construction equipment have generally shifted focus from initial price to total cost of ownership over the machine’s life-cycle, including fuel costs, repair and maintenance

costs, standstill costs, residual value, etc. In Russia and Kazakhstan, however, customers often continue to focus on initial price. This is gradually changing as the customers mature and become more efficiency focused. The importance of high quality aftermarket service is also expected to increase as customers become less inclined to repair and maintain equipment by themselves as they become more efficiency focused and the machines become more advanced.

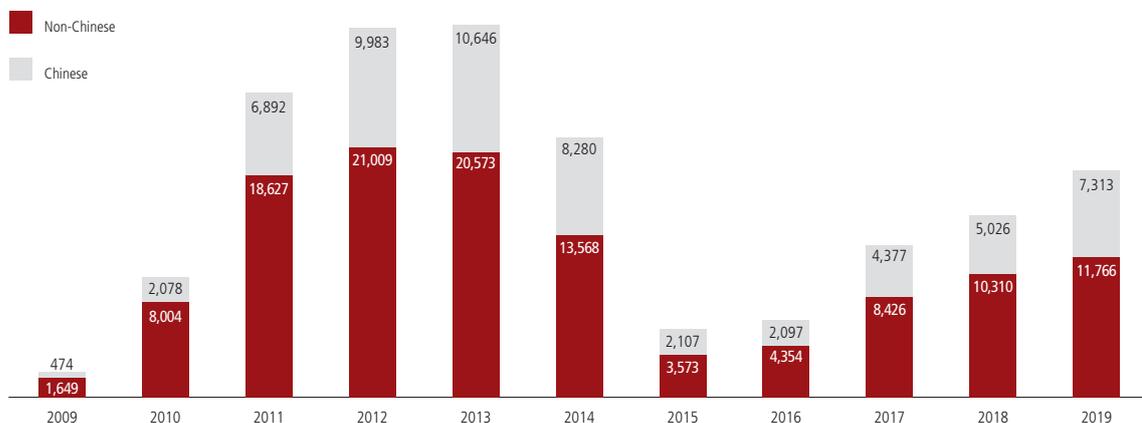
COMPETITION

Ferronordic’s main competitors are other manufacturers/dealers of high quality construction equipment, such as Caterpillar, Komatsu and Hitachi.

As regards imported machines, we differentiate between, on the one hand, manufacturers/dealers offering higher quality machines and good aftermarket support but at higher prices and, on the other hand, Chinese brands that offer simpler, standardised machines with inferior aftermarket support but at lower prices.

Historically, Chinese brands have represented approx. one third of the total import of construction equipment to Russia, measured in units (in value these machines represent a considerably smaller part of the imports). However, these machines have mainly consisted of simpler wheel-loaders (approx. 85% during 2019). Since we mainly focus on larger and more complex machines, supported by strong aftermarket service, we do not at present include Chinese brands among our main competitors.

IMPORT OF CONSTRUCTION EQUIPMENT TO RUSSIA BY ORIGIN (UNITS)



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

The company

Ferronordic is a service and sales company in the areas of construction equipment and trucks.

Ferronordic is the authorised dealer of Volvo Construction Equipment, Terex, Dressta, Mecalac and Rottne in Russia and for Volvo Construction Equipment and Mecalac in Kazakhstan. In parts of Russia, Ferronordic has been appointed aftermarket partner for Volvo and Renault Trucks and is dealer for Volvo Penta. As of 2020, Ferronordic is also the authorised dealer for Volvo and Renault Trucks in parts of Germany.

In its growing contracting services business, Ferronordic also offers consulting and construction services to customers. The company also offers contracting services where it owns and operates equipment to carry out works for customers.

Ferronordic began its operations in 2010 and now, in March 2020, has over 100 outlets and about 1,500 employees across its geographies. Ferronordic's vision is to be regarded as the leading service and sales company in its markets. The shares in Ferronordic AB (publ) are listed on Nasdaq Stockholm.

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Outlets (at end of period)	12	57	69	75	75	64	73	74	79	92 ¹⁾
Employees (at end of period)	326	540	654	731	767	685	782	848	1,032	1,239
Revenue (SEK M)	1,184 ²⁾	2,421	2,402	2,483	2,335	1,469	1,658	2,567	3,241	3,747
Operating margin ³⁾	n.m.	3.9%	2.8%	3.6%	4.4%	5.9%	7.9%	7.3%	8.4%	9.5%

1) Including two workshops in Germany.

2) Annualised.

3) 2010–2016 refer to the adjusted EBIT margin, i.e. operating margin excluding amortisation of transaction-related intangible assets until May 2016, and write-downs of non-current assets during the fourth quarter 2016.

BUSINESS MODEL

In more developed markets, construction equipment customers have generally shifted focus from initial purchase price to total cost of ownership during the machine's life-cycle, including fuel costs, cost of repair and maintenance, cost of standstill and residual value.

On Ferronordic's markets, although customers still often focus more on initial price, we see that this is changing as the customers become more mature and sophisticated.

To meet the individual needs and growing demands of our customers, we have developed a complete offering for both Volvo CE and our other brands. In addition to delivering high-quality machines, we also provide consultancy services such as operator training, trade-in of used machines, advice regarding optimal fleet composition and specifications, etc. Since 2014, we also offer contracting services where Ferronordic, using its own machines and operators, excavates and transports earth and rock for mining customers. We expect this business to grow in the future.

To reduce the total life-cycle cost, machines must have high utilisation. Machines at standstill, because

of poor planning or breakdown, can have significant effect on project profitability for a customer. The high opportunity cost of machines at standstill results in great demand on dealers providing timely service levels and ensuring high availability of spare parts. For Ferronordic, this was a decisive factor in the establishment of a dense and mobile network throughout Russia. Proximity to customers, a large number of outlets and high availability of service and parts are three factors that characterise Ferronordic on the market. The fact that we operate in the whole of Russia has also been important in recent years as we have been able to reallocate resources across regions and sectors to diversify our revenue stream and improve our resilience to economic downturns.

Ferronordic's business model has contributed to Volvo CE's position as the leading brand in Russia.¹⁾ Surveyed customers have recognised our customer focus and service offering, our dense network and our aftermarket support. In February 2020, Volvo CE awarded Ferronordic Dealer of the year in recognition of our customer focus and investments to develop our staff and digitise our service and sales channels.

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

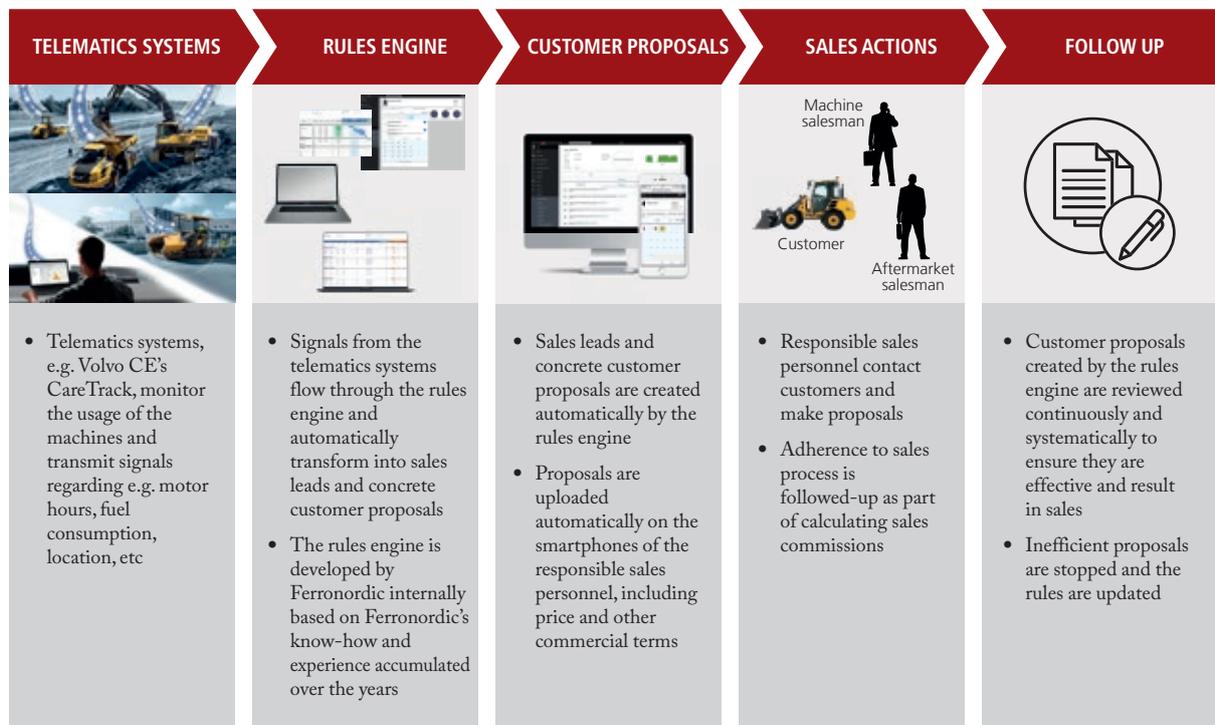
DIGITAL SALES SUPPORT

Ferronordic has a strong focus on what we refer to as the “commercialisation of the aftermarket”, meaning a proactive offering of service and parts based on real-time data from the existing machine population and the knowledge accumulated by our mechanics and sales personnel over the years.

In recent years, we have developed this further to create our own system for digital sales support, both for equipment sales and aftermarket. We have developed a proprietary “rules engine” combining our expertise and experience with the signals from the machines’ telematics systems (for example Volvo CE’s CareTrack) to produce automatic sales leads and concrete equipment or maintenance recommendations to optimise the efficiency and performance of our customers’ fleets of machines. The recommendations and proposals are automatically uploaded to the

smartphones or tablets of the responsible sales persons, including prices and other commercial terms. Our recommendations are continuously evaluated and the rules engine constantly refined to ensure that our suggestions are appropriate and result in sales and higher performance for our customers.

We believe that our digitalisation system is rather unique among construction equipment dealers, not only in Russia, and believe it has good potential going forward. Potentially it can be applied to other types of commercial vehicles, e.g. in our growing aftermarket business for Volvo and Renault Trucks. In 2019 it was a significant driver for our increased aftermarket sales and, we believe, for customer satisfaction. It was also used as a tool to optimise maintenance and utilisation of machines in our contracting services business.



Brands

Ferronordic is the authorised dealer of Volvo Construction Equipment, Terex, Dressta, Mecalac and Rottne in Russia, and for Volvo Construction Equipment and Mecalac in Kazakhstan. In parts of Russia, Ferronordic has been appointed aftermarket partner for Volvo and Renault Trucks and is dealer for Volvo Penta. As of 2020, Ferronordic is also the authorised dealer for Volvo and Renault Trucks in parts of Germany.

We see opportunities to capitalise on our existing expertise and network in order to offer complementary

products and services for new brands or to expand our product offering in new markets like we started in 2019 in Kazakhstan and in 2020 for Volvo and Renault Trucks in Germany.

During 2019, sales of products and services related to Volvo CE accounted for 76% of sales while sales of products and services related to other brands accounted for 14%. Our contracting services business accounted for most of the remaining 10%.



VOLVO CONSTRUCTION EQUIPMENT

Ferronordic is the authorised dealer for Volvo CE in Russia since 2010 and in Kazakhstan since 2019. Volvo CE is a leading manufacturer of premium construction equipment and, with over 14,400 employees, it is one of the largest companies in the industry. Volvo CE is the strongest construction equipment brand in Russia. The product offering includes a wide range of machines in different sizes and categories. In 2019, we sold 857 new Volvo CE machines.



VOLVO TRUCKS AND RENAULT TRUCKS

Ferronordic is authorised aftermarket dealer (parts and service) for Volvo and Renault Trucks in certain parts of Russia. At the end of 2019, Ferronordic operated authorised truck workshops in eleven locations: Pavlovskiy Posad (east Moscow) in Central region, Arkhangelsk and Koryazhma in Northwest, Krasnodar and Rostov-on-Don in South, Orenburg in Volga, Surgut and Noviy Urengoy in Urals, Norilsk in Siberia, and Khabarovsk and Sakhalin in Far East. The business is a good complement to our core business as it is scalable, increases our workshop network utilisation and also improves customer experience and satisfaction as many of our customers manage both Volvo Construction Equipment and Volvo and Renault Trucks fleets.

Starting in 2020, Ferronordic is also the authorised dealer for Volvo and Renault Trucks in a part of Germany comprising about 20% of the market for heavy trucks.



TEREX TRUCKS

In 2014, Ferronordic was appointed official dealer for Terex Trucks (owned by Volvo CE) in all of Russia. In 2019, we sold we 13 machines from Terex Trucks. In 2019, Volvo CE's old line of Terex-branded rigid haulers was replaced with the new series of Volvo-branded haulers. While Ferronordic continues to act as aftermarket dealer for the existing population of Terex-branded rigid haulers in Russia, we are now focused on introducing the new Volvo-branded rigid haulers. During the year we also stopped being a dealer for Terex-branded articulated haulers and now only sell and service Volvo-branded articulated haulers.



DRESSTA

In 2016, Ferronordic was appointed the official dealer for Dressta bulldozers and pipelayers in all of Russia. Dressta is based in Poland and is a global manufacturer of bulldozers and pipelayers. Bulldozers complement our Volvo CE offering and improve our ability to offer package solutions. The appointment was fully in line with our strategy to use our network for complementary products. During 2019, we sold 13 bulldozers from Dressta.



MECALAC

In 2017, Ferronordic became the official dealer for backhoe loaders from Mecalac in all of Russia. The manufacturing, acquired by Mecalac from Terex Corporation in 2016, is based in the UK. The product replaced the previous backhoe loader from Volvo CE, which was discontinued in 2015. As of 2019, we also service and sell Mecalac backhoe loaders in Kazakhstan. During 2019, we sold 48 backhoe loaders from Mecalac.



ROTTNE

As of 2016, Ferronordic is official dealer for Rottne forestry equipment in all of Russia. Rottne is a Swedish manufacturer of forwarders and harvesters for the forestry industry. As part of the cooperation with Ferronordic, Rottne developed a new series of products for the Russian market, equipped with engines from Volvo Penta. Forestry equipment complements our Volvo CE product and service offering. During 2019, we sold 5 machines from Rottne.



DIESEL GENERATORS

We also sell Ferronordic branded diesel generators (gensets). The gensets consist of an electric generator, powered by a Volvo Penta engine. Diesel generators are used in places that lack connection to a power grid or as emergency power supply if the grid fails. In 2019, we sold 29 Ferronordic gensets.



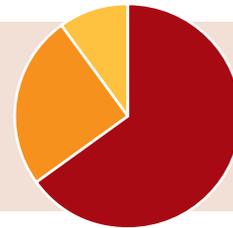
Services and Products

Ferronordic is a service and sales company in the areas of construction equipment and trucks. Our core business consists of selling, repairing and/or maintaining different types of machines, trucks, engines, spare parts and attachments. In addition, we provide consultancy services such as machine operator trainings. We also have a growing business in contracting services where we ourselves, with our own machines and operators, perform works for customers, primarily in the mining industry.



REVENUE BROKEN DOWN BY REVENUE SEGMENT, 2019

Machine sales 65 %
 Aftermarket sales 25 %
 Other income 10 %



MACHINE SALES

Machine sales consists of sales of new and used machines. Most of the machine sales comes from new Volvo CE machines, such as haulers, wheel loaders, excavators and pavers. In 2019 sales of Volvo CE machines accounted for 89% of the new machine sales (measured in units). New machine sales also includes haulers from Terex Trucks (in 2019 replaced with Volvo-branded haulers), bulldozers from Dressta, backhoe loaders from Mecalac and forestry machines from Rottne. In addition we sell attachments from various producers.

Machines sales also includes used machines. These are either machines from our own rental fleet or contracting services business, machines purchased from customers in connection with trade-in deals or machines purchased for resale. Compared to dealers in more developed markets, our used machine sales is still small and thus has potential to grow as the market develops.

Since 2017 we are a supplier of Volvo Certified Rebuild for articulated haulers, excavators and wheel loaders. Volvo Certified Rebuild is a program where used equipment is rebuild in accordance with Volvo CE's standards in order to obtain a second or even third life-cycle. The rebuilt machines can then be sold as "Certified Rebuild" with a new warranty from Volvo CE. Ferronordic was one of the first Volvo CE dealers to be approved for the program and the first dealer in Europe to be approved for excavators.

COMPONENT AND USED MACHINES REBUILD CENTER

In 2019, Ferronordic launched investment into a component rebuild center in Ekaterinburg. The facility stood ready at the end of the year and produced the first engine component in January 2020. The center will mainly rebuild engines and gearboxes for Volvo CE and Volvo and Renault Trucks but also has a chop-off line and broader rebuild capacity. Components and machines from the rebuild center will be part of Volvo's Certified Rebuild program and come with a Ferronordic warranty. Part of the center's capacity is expected to be used by Ferronordic's contracting services business. We expect the component rebuild center to become an integral part of our business system.

SELECTED MACHINES SOLD IN 2019

Product type	Example	New units sold in 2019	Description
Excavators		533	Used for a wide range of purposes, e.g. landscaping, excavation, trenching, demolition, loading etc.
Articulated haulers		108	Volvo CE developed the articulated hauler concept and is the market leader in articulated hauling in demanding conditions. Applications include road construction, quarrying, mining and waste handling.
Wheel loaders		150	Used to move or load materials. Come in several sizes and models, from compact machines to large production machines.
Road construction equipment		69	Pavers (tracked or wheeled) are used to lay asphalt in connection with the construction of roads, airports, etc. Compactors are used to press surfaces, e.g. asphalt or earth, often in connection with road construction.
Backhoe loaders		48	A tractor with a shovel or scoop in the front and an excavator in the back. Used for a wide range of purposes, e.g. digging ditches, lifting, loading, materials handling and construction.
Diesel generators		29	Power generators driven by a diesel engine from Volvo Penta, assembled in Russia and sold under Ferronordic's brand.
Bulldozers		13	Used to move earth, for example in road construction, aggregates, mining, etc.
Rigid haulers		10	Massive trucks with payloads ranging from 41 to 91 tons. Used to move earth and other heavy loads in mining, aggregates, etc.
Forestry machines		5	Harvesters are used for felling, delimiting and bucking trees. Forwarders are used to transport logs from the stump to the roadside landing.

AFTERMARKET SALES

The aftermarket is at the core of our business model and consists of sales of parts and service.

Parts sales

The largest share of the aftermarket sales consists of sales of spare parts, mainly for construction and forestry machines, but also for trucks and engines.

Good parts availability is of significant importance for dealers and can be a distinguishing competitive factor. For this reason, we maintain stocks of parts throughout our markets. Proximity to the customers is crucial for prompt delivery. Our presence across Russia and Kazakhstan provides us with close customer access and enables us to offer timely customer service. We also offer overhaul of vital components such as engines and gearboxes.

Service

The other part of the aftermarket sales consists of service. This includes scheduled maintenance, diagnostics, as well as scheduled and unscheduled repairs. We offer various types of service contracts in order to tailor our offering and meet each customer's individual needs. Service contracts provide increased stability in the business and improve the possibility to predict future revenues and cash flows. Service is provided in respect of both machines and trucks – out in the field, at the customer or at our service stations.

CONTRACTING SERVICES

As part of our strategy of becoming increasingly integrated in the business of our customers, and also to grow into related business areas, we offer contracting services where we own the equipment and engage the operators to carry out works and specific tasks for customers.

The current contracting services projects encompass excavation and transportation of earth and rock for customers in the mining industry. Payment is based on the volume of earth and rock transported. This type of outsourcing is common in the mining industry in other parts of the world but is still relatively undeveloped in our markets. However, we believe that demand for contracting services will grow in both Russia and Kazakhstan and we see opportunities to expand this business. In the future, we may also extend similar services to customers in other industries.

In the second half of 2019, we expanded our largest contracting services project so far. The project, which will last for three years, is made for the Russian mining company GV Gold and, as at the end of 2019, involved approx. 34 machines and 143 employees, most of whom are machine operators. The project encompasses excavation and transportation of overburden at a gold mine in the Irkutsk region of Siberia.

TRADITIONAL DEALERSHIP METHOD VS OUTSOURCING/CONTRACTING SERVICES METHOD

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

Network

OUTLETS IN RUSSIA AND KAZAKHSTAN AS OF 31 DECEMBER 2019



Construction equipment dealers must be close to their customers. To begin with, the machines are usually difficult or impossible to move to a workshop. Instead, the dealers’ mechanics usually travel to the sites where the machines are located and operating. Secondly, because the machines are typically critical to the production process, and any stand-still results in major costs and deteriorating profitability for the customer, it is crucial that the dealers’ mechanics can be on site quickly and have good access to parts in order to repair machines. Proximity to customers, a dense network of well located outlets and good parts availability are therefore key success factors.

In December 2019, we had 90 outlets in Russia and Kazakhstan. Most of them are located in larger cities or other places that have, or are expected to get, strong demand for construction equipment (e.g. clusters for the oil and gas industry or mining industries). The standard varies from simple workshops and sales offices to purpose-built service stations for both construction equipment and trucks.

In certain cases, outlets are established on a project basis at the site where the equipment is used, often in remote locations (e.g. mines in Siberia and Far East). These projects can be so large and demanding that we

must establish our own workshops with our own mechanics and parts warehouses at the production sites of our customers.

Since our customers operate in different industries in different parts of Russia and Kazakhstan, we are less exposed to trends and business cycles that affect specific regions and industries. For example, during the 2015–2016 economic downturn, the market was particularly weak in the European part of Russia where the building construction sector is of greater importance, but less weak in Siberia and Far East where mining and forestry are important. Similarly, in 2019, coal prices declined and reduced demand for our products and services. At the same time, however, gold prices increased and created other business opportunities for us. Our strong aftermarket focus, including the increasingly important aftermarket sales relating to Volvo and Renault Trucks, constitutes another buffer. In general, aftermarket sales tend to be more stable and less sensitive than machine sales to business cycle fluctuations. Also, if our customers buy less new equipment to maintain their machine fleets, they generally need more parts and maintenance services. This was noticeable during the economic downturn 2015–2016.

REGIONAL COVERAGE

We have a well developed workshop network across Russia. The network is divided into eight regions: Central, Northwest, Volga, South, Urals, Siberia, Far East and Kazakhstan. At the end of 2019, we had seven outlets in Kazakhstan and continue to grow our presence and organisation. We also have a department in Moscow, responsible for relations with certain major customers with operations across multiple regions.

When Ferronordic was founded in 2010, 82% of all units were sold in the Northwest and Central regions. Since then, we have steadily expanded the business to other regions in order to capitalise on major projects in the eastern parts of Russia. In 2019, the share of machines sold in other regions stood at 58% compared to 54% in 2018.

Region	Outlets	Description
Central	16	<ul style="list-style-type: none"> Central includes Moscow and is Russia's most densely populated region with approx. 39 million inhabitants. Most of Russia's major companies are headquartered in or around Moscow. Demand is driven primarily by general construction, road construction and other infrastructure spending, but also by quarries and aggregates as well as forestry.
Northwest	15	<ul style="list-style-type: none"> Northwest includes St. Petersburg, Russia's second-largest city, and has a population of approx. 14 million. The region contains large forest areas and demand is largely driven by forestry, but general construction, quarries and aggregates and mining are also important.
South	5	<ul style="list-style-type: none"> South, comprising the South and North Caucasus federal districts, has a population of approx. 24 million. Demand is mainly driven by general construction, road construction and other infrastructure investments, but the region also contains an important part of Russia's agriculture industry, as well as Russia's largest port.
Volga	10	<ul style="list-style-type: none"> Volga includes numerous large cities and is an industrially well-developed region in the central parts of Russia. It has a population of 30 million inhabitants. Demand is largely driven by general construction, but oil and gas and forestry are also important.
Urals	11	<ul style="list-style-type: none"> Urals is a geographically large region with both large cities and great natural resources. The population is approx. 12 million. Demand is largely driven by mining and oil and gas, but also by general construction.
Siberia	13	<ul style="list-style-type: none"> Siberia is a geographically very large region with great natural resources but poorly developed infrastructure. The population is approx. 19 million. Demand is mainly driven by natural resources such as mining, forestry and oil and gas, but also general construction and other infrastructure investments.
Far East	13	<ul style="list-style-type: none"> Far East is also a geographically very large region with great natural resources but low population density and poor infrastructure. The population is approx. 6 million. The region is dominated by mining and transportation of natural resources.
Kazakhstan	7	<ul style="list-style-type: none"> Kazakhstan is the world's ninth largest country by area and has a population of approx. 19 million. Demand is largely driven by oil and mining, but also by general construction and road construction.



Ferronordic expands to **Germany**

On 20 December 2019, Ferronordic announced that it would become dealer for Volvo and Renault Trucks in a part of Germany by acquiring eleven workshops that in 2018 generated approx. SEK 1.6b in turnover. Ferronordic started operations in Germany in January 2020 and intends to further expand and improve its presence and network in its coverage area.

Germany is Europe's largest market for heavy trucks with approx. 70,000 registrations in 2019. Ferronordic's sales area covers approx. 20% of the German market and includes some of the busiest and most developed parts of Germany, like Hannover and Frankfurt Rhine-Main, the second largest metropolitan region in the country. It also includes a large part of Eastern Germany with fast growing cities like Leipzig and Dresden.

Ferronordic intends to grow and improve the network in its area of operation and sees potential to

apply Ferronordic's business model to grow revenue and profitability by increasing Volvo and Renault Trucks' market shares and increase the share of aftermarket sales to improve profitability. As a result of the expansion to Germany, Ferronordic's headcount will increase with around 230 employees, mostly sales representatives and mechanics.

Ferronordic's CEO, Lars Corneliusson, comments:

"The expansion to Germany is in line with Ferronordic's objective to grow geographically and will further strengthen our relationship with Volvo. Our work now is focused on further building the Volvo and Renault brands in Germany, increase market shares and grow the aftermarket business to improve profitability".

- ◆ **Why:** Ferronordic's strategic objectives include expansion to related business areas and geographical expansion. In Germany, Ferronordic sees an opportunity to grow profitably in the market.
- ◆ **What:** Ferronordic will sell and service Volvo and Renault trucks, trade and restore used trucks and manage a truck rental business.
- ◆ **Who:** Ferronordic welcomes 230 new employees, mostly sales representatives and mechanics, to its operations in Germany.
- ◆ **How:** The total purchase price was SEK 136m, partially financed with a credit facility. The transaction added SEK 195m of net debt to Ferronordic. Ferronordic will make further investments in working capital and network expansion in Germany.



★ 11 Ferronordic workshop locations in Germany

Sustainability

SUSTAINABILITY IS ABOUT EFFICIENCY, SOCIAL RESPONSIBILITY AND GOOD GOVERNANCE

A sustainable development is necessary for the prosperity of the world as a whole but also for its constituent parts, including that of Ferronordic and our stakeholders. It is about employing and building natural, human and technological resources in a way that meets the current needs of the planet while providing opportunities for future generations to build a better world. For Ferronordic, sustainability involves managing a responsible business that creates long-term value for all our stakeholders. Sustainability is not only right, it is also good business. When we look at our pyramid of values (see page 8), all levels build on each other and every level includes a focus on sustainability. We work to embed sustainability in everything we do; in our culture, our processes and in our business activities. It is an essential part of our work to constantly improve and make our business more efficient.

We have identified three focus areas that are more relevant for our operations and where we can have more impact:

- 1) Minimise resource waste and environmental impact; providing our customers with more efficient products and business solutions, in tight collaboration with our OEM partners, resulting in a lower environmental footprint.
- 2) Being a good employer; providing training and development, a safe work environment, equal opportunities and fair salaries.
- 3) Employing good corporate governance model. Ferronordic follows the Swedish Corporate Governance Code and has a zero-tolerance policy against corruption.

EFFICIENT PRODUCTS AND BUSINESS SOLUTIONS DECREASE ENVIRONMENTAL FOOTPRINT

Our success is dependent on the success of our partners and customers. To grow sales, we must be able to offer our customers more efficient products with lower environmental footprint and constantly improving safety standards. Our OEM partners have ambitious targets to limit emissions, make efficient use of natural resources and act socially responsible in all parts of the value chain whilst offering competitive products and services that enable investments for a better future. Our customers are looking to achieve maximum output or infrastructure development with minimum resource waste and environmental impact.

Meanwhile, the regulatory environments in our markets keep evolving and demand lower emissions and safer working conditions. Ferronordic is a critical part of that value chain and shares these objectives with our partners and customers. We work closely with our supply-side partners to align standards and business practices and bring their latest and most efficient technological innovations to our customers. At the same time, by providing high-quality, fuel-efficient and safe machines, and ensuring that they work when, how and where they should, we contribute to increasing the efficiency and long-term success of our customers. This helps us to build a sound basis for a sustainable and profitable business going forward. It also helps us to develop and maintain long-term relations based on mutual trust with Volvo and other partners, which further benefit our business and improve our ability to provide better support to our customers.

TO CONTRIBUTE TO THE SUCCESS OF OUR CUSTOMERS, WE MUST HAVE ENGAGED EMPLOYEES

By encouraging our people to learn from their mistakes, we encourage initiatives and creativity.

By caring for their safety and wellbeing, we create trust and loyalty.

By paying fair salaries and transparent bonuses, we increase motivation.

By investing in training and development, we not only increase the productivity of our staff and enhance their ability to deliver customer satisfaction but also raise their sense of self-realisation, achievement and commitment to our organisation.

According to our latest employee survey, we have an overall employee engagement score in the company as high as 78%. This was essential for our success in 2019 and will be equally important for our business going forward.

CORPORATE GOVERNANCE MODEL AND ANTI-CORRUPTION WORK

Ferronordic adheres to the Swedish Corporate Governance Code, a higher standard for good corporate governance than the minimum requirement by law.

In markets where corruption is common, our continuous anti-corruption work raises trust in our company and the brands we represent and thus increases our long-term competitiveness; as dealer and product champion in our markets, as provider of products and services and as an employer.



The United Nations Sustainable Development Goals (SDGs) set the world's **common agenda for 2030**

The United Nations SDGs serve to develop shared knowledge, facilitate cooperation, produce and harmonise regulation and drive technological development, which ultimately leads to impact and change. Ferronordic is committed to all 17 goals, all of which have some connection to what we do. We strive to foster awareness in our organisation and to make our contribution to the global effort. We, however, focus extra on the goals where our business activities can have the biggest immediate impact and where we can have the biggest effect on positive long-term trends.



MINIMISE RESOURCE WASTE AND ENVIRONMENTAL IMPACT

A large part of the existing machine population in Russia and Kazakhstan consists of old machines with suboptimal fuel-efficiency. By replacing these machines with new, efficient and innovative machines or business solutions, we contribute to a better environment in Russia and Kazakhstan.

By promoting and distributing high-quality, long-life, fuel-efficient and safe machines, and by providing service, support and training, we ensure that our customers' machines work when, how and where they should. Thereby, we contribute to improving the efficiency, reducing emissions and resource waste and increasing safety for our customers and their employees.

In contracting services, we optimise fuel consumption and machine depreciation on behalf of our clients by employing the right fleet of machines, using the machines in the right way and managing experienced and well-trained operators.

Our certified rebuild program and our newly established component rebuild center in Ekaterinburg allow for the extension of the lives of the machine fleet and recycling of components and parts that might otherwise be scrapped as waste. The center will repair used machines, rebuild new components and utilise metal and parts from machines that cannot be restored to working capacity.



BEING A GOOD AND FAIR EMPLOYER THAT INVESTS AND DEVELOPS HUMAN RESOURCES

We strive to promote a diverse workforce and are an equal opportunities employer. We do not tolerate any form of discrimination. We respect the rights of all employees to join an association to represent their interests as employees, to organise and to bargain collectively or individually.

We make significant investments in training and development of our employees. By developing a more qualified organisation, we become better at offering the right solutions to the right customers, at servicing and maintaining the customers' machines and at advising on efficient utilisation of the machines. In 2019, we provided about 57,000 hours of training to our employees, compared to about 52,000 in 2018 and 49,000 in 2017. In 2019, the proportion of women in management positions increased from 13% to 17%, partly as a result of targeted programs to promote professional development and career growth for women.

Providing a safe workplace is a top priority for us. The goal is to achieve an injury free workplace. A total of 6,810 hours were invested in health- and safety training in 2019. In 2019, Ferronordic was awarded ISO 45001 certification.

According to our latest survey, conducted in 2018, we have an overall employee engagement score of 78% and an overall employee satisfaction of 82%.



BEING A GOOD CORPORATE CITIZEN

Ferronordic adheres to the Swedish Corporate Governance Code, a standard for good corporate governance. Ferronordic has a zero-tolerance policy against corruption. Our anti-corruption program consists of various policies and procedures, regular trainings (including an annual online training), regular risk assessments, whistleblower procedures and audits. By building transparency and trust with employees, customers, partners and authorities, we believe that we contribute to more open and fair market environment.



CONTRIBUTING TO ECONOMIC GROWTH AND OPPORTUNITIES TO LOCAL COMMUNITIES

By providing equipment and business services that are used to build critical infrastructure, Ferronordic also contributes to economic growth and social development in these regions. By working in some of the most remote areas of Russia and CIS, Ferronordic also helps to develop and offer work opportunities to otherwise isolated communities.

Stakeholders and **materiality**

Ferronordic's main stakeholders are the following:

- 1) Customers
- 2) OEM partners
- 3) Other suppliers
- 4) Shareholders
- 5) Employees
- 6) Banks and credit institutions
- 7) Governments and municipalities

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

In this report, we have tried to identify the areas where Ferronordic has most significant economic, environmental and social impact, as well as the areas that have most impact on the assessments and decisions of our stakeholders. The assessment is mainly based on ongoing discussions with our stakeholders. Many of our partners, however, in particular Volvo, also communicate their sustainability priorities in their own sustainability and annual reports and on their websites.

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



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

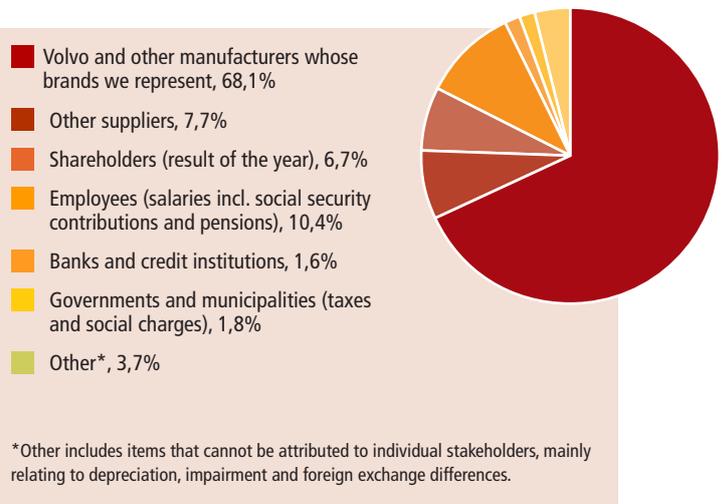
Economic **impact**

We support our customers' value creation by providing high quality products, high parts availability and good service solutions. In 2019, we delivered 965 new machines throughout Russia and Kazakhstan. At the same time, we continued to service the existing population of active Volvo machines of about 13,000 units and a large number of Volvo and Renault Trucks.

These machines and trucks support our customers' profitability by enabling them to meet their customers' needs at lower total cost of ownership and higher efficiency. At the same time, we create additional value for our OEM partners whose brands we represent, not only by purchasing machines and parts, but also by promoting their brands and providing feedback as to how the customers' needs can be better satisfied, including how fuel-efficiency, operational reliability and safety can be further improved.

By providing equipment and business services that are used to build critical infrastructure, Ferronordic also contributes to economic growth and social development in these regions. By working in some of the most remote areas of Russia and CIS, Ferronordic also helps to develop and offer work opportunities to otherwise isolated communities.

During 2019, our revenue amounted to SEK 3,747m (SEK 3,241m in 2018). This revenue was distributed among our stakeholders as per below:



Customer **satisfaction**

Customer satisfaction is one of our most important sustainability factors. For a company like Ferronordic, customer satisfaction is crucial to build credibility, trust and strong long-term relationships with both customers and manufacturers.

We achieve high customer confidence in Ferronordic by providing high-quality machines in combination with high parts availability and good, timely and reliable service. Put differently, we make sure that our customers' machines work whenever and wherever they should.

Another important aspect is our strategic strive towards increased customer integration, for example

through our contracting services business, where we excavate and move earth and rock for customers in the mining industry. In contracting services, we believe that we, due to our knowledge of our equipment and the training of our staff, can execute the same operations more efficiently, and so with less fuel and parts waste and less standstill.

We monitor customer satisfaction regularly, e.g. by systematic complaints management. Other important tools are Volvo's regular surveys regarding customer satisfaction and brand image, where we tend to score well both for construction equipment and for trucks.



Environmental **impact**

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

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

Environmental impact is also caused by the machines used in contracting services and the cars

used by our mechanics to service machines in the field. Machines and cars are serviced and replaced regularly to maximise productivity and reduce environmental impact. Machine operators are trained to operate machines efficiently and control mechanisms have been implemented to minimise any unnecessary fuel consumption.

In contracting services, we also believe that we can do the work with less fuel and parts waste, less machine depreciation and higher safety.

An essential part of our work to promote environmental sustainability is our daily work to deliver and maintain fuel efficient products. A large part of the existing machine population in Russia and Kazakhstan consists of old machines with suboptimal fuel-efficiency. By replacing these machines, we contribute to a better environment in Russia and Kazakhstan in general. We also use machine data from

the machines' telematics systems to detect inefficient machine usage and make proactive offers to our customers on how they can improve their fuel efficiency and optimise their parts consumption.

Compliance with legal and other applicable environmental standards is a requirement included in

our Code of Conduct. No breaches of operational conditions or environmental legislation occurred in 2019. There were also no breaches reported in 2018. In 2017, a minor non-observance took place that resulted in a fine.

Environmental footprint

As regards Ferronordic's ecological footprint, on current technologies, our business and service activities inevitably involves fuel consumption, entails air travel across significant distances and implies certain greenhouse gas emissions. In this context, we see it as our mission to always strive to minimise this footprint, by ourselves employing the most economic and efficient technologies, products and business processes, but also by advancing the most progressive and efficient products and business solutions to our customers. We believe that our products offer best-in-class economic and environmental efficiency and that our aftermarket service programs optimise equipment utilisation and machine life for our customers.

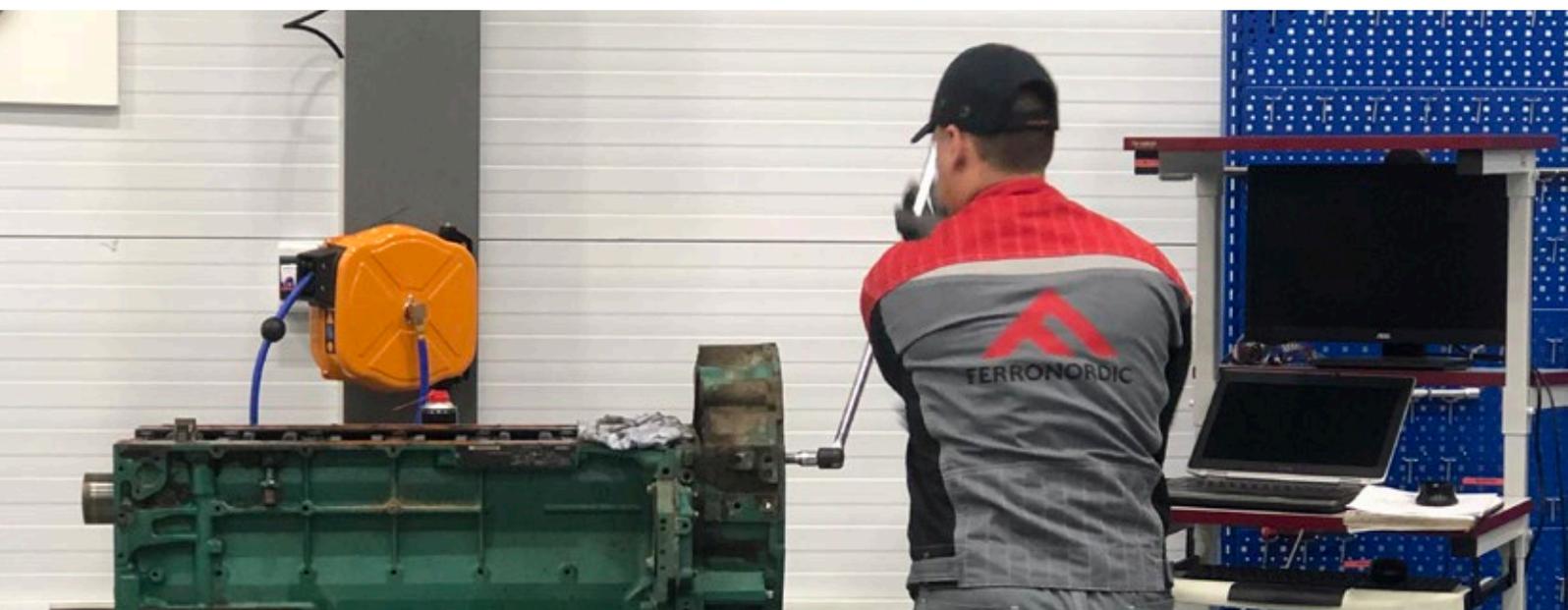
Our certified rebuild program and our newly established component rebuild center in Ekaterinburg allow for extension of the lives of machine fleets and recycling of components and parts that might otherwise be scrapped as waste. The center will repair used machines, rebuild worn out components and utilise metal and parts from machines that cannot be restored to working capacity.

Meanwhile, the economic justification of our contracting services business is partly based on the

condition that we can utilise our machines and manage our operators more efficiently than the end-customer, to provide shared benefit and save resources for both parties.

Excluding contracting services, the fuel consumption, measured in liters, in Ferronordic increased by 10% in 2019*, compared to 2018. This was in line with revenue growth and below the 17% growth in aftermarket revenue, which is an important driver of fuel consumption. The fuel consumption in contracting services increased by 162% compared to 2018, which was in line with the increase in revenues. Ferronordic's total power consumption in 2019 increased by 36%*, compared to 2018, partly due to the opening of new facilities and locations. Air-miles travelled and related carbon emissions increased by 18% and 11% respectively in 2019*, compared to 2018, mainly driven by growing business activities and business development.

* Data for Russia only.





Social impact – employees

Our people are our most valuable and least replicable asset. Ferronordic's employees were crucial for our business achievements in 2019 and our human resources will remain equally important for the continued progress and future success of our business.

Our target is to have the right number of people with the right competencies on the right place at the right time.

At the end of 2019, we employed 1,239 people in 92 locations (compared to 1,032 employees in 79 locations at the end of 2018). The 2019 increase in headcount of 207 employees was mainly driven by aftermarket positions, where many jobs involve work in tough climate and physical conditions. Contracting services headcount increased by 64 people and Kazakhstan added 36 people. 50 new employees were added to headcount as a result of the acquisition of Auto-Haas GmbH in Germany.

The average age of our employees at the end of 2019 was 37 years (compared to 36 in 2018). About 13% of our employees are female (compared to 14% the year before). The proportion of women in management positions however increased from 13% to 17%, partly as a result of targeted programs to promote professional development and career growth for women.

Employees are encouraged to take part in the continuous improvement of our operations, including business development and strategy. According to our

latest survey, conducted in 2018, we have an overall employee engagement score of 78% and an overall employee satisfaction of 82% (compared to 83% and 79%, respectively, according to the previous survey, conducted in 2016). More than 100 employees have been with the company since its start in 2010.

Ferronordic aims to train, develop and encourage internal promotion. About 90% of all vacancies are announced internally on the company's intranet. About 60% of all vacant positions are filled internally. In 2019, we made 268 internal promotions (compared to 163 in 2018). Important internal promotions include: Vladislav Kotov, Head of Rebuild Component Center, Alexander Shmakov, Construction Equipment Director, Ilya Smityukh, Head of Urban&Utility, Lyubov Popova, Head of Commercial Aftermarket Volvo brands, Svetlana Nikolaeva, Head of Commercial Aftermarket other brands.

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

Training and education

Part of our work to build a sustainable development is the significant investment we make in the training and development of our employees. By developing a more qualified organisation, we become better at offering the right solutions to the right customers, at servicing and maintaining customers' machines and at advising on how most efficiently utilise the machines.

In 2019, we provided about 57,000 hours of training to our employees, compared to about 52,000 in 2018 and 49,000 in 2017.

The aim is to leverage, support and utilise internal competence and give employees the opportunity to develop and take greater responsibility within the company, while at the same time empowering employees and providing them with the training and skills they need to succeed in business and in life.

Social impact – manufacturers and suppliers

We cooperate with manufacturers and other suppliers that share our values. For the Volvo Group, which represented 86% of our 2019 revenue, sustainability is an essential question. The Volvo Group thus has a comprehensive program for controlling and ensuring that its suppliers fulfill Volvo's requirements with regard to social responsibility and human rights (please refer to Volvo's 2019 annual- and sustainability report for further information).

As regards machines and other products that we sell and service for Volvo and other manufacturers, we have full trust in the controls implemented by our partners and do not ourselves inspect or control the component manufacturers and other sub-suppliers used by Volvo and our other suppliers.

Product **safety**

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

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

We also offer operator training to customers to ensure our equipment is used safely and efficiently. In contracting services, we assume any operating risks that would otherwise be carried by our customers. Preventive maintenance service and our digital service and sales tool help us support our customers, to make sure they use our equipment in the most efficient and safe way.

Occupational health **and safety**

Providing a safe workplace is of great importance to both ourselves and our employees. The goal is to achieve an injury free workplace.

Ferronordic has a system in place to engage all staff to participate in trainings on health and safety and to contribute to ideas on how to improve labor safety. Each individual manager and employee is responsible for sustaining a safe working environment. However, we share that responsibility by promoting health and safety across the organisation, providing safe workplaces, and ensuring that our employees have relevant training and education. We also employ dedicated health and safety specialists, each responsible for his/her designated geographic area, to support health and safety throughout our branch network. To follow-up on new health and safety processes, we also conduct several behavior-based audits of workplace and occupational safety. In 2019, 1,480 such audits were conducted, which is 15% more than in 2018. Ferronordic also carried out 52 inspections of its divisions, compared to 65 in 2018. As a result, 618 potential improvements were identified and implemented, compared to 644 in 2018.

A company-wide program to underline the importance of labor safety was launched in 2017 and continued through 2018 and 2019. Health and safety aspects are now an integral part of the regular assessment tests for our mechanics. In 2019, a mandatory health- and safety training plan of 5,550 hours was implemented. A total of 6,810 hours were invested in health- and safety training in 2019, which is 4% more than in 2018. Investment in protective

equipment for staff increased by 33% in 2019, compared to 2018. This compares to staff growing 15% in Russia and Kazakhstan from the end of 2018 to the end of 2019.

In 2019, 25 members of a working group were trained in comprehensive hazard identification and risk assessment. This working group then engaged an international health and safety company, Intertek, to audit and certify Ferronordic. Ferronordic met all main standards and, at the end of 2019, Ferronordic was successfully awarded ISO 45001 certification.

Three serious work-related accidents occurred in 2019, none of which had long-term consequences for the employees in question but one intrusive eye injury is still being treated. In 2018, we experienced one serious work-related accident, which required hospitalisation but fortunately did not result in long-term consequences for the injured employee. No work-related fatalities occurred in either 2019 or 2018.

Ferronordic also tracks and records so-called near-misses, in order to remove any hazardous conditions and build a safer working environments for its employees. In 2019, 168 such hazardous “near-miss” situations were recorded, a decrease by 10% compared to 187 instances in 2018.

The number of reported days of sick leave during 2019 was 3,097, which is more than 2,292 days of sick leave in 2018 and 2,237 in 2017. The average days of sick leave per employee per year increased from 2.1 in 2018 to 2.6 in 2019, which was a return to the 2017 level of 2.6 days per year per employee.

Anti-**corruption**

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

We take active measures to prevent, monitor and investigate potential corruption in our operations.

Our anti-corruption program consists of various

policies and procedures, regular training (including an annual online training), regular risk assessment, whistleblower procedures, as well as auditing.

During 2019, all employees, except some machine operators in our contracting services, participated in the anti-corruption training. An updated Code of Conduct with simplified and clearer rules of what is expected of a Ferronordic employee in different areas was implemented in 2017.

Shares and shareholders

Ferronordic AB (publ) has only one series of shares: ordinary shares. The number of shares amounts to 14,532,434. Each share carries one voting right at the general meeting. At the end of 2019, the company had

approx. 3,700 shareholders. The shares are listed on Nasdaq Stockholm under the ticker "FNM".

Larger shareholders, as of 31 December 2019

	Number of shares	Share of capital	Share of votes
Skandinavkonsult i Stockholm AB*	2 268 154	15.6%	15.6%
Scandsib Holdings Ltd**	1 200 000	8.3%	8.3%
Lars Corneliussen (direct and through companies)	1 047 249	7.2%	7.2%
Swedbank Robur	721 053	5.0%	5.0%
Avanza Pension	639 846	4.4%	4.4%
Catella Småbolagsfond	604 844	4.2%	4.2%
Unionen	575 000	4.0%	4.0%
Svenska Handelsbanken for PB	505 203	3.5%	3.5%
Fastighets AB Arwidsro	500 975	3.4%	3.4%
Deutsche Bank AG	345 567	2.4%	2.4%
Other shareholders	6 042 861	41.6%	41.6%
Total	14 532 434	100.0%	100.0%

*Associated person of Håkan Eriksson

** Associated person of Erik Eberhardson



Share capital

Share capital and number of shares

Year	Action	Number of ordinary shares	Number of ordinary shares of series 2	Number of A-preference shares	Number of B-preference shares	Change in share capital (SEK)	Share capital (SEK)
2008	New formation	11,000	-	-	-	98,211	98,211
2010	Issue of shares	89,000	-	-	-	794,619	892,839
2013	Share split (1:100)	9,900,000	-	-	-	-	892,839
2013	Issue of shares	-	-	500,000	-	44,641	937,471
2017	Conversion	-	-	-366,544	366,544	-	937,471
2017	Issue of shares	1,333,333	-	-	-	119,044	1,056,515
2017	Redemption and issue of shares	-	3,199,101	-	-366,544	252,899	1,309,414
2017	Redemption of shares	-	-	-66,728	-	-5,958	1,303,456
2017	Conversion	3,199,101	-3,199,101	-	-	-	1,303,456
2018	Redemption of shares	-	-	-66,728	-	-5,958	1,297,499
2019	-	-	-	-	-	-	-
Shares outstanding 31 December 2019		14,532,434	-	-	-	-	1,297,499



SHARE BASED INCENTIVE PROGRAM

In accordance with the Board's proposal, the AGM 2019 approved a long-term incentive program for the company's management and certain other senior employees (in total 15–18 participants). The program was similar to the programs approved by the AGM 2016 to 2018. In accordance with the program, the company paid a bonus to the participants of SEK 200,000 each (net of tax) to be used to purchase ordinary shares in Ferronordic. The participants may not sell the purchased shares for a period of three years. If a participant resigns or is dismissed due to gross misconduct, the participant must sell his/her shares to the other participants at a pre-agreed, discounted price. The program is intended to provide long-term incentives and align the interests of management and the shareholders.

Due to the uncertain and rapidly changing outlook caused by the outbreak and spread of the novel coronavirus, the Board decided to postpone the AGM until June 25 to allow for more time to assess the situation. In this context, the Board may also review the long-incentive program for 2020. The Board would present any program for 2020 no later than in the notice to the AGM.

DIVIDENDS

At the AGM on 14 May 2019, it was decided to pay dividends on the ordinary shares in an amount of SEK 3.75 per ordinary share and an extraordinary dividend of SEK 3.75 per share, i.e. in total SEK 7.50 per share, corresponding to a total dividend of approx. SEK 109m. The dividend was paid in May 2019.

For the AGM in 2020, the Board has proposed an ordinary dividend of SEK 4.25 per share, corresponding to a total dividend of approx. SEK 62m. The proposed record date is 29 June 2020 and payment would take place around 2 July 2020. This would be in line with Ferronordic's dividend policy. Given the extraordinary uncertainty and the rapidly changing business environment in the wake of the outbreak of the novel coronavirus, the Board may review its dividend recommendation ahead of the AGM.





Board of directors

THE BOARD

Ferronordic's Board comprises six members, including the Chairman, without deputies. All directors have been elected until the end of the 2020 annual general meeting.

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



STAFFAN JUFORS

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

Member since: 2017

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

Current positions: Board member of the foundation Nordens Ark.

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

Shares in Ferronordic: 60,747 shares.



ANNETTE BRODIN RAMPE

Board member and member of the remuneration and audit committees

Member since: 2017

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

Current position: CEO Lifecarex AB, Board member of HerCare AB

Previous positions: CEO of Internationella Engelska Skolan AB. Managing Partner Europe for Brunswick Group, Board member of Peab AB and Stillfront Group AB.

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



MAGNUS BRÄNNSTRÖM

Board member and member of the remuneration and audit committees

Member since: 2011

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

Current positions: CEO of Oriflame Cosmetics SA.

Previous positions: Managing director of Oriflame Russia.

Shares in Ferronordic: –



LARS CORNELIUSSON

Board member

Member since: 2011

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

Current positions: CEO of Ferronordic.

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

Shares in Ferronordic: 1,047,249 shares (through companies).



ERIK EBERHARDSON

Board member

Member since: 2010

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

Current positions: President of Scandsib Group.

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

Shares in Ferronordic: 1,200,000 shares (through companies).



HÅKAN ERIKSSON

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

Member since: 2016

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

Current positions: Board member and managing director of Planch AB, Board chairman of Diakrit AB, Board member of Skandinavkonsult i Stockholm AB, Skandinavkonsult Holding i Stockholm AB, Nivika Fastigheter AB, DWG Sweden AB and Winefinder AB.

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

Shares in Ferronordic: 2,268,154 shares (through companies).



Management **and** auditors

MANAGEMENT

Name	Position	Employed since
Lars Corneliussen	Chief Executive Officer	2011
Nadezhda Arzumanova	Human Resources Director	2010
Henrik Carlborg	Business Development Director	2013
Erik Danemar	Group CFO and Head of Investor Relations	2019
Dan Eliasson	General Counsel	2020
Onur Gucum	Commercial Director	2012
Anton Zhelyapov	Director Trucks	2015



LARS CORNELIUSSON

Chief Executive Officer

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

Shares in Ferronordic: 1,047,249 shares (through companies).



NADEZHDA ARZUMANOVA

Human Resources Director

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

Shares in Ferronordic: 5,320 shares (through companies).



HENRIK CARLBORG

Business Development Director

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

Shares in Ferronordic: 194,799 shares (through companies).



ERIK DANEMAR

Group CFO and Head of Investor Relations

General: Swedish citizen. Born 1976. MBA (LBS) and BAs in Economics & Management and International Business. Employed since 2019.

Shares in Ferronordic: 28,620 shares (through companies).



DAN ELIASSON

General Counsel

General: Swedish citizen. Born 1971. LL.M. Employed since 2020.

Shares in Ferronordic: 12,497 shares.



ONUR GUCUM

Commercial Director

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

Shares in Ferronordic: 138,131 shares (through companies).

**ANTON ZHELIAPOV**

Director Trucks

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

Shares in Ferronordic: 2,992 shares (through companies).

AUDITOR

At the AGM 2019, KPMG was re-elected as the company's auditor with Mattias Lötborn (born 1970) as auditor-in-charge and without a deputy auditor, for a term of office until the next AGM. Mattias Lötborn is an authorised public accountant and a member of FAR (the professional institute for authorised public accountants in Sweden).

Directors' report

The Board of Directors of Ferronordic AB (publ), corporate registration number 556748-7953 (the "Parent Company"), hereby presents its annual report and consolidated financial statements for the financial year 2019. All amounts are indicated in SEK millions.

THE BUSINESS

The Parent Company (together with its subsidiaries referred to as the "Group" or "Ferronordic") is a Swedish public limited liability company with its seat in Stockholm. The Parent Company is the holding company of the Group and provides financing, support and management services for the Group's operational companies. To a certain extent, the Parent Company purchases goods that are resold to the subsidiaries. The Parent Company is also the holder of the "Ferronordic" trademark. The Group was created in 2010 to acquire and operate the Volvo CE distribution business in Russia. In connection thereto, the Group was appointed the official dealer for Volvo CE in all of Russia. Since then, the Group has also been appointed dealer for several other brands, including Terex, Rottne, Dressta and Mecalac. Since 2019, the Group is also the official dealer for Volvo CE and Mecalac in Kazakhstan. From 2020, Ferronordic is also authorised dealer of Volvo Trucks and Renault Trucks in parts of Germany.

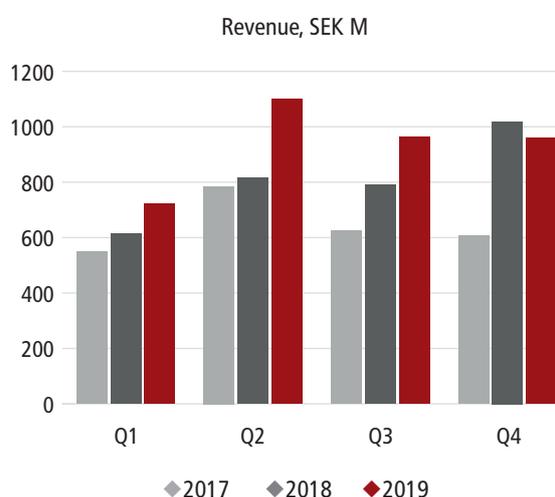
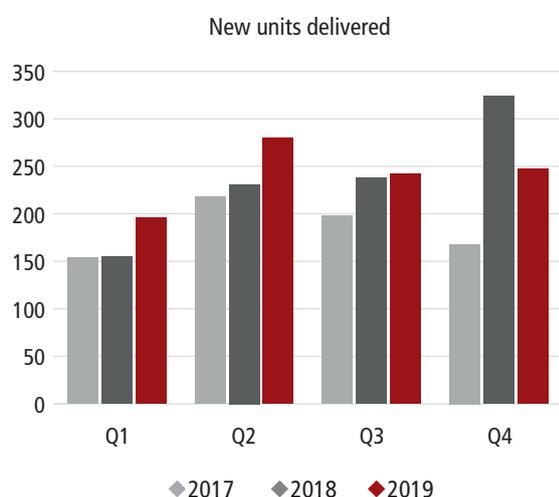
The operations consist of selling new and used construction equipment and trucks, spare parts and attachments, and providing service of machines, technical support and other services. The Group also provides contracting services, where the Group owns equipment and employs operators to carry out work for customers and where compensation is calculated based on the volume of transported earth or rock. The Group's customers are operating in Russia and Kazakhstan and are active in a variety of industries, including construction, oil and gas, mining and forestry.

2019 COMPARED TO 2018

Revenue during 2019 increased by 16% to SEK 3,747m (SEK 3,241m). Machine sales increased by 5%, while aftermarket sales (parts and service) increased by 17%. Other income, consisting mainly of contracting services, increased by 159%. The gross margin increased to 20.7% during the year, with the result that gross profit grew by 26% to SEK 775m (SEK 614m).

Operating profit for the year increased by 31% to SEK 358m (SEK 274m). The increase was to a large extent driven by the growth in aftermarket sales and contracting services. Cash flows from operating activities amounted to SEK -330m, compared to SEK 150m during the year before. The decrease was mainly due to an increase in working capital, driven by growth in inventories.

The cash used in investment activities amounted to SEK 179m, which was SEK 144m higher than the year before, mainly due to investments in contracting services and investments related to the expansion to Germany. In total, this resulted in a net debt position at the end of 2019 of SEK 593m, compared to a net cash position of SEK 303m at the end of 2018.



REVENUE

The revenue during the year increased by 16% to SEK 3,747m (SEK 3,241m) (9% in rubles). Equipment sales increased by 5%, while aftermarket sales increased by 17% (1% decrease and 11% increase in rubles, respectively). Other revenue, mainly consisting of contracting services, increased by 159% (152% in rubles).

GROSS PROFIT AND OPERATING PROFIT

Gross profit for the year amounted to SEK 775m (SEK 614m), an increase of 26% Y-o-Y. The gross margin increased from 19.0% in 2018 to 20.7%, positively impacted by growing aftermarket sales and contracting services.

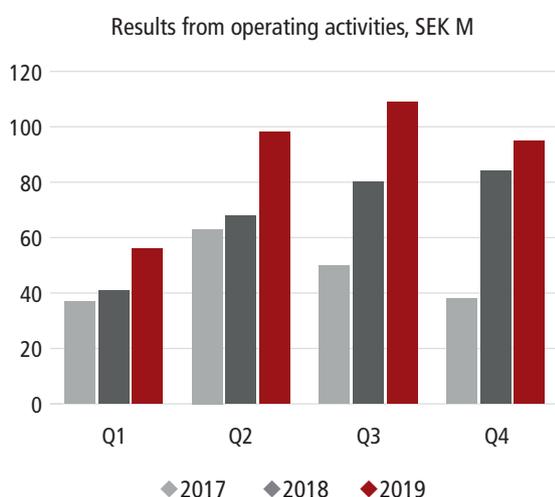
Operating profit for the year increased by 31% Y-o-Y to SEK 358m (SEK 274m). The increase was driven by the improved gross profit, partly offset by higher selling, general and administrative expenses.

The expense increase was a result of the stronger ruble, higher sales and personnel expenses and costs related to the expansions in Kazakhstan and Germany and the establishment of the component remanufacturing business. As a percentage of revenue, selling, general and administrative expenses increased from 10.2% in 2018 to 10.7% in 2019.

Other expenses were negatively impacted by a provision for loss of machines in the second quarter of SEK 9m, and also by an increase in provisions for expected credit losses.

RESULT BEFORE INCOME TAX

The result before income tax increased to SEK 318m (SEK 267m) in spite of being negatively impacted by higher finance costs due to higher interest-bearing liabilities (partly as a result of IFRS 16), and lower finance income.



RESULT FOR THE YEAR

The result for the year increased by 20% to SEK 251m (SEK 209m), our highest result to date.

EARNINGS PER ORDINARY SHARE

Earnings per ordinary share for the year amounted to SEK 17.26 (SEK 13.22; or SEK 14.18, excluding the impact of the preference share redemption in 2018).

CASH FLOW AND INVESTMENTS

Cash flows from operating activities after working capital, interest and taxes decreased to SEK -330m (SEK 150m). The decrease in cash flows, despite the improved operating result, was mainly due to increased working capital, which in turn primarily was due to higher inventories and lower payables, but also due to higher interest and tax paid. Cash flows from investing activities amounted to SEK -179m (SEK -35m). Part of the increase in investments related to the acquisitions of property, plant and equipment and business in Germany. The increase was also due to higher investments in machines for contracting services and rental, as well as cars and service vans in Russia and Kazakhstan.

Property, plant and equipment increased by SEK 438m during the year, of which SEK 169m were assets related to the new business in Germany and SEK 91m were right-to-use assets added as a result of the application of IFRS 16 as of 1 January 2019 (including right-to-use assets related to the business in Germany). The remainder was mainly additional machines for contracting services and rental, as well as cars and service vans.

FINANCIAL POSITION

Cash and cash equivalents at 31 December 2019 amounted to SEK 519m, an increase of approx. SEK 163m compared to the end of 2018. The increase in the cash position was due to high cash receipts at the end of the period but also due to Ferronordic's expansion to Germany. Interest-bearing liabilities (including lease liabilities) amounted to SEK 1,112m, an increase of SEK 1,059m compared to the end of 2018. The increase was mainly due to an increase in working capital in Russia and Kazakhstan, borrowings to acquire the business in Germany and liabilities relating to the acquired business in Germany that are now consolidated into Ferronordic's financial reports. The increase also includes a SEK 95m increase in lease liabilities due to the application of IFRS 16 as of 1 January 2019.

Equity at 31 December 2019 amounted to SEK 890m, an increase of SEK 234m compared to 31 December 2018. The increase was an effect of the positive result for the period as well as positive foreign exchange differences of SEK 93m, partly offset by a dividend of SEK 109m in May 2019.

FINANCIAL OBJECTIVES AND DIVIDEND POLICY

The Board has established the following financial objectives.

- Tripling of revenue in Russia and CIS from 2016 to 2021 (unchanged for the existing business)
- Operating margin of 6-8% (down from 7-9% due to the addition of the business in Germany)
- Net debt/EBITDA of 0-2 x (over a business cycle)

Further, the Board has adopted a dividend policy, according to which the ambition should be that at least 25% of the result should be distributed to the shareholders. The Board will take several factors into consideration when proposing the level of dividend, including the Group's expansion opportunities, financial position and investment needs.

DIVIDENDS

At the AGM 2019, it was decided to pay ordinary dividends on ordinary shares in an amount of SEK 3.75 per ordinary share and an extraordinary dividend of 3.75, in total SEK 7.50 and corresponding to a total dividend of approx. SEK 109m.

KAZAKHSTAN

On 18 December 2018 it was announced that Ferronordic had entered into an agreement with Volvo CE to become the authorised dealer of Volvo CE in Kazakhstan. According to the agreement, which became effective on 14 January 2019, Ferronordic is responsible for the importation and sales of Volvo CE machines and spare parts, as well as services in all of Kazakhstan. Subsequently, Mecalac has been added to the product portfolio.

One year on, Ferronordic has established an operational organisation with workshops in seven locations in Kazakhstan.

EXPANSION TO GERMANY

On 20 December 2019, it was announced that Ferronordic and Volvo Group Trucks Germany had entered into final agreements to appoint Ferronordic dealer for Volvo and Renault Trucks in an area representing approx. 20% of the German market for heavy trucks. In connection herewith, Ferronordic acquired eleven sites within this area. Nine of these sites were operated by Volvo and were acquired through an asset deal. These assets were transferred to Ferronordic in January 2020. Two of the sites were operated by Auto-Haas GmbH, an existing dealer for Volvo and Renault Trucks. These sites were acquired through a share deal where Ferronordic acquired Auto-Haas. The acquisition was completed on 20 December 2019.

The purchase price for the assets from Volvo was SEK 96m. The purchase price for the shares in Auto-

Haas was SEK 40m. The purchase prices are subject to adjustments in 2020 when the book values of the acquired assets per 31 December 2019 have been established.

As the assets purchased from Volvo were transferred in January 2020, they were treated as prepayments on 31 December 2019, with SEK 71m of mostly real estate and improvements thereof in property, plant and equipment and SEK 25m of mostly parts inventories in prepayments. Auto-Haas was consolidated from the day of acquisition on 20 December 2019 in result and on balance sheet.

In connection with the foresaid transactions, Ferronordic also entered into an agreement with Nordea Bank for a EUR 30m loan facility. EUR 22m was drawn on the facility in 2019 to finance the said acquisitions and to fund additional investments to build up the German business.

The transactions will increase Ferronordic's headcount by approx. 230 people, mainly mechanics and sales representatives.

Ferronordic started operations in Germany in January 2020.

CHANGED CREDIT FACILITIES AND BANK GUARANTEES

Ferronordic has entered into a MEUR 30 credit facility with Nordea Bank Abp for financing of the expansion into Germany.

EMPLOYEES

The number of employees at the end of the year, converted to full-time equivalent employees, was 1,239. This represents an increase of 207 employees compared to the end of 2018. Most new employees were aftermarket personnel, employees in Kazakhstan and machine operators in contracting services. 50 employees joined Ferronordic as a result of the acquisition of Auto-Haas in Germany.

POLICY ON REMUNERATION FOR SENIOR EXECUTIVES

For more information regarding remuneration to the CEO and the senior management, please see the Corporate Governance Report below and Note 29.

The Company's Remuneration Committee handles policies and matters concerning remuneration of the Company's senior executive management.

The AGM adopts policies for remuneration to senior executives when such matters occur but not less frequent than each four years. The basic principles imply that remuneration to the Company's executives shall be based on market terms in the markets where Ferronordic operates and the environment in which the individual executive is working. In addition, remuneration shall be competitive in order to enable Ferronordic to attract and retain competent executives.

Fixed salaries

Fixed salaries are established individually based on the criteria specified above, as well as the individual executive's areas of responsibility and performance.

Variable salaries

Executives may receive variable salaries in addition to fixed salaries. Variable salaries shall be paid upon fulfilment of predetermined and measurable performance criteria, primarily based on the development of the Group as a whole or the development of the part of the Group for which the individual in question is responsible.

Other benefits

The Company may offer its senior executives other customary benefits such as pension plans, company cars, health insurances and allowances for expatriated executives.

Severance payments shall not exceed 12 months' salary.

The guidelines proposed for 2020 are not materially different from the ones for 2019.

RISKS AND UNCERTAINTIES

The Group is exposed to various types of operational and financial risks. Operational risks are associated with the Group's daily operations and relate to, inter alia, changes in business cycles, procurement, capacity utilisation and price risks. The financial risks are associated with the amount of capital tied up and the Group's long- and short-term capital requirements.

RISK MANAGEMENT

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

OPERATIONAL RISKS*Political environment*

Political conditions in Russia have historically been volatile. In recent decades, political trends have been inconsistent in certain respects and the composition of the Russian government has at times been unstable. The Russian political system continues to be vulnerable to negative tides of opinion. Such manifestations of instability can adversely affect the economic and political climate in Russia, particularly in the short term. Changes in government policy and

legislative work are less foreseeable in Russia than in many Western countries and can disrupt or prevent political, economic and regulatory reforms. Unforeseen political changes may result in a significant deterioration in the investment climate in Russia, which could limit the possibilities available to the Group or its customers to secure financing, or which could otherwise adversely affect the Group's business, result and financial position. The same risk applies to Kazakhstan.

Political tension and sanctions

The strained relations between Russia and many Western countries, in particular the US, continued throughout 2019. Especially the US but also the Council of the European Union continued to introduce sanctions against Russian citizens and companies and with no solution to the underlying political disputes in sight, few expect the sanctions regimes to be lifted anytime soon. Sanctions, in their current format, have had a certain direct negative effect on Ferronordic's business. Further sanctions cannot be excluded but Ferronordic does not believe that such sanctions are likely to have a material direct effect on Ferronordic's business or financial position. However, different and/or more extensive sanctions could be introduced in the future that could have a material negative effect on Ferronordic's business or financial position. In addition, the existing political tension and sanctions continue to impact the sentiment in and towards Russia negatively.

Increased protectionism

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

Legal system and legal procedures

The legal systems on Ferronordic's markets Russia and Kazakhstan are still relatively underdeveloped. Many laws and regulations are relatively new. Many of these contain ambiguous wording and doubts commonly arise as to their interpretation. In addition, there are often discrepancies between laws and regulations on different levels. A lack of legal or administrative guidance as regards the interpretation of applicable regulations; the untried legal system and its lack of independence vis-a-vis political, social and commercial interests; the relative inexperience of lawyers, judges and courts as regards the interpretation of newly adopted legislation and complex commercial

agreements; corruption in the legal system; substantial gaps in the legal regulatory structure due to delays in, or absence of, implementing legislation; undeveloped bankruptcy procedures that are subject to abuse; and a lack of binding judicial precedent, may affect the Group's possibility to protect and enforce its legal rights, and to protect itself against legal claims.

Corruption

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

Environmental risks

Environmental legislation may impose obligations on property owners or business operators to take measures to restore contaminated land. The Group's properties could contain undiscovered contamination and Ferronordic may become the subject of claims in damages, judicial proceedings and administrative proceedings regarding environmental liability. An unfavorable outcome of such proceedings may result in civil law, administrative law or criminal law liability being imposed on the Group or its employees.

Changes to laws and their application with respect to the environment, health and safety may result in costs and obligations and may result in the Group's properties (or properties previously owned or operated by the Group) being exposed to stricter audits than at present. If contaminated land is discovered, this may result in clean-up costs for the Group.

Tax systems

For information on risks associated with Russian and Kazakh tax systems, please see Note 25.

Changes in economic activity

The Group's products are largely used in connection with construction and industrial operations. Economic downturns and weakened activity in the construction and industry sectors thus have significant negative effect on the demand for the Group's products.

Furthermore, the demand is affected by changes in the price of commodities as well as the market for extraction and processing of natural resources. Declining commodity prices or a weaker market for the extraction and processing of natural resources could therefore have an adverse effect on the Group.

The Group's business could also be adversely affected (either temporarily or in the long-term) by a decline in customers' expenditure levels, unfavorable credit markets that adversely affect the end customers' ability to secure financing, reduced infrastructure project expenditures on a local or federal level, increased costs for building materials, as well as increased interest rates. Downturns due to the above mentioned or other factors can have an adverse effect on the Group's business, result and financial position. The demand for parts and service is less sensitive to changes in business cycles than machine sales.

Capacity utilisation

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

Cooperation with Volvo

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

Dependence on suppliers

The Group is dependent on strategic decisions taken by its suppliers, e.g., as regards the introduction of new products or the discontinuation of existing products. As an example, during 2015 Volvo CE discontinued its production of motor graders and backhoe loaders. The Group's suppliers may take similar strategic decisions in the future, which may affect the Group's product range. This, in turn, could have an adverse effect on the Group's business, financial position and result.

Dependence on key employees

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

Price risks

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

Insurance coverage

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

Financial risks

For information about financial risks, see Note 22.

Material disputes

No material disputes took place during the year.

OUTLOOK

The outbreak and the measures taken to slow down the spread of the novel coronavirus have caused extraordinary uncertainty across our markets. In late March, the Volvo Group and several other producers announced temporary suspension of production in response to a deteriorating demand outlook. While the effects of COVID-19 had relatively limited impact on Ferronordic's business and financial position in the first quarter of the year, we must prepare for disruption on both supply and demand side of our business and for a challenging 2020. We are taking measures to further strengthen our position and are confident that our business model can again prove resilient and that we can continue to deliver great service to our customers and value to our stakeholders. In a longer perspective, we remain positive as we believe that the underlying fundamentals and business opportunities in our markets are strong.

SHARES AND SHAREHOLDERS

Please see section *Shares and shareholders* on page 40.

THE WORK OF THE BOARD OF DIRECTORS

Please see section *Corporate governance report* on pages 55-62.

PARENT COMPANY

The revenue of the Parent Company during the year amounted to SEK 144m (SEK 174m). The decrease was primarily due to lower intra-group sales of machines and spare parts. The gross profit amounted to SEK 22m (SEK 24m). Administrative expenses amounted to SEK 15m (SEK 12m). The result decreased to SEK -0m (SEK 9m) due to higher administrative costs and lower finance income, partly offset by lower foreign exchange losses (net).

EVENTS SUBSEQUENT TO THE REPORTING DATE

The assets purchased from Volvo as part of the acquisition in Germany were transferred in January 2020. They were treated as prepayments on 31 December 2019, with SEK 71m of mostly real estate and improvements thereof in property, plant and equipment and SEK 25m of mostly parts inventories in prepayments.

Dan Eliasson was appointed General Counsel and member of Ferronordic's management board as of 15 January 2020. Ferronordic's previous General Counsel, Henrik Carlborg, also Business Development Director, will focus on business development.

On 14 February 2020 it was announced that there had been a reorganisation of Ferronordic's executive management following the expansion to Germany. As of February 2020, the executive management consists of Lars Corneliussen, CEO, Nadezhda Arzumanova, HR Director, Henrik Carlborg, Business Development Director, Erik Danemar, Group CFO and Investor Relations Director, Dan Eliasson, General Counsel, Onur Gucum, Commercial Director, and Anton Zhelyapov, Trucks Director.

On March 11, the WHO declared the outbreak of the novel coronavirus, COVID-19, a pandemic. The outbreak and the measures taken to slow down the spread of COVID-19 have caused extraordinary uncertainty across Ferronordic's markets. In late March, the Volvo Group, and several other producers, announced temporary suspension of production in response to a deteriorating demand outlook.

The suspension will negatively impact Ferronordic's supply of construction equipment in Russia and Kazakhstan and the supply of trucks in Germany. If protracted, the closures could also impact the supply of spare parts. Meanwhile, demand is likely to be negatively affected in Ferronordic's markets. The direct and indirect impact of the virus and the efforts to contain its spread on Ferronordic's operations and financial position can not be assessed at this time.

PROPOSED ALLOCATION OF PROFIT

The following amount is available for allocation by the AGM in 2020: SEK 239,850,957

The Board proposes that this amount be allocated as follows:

SEK	
Dividend	61,762,845
Amount carried forward	178,088,112
<i>of which to the share premium reserve</i>	<i>560,385,387</i>
Total	239,850,957

For the AGM in 2020, the Board has proposed an ordinary dividend of SEK 4.25 per share, corresponding to a total dividend of approx. SEK 62m. The proposed record date is 29 June 2020 and payment would take place around 2 July 2020. This would be in line with Ferronordic's dividend policy. Given the extraordinary uncertainty and the rapidly changing business environment in the wake of the outbreak of the novel coronavirus, the Board may review its dividend recommendation ahead of the AGM.

SUSTAINABILITY REPORT

The Group's sustainability report is included in the annual report on pages 30-39.

ALTERNATIVE PERFORMANCE MEASUREMENTS

Definitions of alternative performance measures are described on page 24 of the 2019 year-end report.

Corporate **governance** report

Ferronordic AB (publ) is a Swedish public company domiciled in Stockholm. The shares in the company are listed on Nasdaq Stockholm.

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

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

SUMMARY OF FERRONORDIC'S CORPORATE GOVERNANCE MODEL

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

MORE INFORMATION ON CORPORATE GOVERNANCE:

The following information is available at www.ferronordic.com:

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

The Swedish Corporate Governance Code is available at www.bolagsstyrning.se.

SWEDISH CORPORATE GOVERNANCE CODE

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

SHARE CAPITAL AND SHAREHOLDERS

At the end of 2019, the company had one shareholder controlling over 10% of the votes: Skandinavkonsult i Stockholm AB with 15.6%. Further information about Ferronordic's share capital and shareholders can be found on pages 38–40.

GENERAL MEETING

The general meeting is the company's highest decision-making body through which the shareholders exercise their right to make decisions regarding the company's affairs. The general meeting held within six months after the end of each financial year to adopt

the annual report is called the annual general meeting (AGM). In addition to adopting the annual report, the AGM makes resolutions regarding dividends, election of Board members, election of auditors and other matters required by the Swedish Companies Act, the articles of association and the Code.

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

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

AGM 2019

The AGM 2019 took place on 14 May 2019 in Stockholm. At the meeting, 44% of the shares and votes were represented in person or by proxy. The chairman of the Board, Staffan Jufors was elected chairman. The CEO, the auditor, the chairman of the nomination committee and all Board members elected by the AGM were present. The minutes of the meeting were made available on the company's website.

The following resolutions were made at the AGM:

- the financial reports for the Parent Company and the Group were adopted
- dividends on ordinary shares in an amount of SEK 7.50 per share were approved
- the members of the Board and the CEO were discharged of liability with regard to the financial year 2018
- the number of Board members should remain six, without deputies
- fees to the Board were established
- Annette Brodin Rampe, Magnus Brännström, Lars Corneliusson, Erik Eberhardson, Håkan Eriksson and Staffan Jufors were re-elected Board members
- Staffan Jufors was re-elected chairman of the Board
- KPMG AB was re-elected the company's auditor
- principles regarding the company's nomination committee were adopted
- guidelines regarding remuneration of senior executives were approved
- a share-based long-term incentive program for certain senior executives was approved
- changes to the articles of association were approved, meaning that the company's name was changed to "Ferronordic AB" and provisions on preference shares were deleted.

AGM 2020

The 2020 AGM in Ferronordic AB will be held on 25 June 2020 at Radisson Blu Hotel, Nybrokajen 9 in Stockholm. More information is available at the company's website: www.ferronordic.com.

NOMINATION COMMITTEE

The nomination committee for the AGM 2019 consisted of Jörgen Olsson (chairman), representing Skandinavkonsult i Stockholm AB, Tom Jörning, representing Scandsib Group Ltd., Per-Olof Eriksson, representing employees of the Group and Gustaf Lindskog, representing Man GLG Partners LLP. All members were independent of the company, management and the largest shareholder.

Shareholders were offered the opportunity to submit proposals to the nomination committee. No proposals were submitted. The nomination committee's proposals and motivated statements were presented in the notice to the AGM on 15 April 2019. No compensation was paid to the members of the nomination committee.

Principles regarding the nomination committee

The AGM 2019 adopted the following principles regarding the nomination committee (in summary):

The nomination committee shall consist of four members.

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

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

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

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

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

Nomination committee for AGM 2020

The nomination committee for the AGM 2020 consists of the following persons:

- Jörgen Olsson (chairman), representing Skandinavkonsult i Stockholm AB
- Fredrik Liedholm, representing Scandsib Group Ltd.
- Per-Olof Eriksson, representing employees of the Group
- Jan Dworsky, representing Swedbank Robur

The proposals of the nomination committee will be made public in connection with the notice of the AGM, at the latest.

THE BOARD OF DIRECTORS

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

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

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

Composition

During 2019, the Board consisted of six members without deputies, all elected at the AGM 2019 for the period until the AGM 2020. The AGM 2019 also elected Staffan Jufors as the chairman of the Board until the AGM 2020.

Detailed information about the Board members, including their shareholdings and other positions, can be found on pages 44-45.

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

Independence requirements

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

Work procedures

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

Evaluation of the Board work

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

Board work in 2019

The Board held ten meetings in 2019.

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

- earnings and financial position of the Group
- interim reporting
- development of Russia's economy and its effect on the market and the Group's financials
- corporate governance, risk management and internal control
- strategic issues and business development, in particular Group's expansion to Germany
- financial matters

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

ATTENDANCE IN BOARD MEETINGS 2019

	Annette Brodin Rampe	Magnus Brännström	Lars Corneliussen	Erik Eberhardson	Håkan Eriksson	Staffan Jufors
14 February	•	•	•	•	•	•
26 April (telephone)	•	•	•	•	•	•
13 May	•	•	•	•	•	•
14 May (statutory)	•	•	•	•	•	•
7 June (per capsulam)	•	•	•	•	•	•
14 August (telephone)	•	•	•	•	•	•
10 September	•	•	•	•	•	•
25 September	•	•	•	•	•	•
21 November	•	•	•	•	•	•
5 December (telephone)	•	•	•	•	•	•

REMUNERATION OF THE BOARD

As resolved at the AGM 2019, the remuneration of the Board amounted to SEK 1.8m, of which SEK 600,000 was paid to the chairman and SEK 300,000 to each of the other directors, except for Lars Corneliusson, who was employed by the Group. No additional compensation is paid for committee work.

BOARD COMMITTEES

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

Audit committee

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

The audit committee consists of the following members:

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

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

In 2019, the audit committee held four meetings. The audit committee convenes regularly to review drafts of the Group's interim reports and to make recommendations to the Board and clarify potential questions in advance. The Group's CFO and General Counsel are usually present at these meetings.

Remuneration committee

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

The remuneration committee consists of the following members:

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

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

The remuneration committee held one formal meeting in 2019. In addition, the committee had a continuous informal discussion through the year by email and telephone, and in connection with the meetings of the Board.

AUDITORS

Ferronordic's auditors are elected at the AGM. The current auditor is KPMG AB, re-elected at the AGM 2019 for the period until the next AGM. Mattias Lötbörn is the auditor-in-charge. The compensation paid to KPMG is described in Note 30.

CEO AND MANAGEMENT

The Chief Executive Officer (CEO) Lars Corneliusson is appointed by the Board and is responsible for the day-to-day management of the Group.

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

In addition to the CEO, in 2019, management consisted of Nadezhda Arzumanova, Human Resources Director; Anders Blomqvist, Group CFO and Investor Relations Director (until February); Henrik Carlborg, General Counsel and Business Development Director; Erik Danemar, Group CFO and Investor Relations Director (from May); Onur Gucum, Commercial Director; Andrey Korneev, Director Contracting Services and Key Accounts; Alexander Shmakov, Director Construction Equipment; Jonathan Tubb, Chief Financial Officer (Russia); and Anton Zhelyapov, Director Trucks. Information on the management, including their age, education, shareholdings in the company, etc., can be found on pages 44-45.

Dan Eliasson was appointed new General Counsel for Ferronordic as of 15 January 2020. Henrik Carlborg remains Business Development Director.

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

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

In 2019, Ferronordic's operations were divided into eight regions: Northwest (with hub in St. Petersburg), Central (with hub in Moscow), Volga (with hub in Kazan), South (with hub in Krasnodar), Urals (with hub in Ekaterinburg), Siberia (with hub in Krasnoyarsk), Far East (with hub in Khabarovsk) and Kazakhstan (with hub in Almaty). Since 2020, the company is also operational in Germany, with formal headquarter in Berlin. Each region has its own managing director. The regional managing directors are responsible for the business, as well as the coordination and implementation of company-wide policies and processes, in their respective regions. Each region also has a regional board, comprising the relevant regional managing director and certain members of management.

REMUNERATION OF SENIOR EXECUTIVES

For information regarding remuneration to the management, please refer to Note 29.

The AGM 2019 adopted the following principles regarding remuneration to the company's executives:

Basic principles

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

Fixed salaries

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

Variable salaries

Executives may receive variable salaries in addition to fixed salaries. Variable salaries shall be paid upon fulfilment of predetermined and measurable performance criteria, primarily based on the development of the Group as a whole or the development of the part of the Group for which the individual in question is responsible. The variable salary may, as regards the CEO, amount to not more than 100% of the fixed salary, and, as regards other executives, not more than 50% of the fixed salary. Exceptions can be made for executives whose duties predominantly consist of sales, for whom the variable salary should not amount to more than 200% of the fixed salary.

For the 2020 Annual Meeting, it is proposed to adjust the remuneration policy so that the general limitation of variable compensation for executives will be set to 100% of the fixed compensation of each individual concerned. The 50% and 200% limitations would be abolished.

Non-monetary and other benefits

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

Pension benefits

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

Severance pay

Severance pay shall not exceed 12 months' salary.

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

The remuneration committee is responsible for:

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

The remuneration committee prepares and the Board resolves on:

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

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

Authority to decide on deviations from these guidelines

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

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

Decisions on remuneration that will not have become due at the time of the AGM 2019 fall within the frames of these guidelines.

REPORT ON INTERNAL CONTROL

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

Control environment

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

Risk assessment

Ferronordic has established an annual process for reviewing and assessing risks relating to financial reporting. The risk assessment also includes risks related to fraud and irregularities, as well as the risk of loss or misappropriation of assets. Identified risks are prioritised and actions to manage and mitigate the identified risks are established. The risk assessment also forms the basis for the Board's annual plan for the internal audit. Risks relating to financial reporting are evaluated on an ongoing basis within the framework of the internal audit. Policies and procedures regarding financial reporting are evaluated continuously, based on the risk assessment. The Board is updated continuously on material risks as well as actions planned or taken to manage and mitigate such risks.

Control activities

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

Information and communication

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

Monitoring

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

Internal audit

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

Stockholm, April 2020

The Board of Directors



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK '000	Note	2019	2018
Revenue	6	3,747,142	3,241,253
Cost of sales		(2,972,212)	(2,626,947)
Gross profit		774,930	614,306
Selling expenses	7	(161,852)	(138,013)
General and administrative expenses	7	(237,946)	(190,023)
Other income		8,354	4,436
Other expenses	8	(25,898)	(17,016)
Operating profit		357,588	273,690
Finance income	9	6,458	7,107
Finance costs	9	(58,148)	(8,891)
Foreign exchange gains/(-losses) (net)		12,458	(4,729)
Result before income tax		318,356	267,177
Income tax	10	(67,537)	(58,061)
Result for the year		250,819	209,116
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation difference for foreign operations		92,576	(54,454)
Other comprehensive income for the year, net of income tax		92,576	(54,454)
Total comprehensive income for the year		343,395	154,662
Earnings per ordinary share			
Basic and diluted earnings per ordinary share (SEK)	31	17.26	13.22

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK '000	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	11	700,330	262,824
Intangible assets	12	11,679	6,133
Deferred tax assets	13	51,287	40,594
Total non-current assets		763,296	309,551
Current assets			
Inventories	14	1,289,887	740,843
Trade and other receivables	15	321,544	303,205
Prepayments		83,506	17,113
Cash and cash equivalents	16	519,361	356,589
Total current assets		2,214,298	1,417,750
TOTAL ASSETS		2,977,594	1,727,301
EQUITY AND LIABILITIES			
Equity			
	17		
Share capital		1,297	1,297
Additional paid in capital		612,136	612,136
Translation reserve		(122,094)	(214,670)
Retained earnings		399,003	257,177
TOTAL EQUITY		890,342	655,940
Non-current liabilities			
Borrowings	18	205,296	-
Deferred income	19	7,174	2,358
Deferred tax liabilities	13	6,622	1,094
Long-term lease liabilities	18	171,847	27,881
Total non-current liabilities		390,939	31,333
Current liabilities			
Borrowings	18	639,280	-
Trade and other payables	21	917,279	982,273
Deferred income	19	21,453	14,820
Provisions	20	22,282	17,041
Short-term lease liabilities	18	96,019	25,894
Total current liabilities		1,696,313	1,040,028
TOTAL LIABILITIES		2,087,252	1,071,361
TOTAL EQUITY AND LIABILITIES		2,977,594	1,727,301

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to the Parent Company's equity holders						
SEK '000	Note	Share capital	Additional paid in capital	Retained earnings	Translation reserve	Total equity
Balance 1 January 2019		1,297	612,136	257,177	(214,670)	655,940
Total comprehensive income for the year						
Result for the year		-	-	250,819	-	250,819
Other comprehensive income						
Foreign exchange differences		-	-	-	92,576	92,576
Total comprehensive income for the year		-	-	250,819	92,576	343,395
Contribution by and distribution to owners						
Dividends on ordinary shares	17	-	-	(108,993)	-	(108,993)
Total contributions and distributions		-	-	(108,993)	-	(108,993)
Balance 31 December 2019		1,297	612,136	399,003	(122,094)	890,342

Attributable to the Parent Company's equity holders						
SEK '000	Note	Share capital	Additional paid in capital	Retained earnings	Translation reserve	Total equity
Balance 1 January 2018		1,303	692,204	77,787	(160,216)	611,078
Total comprehensive income for the year						
Result for the year		-	-	209,116	-	209,116
Other comprehensive income						
Foreign exchange differences		-	-	-	(54,454)	(54,454)
Total comprehensive income for the year		-	-	209,116	(54,454)	154,662
Contribution by and distribution to owners						
Redemption of preference shares	17	(6)	(80,068)	-	-	(80,074)
Dividends on preference shares	17	-	-	(4,585)	-	(4,585)
Dividends on ordinary shares	17	-	-	(25,141)	-	(25,141)
Total contributions and distributions		(6)	(80,068)	(29,726)	-	(109,800)
Balance 31 December 2018		1,297	612,136	257,177	(214,670)	655,940

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

CONSOLIDATED STATEMENT OF CASH FLOW

SEK '000	Note	2019	2018
Cash flows from operating activities			
Result before income tax		318,356	267,177
Adjustments for:			
Depreciation and amortisation	11,12	136,305	47,858
Impairment (reversed impairment) of trade receivables	8	8,934	6,423
Gain on disposal of property, plant and equipment		7,023	(469)
Finance costs	9	58,148	8,891
Finance income	9	(6,458)	(7,107)
Foreign exchange losses (gains) (net)		(12,458)	4,729
Cash from operating activities before changes in working capital and provisions		509,850	327,502
Change in inventories		(483,726)	(318,475)
Change in trade and other receivables		70,515	(97,663)
Change in prepayments		(62,292)	(15,068)
Change in trade and other payables		(218,130)	302,706
Change in provisions		(1,865)	5,452
Change in deferred income		(2,008)	6,314
Cash flows from operations before interest paid and tax paid		(187,656)	210,768
Income tax paid		(85,143)	(51,478)
Interest paid		(57,565)	(8,918)
Cash flows from operating activities		(330,364)	150,372
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		2,119	3,268
Interest received		6,395	7,107
Acquisition of property, plant and equipment		(162,242)	(43,132)
Acquisition of intangible assets		(4,310)	(2,326)
Acquisition of business	32	(20,813)	-
Cash flows from investing activities		(178,851)	(35,083)
Cash flows from financing activities			
Redemption of preference shares		-	(80,074)
Dividends on preference shares		-	(4,585)
Dividends on ordinary shares		(108,993)	(25,141)
Proceeds from borrowings		1,276,497	-
Repayment of loans		(474,553)	-
Financing received		70,018	26,916
Financing paid		(73,249)	(25,287)
Cash flows from financing activities		689,720	(108,171)
Net change in cash and cash equivalents		180,505	7,118
Cash and cash equivalents at start of the year		356,589	352,238
Effect of exchange rate fluctuations on cash and cash equivalents		(17,733)	(2,767)
Cash and cash equivalents at year-end	16	519,361	356,589

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

PARENT COMPANY INCOME STATEMENT

SEK '000	Note	2019	2018
Revenue		144,100	174,158
Cost of sales		(121,764)	(150,326)
Gross profit		22,337	23,832
Administrative expenses	7	(15,126)	(11,671)
Operating profit		7,210	12,161
Finance income	9	155	15,796
Finance costs	9	(181)	(4,371)
Foreign exchange gains/(-losses) (net)		(7,268)	(11,061)
Result before income tax		(84)	12,524
Income tax	10	(309)	(3,558)
Result for the year		(393)	8,967

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

SEK '000	Note	2019	2018
Result for the year		(393)	8,967
Total comprehensive income for the year		(393)	8,967

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

PARENT COMPANY BALANCE SHEET

SEK '000	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	11	-	4
Intangible assets	12	993	721
Financial assets			
Holdings in group companies	28	158,785	193,610
Loans to group companies	26	2,638	-
Deferred tax assets	13	17,024	17,333
Total financial assets		178,447	210,943
Total non-current assets		179,440	211,667
Current assets			
Trade and other receivables	15	81,839	53,250
Prepayments		823	1,075
Cash and cash equivalents	16	39,327	126,390
Total current assets		121,989	180,715
TOTAL ASSETS		301,428	392,382
EQUITY AND LIABILITIES			
Equity	17		
Restricted equity			
Share capital		1,297	1,297
Unrestricted Equity			
Share premium reserve		622,148	622,148
Retained earnings		(381,905)	(281,878)
Result for the year		(393)	8,967
TOTAL EQUITY		241,148	350,534
Current liabilities			
Trade and other payables	21	60,280	41,848
Total current liabilities		60,280	41,848
TOTAL LIABILITIES		60,280	41,848
TOTAL EQUITY AND LIABILITIES		301,428	392,382

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

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

SEK '000	Note	Share capital	Share premium reserve	Retained earnings	Total equity
Balance 1 January 2019		1,297	622,148	(272,911)	350,534
Total comprehensive income for the year					
Result for the year		-	-	(393)	(393)
Total comprehensive income for the year		-	-	(393)	(393)
Contribution by and distribution to owners					
Dividends on ordinary shares	17	-	-	(108,993)	(108,993)
Total contributions and distributions		-	-	(108,993)	(108,993)
Balance 31 December 2019		1,297	622,148	(382,297)	241,148

SEK '000	Note	Share capital	Share premium reserve	Retained earnings	Total equity
Balance 1 January 2018		1,303	702,216	(252,152)	451,367
Total comprehensive income for the year					
Result for the year		-	-	8,967	8,967
Total comprehensive income for the year		-	-	8,967	8,967
Contribution by and distribution to owners					
Redemption of preference shares	17	(6)	(80,068)	-	(80,074)
Dividends on preference shares	17	-	-	(4,585)	(4,585)
Dividends on ordinary shares	17	-	-	(25,141)	(25,141)
Total contributions and distributions		(6)	(80,068)	(29,727)	(109,801)
Balance 31 December 2018		1,297	622,148	(272,911)	350,534

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

PARENT COMPANY STATEMENT OF CASH FLOWS

SEK '000	Note	2019	2018
Cash flows from operating activities			
Result before income tax		(84)	12,524
Adjustments for:			
Depreciation and amortisation	11,12	135	5
Finance costs	9	181	4,371
Finance income	9	(155)	(15,796)
Foreign exchange losses (-gains) (net)		7,268	11,061
Cash from operating activities before changes in working capital and provisions		7,346	12,165
Change in trade and other receivables		(20,668)	10,283
Change in prepayments		252	209
Change in trade and other payables		18,432	(15,811)
Cash flows from operations before income tax and interest paid		5,362	6,846
Interest paid		(181)	(13,010)
Cash flows from operating activities		5,181	(6,164)
Cash flows from investing activities			
Interest received		144	19,108
Acquisition of intangible assets		(403)	(721)
Repayment of loans from subsidiary		-	197,143
Repayment of contribution from subsidiary		39,502	-
Loan to subsidiary		(2,627)	-
Contributions to subsidiaries		(19,868)	(522)
Cash flows from investing activities		16,749	215,008
Cash flows from financing activities			
Redemption of preference shares		-	(80,074)
Repayment of loans to subsidiaries		-	(48,804)
Dividend on preference shares		-	(4,585)
Dividends on ordinary shares		(108,993)	(25,141)
Cash flows from financing activities		(108,993)	(158,604)
Net increase/(decrease) in cash and cash equivalents		(87,063)	50,240
Cash and cash equivalents at start of year		126,390	76,150
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
Cash and cash equivalents at year-end	16	39,327	126,390

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

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Notes

NOTE 1 » GENERAL INFORMATION

Ferronordic AB, reg. nr 556748-7953 (the “Parent Company”) is a Swedish public limited liability Company, having its address at Nybrogatan 6, 114 34 Stockholm. The Parent Company together with its subsidiaries comprise the “Group” or “Ferronordic”.

Ferronordic’s activity comprises sales and service of construction equipment and other machines in Russia and Kazakhstan. In addition, Ferronordic offers contracting services where the Group itself, with its own machines and operators, carries out works for customers in the mining industry. Ferronordic is the authorised dealer for Volvo Construction Equipment, Dressta, Mecalac and Rottne in Russia, and for Volvo Construction Equipment and Mecalac in Kazakhstan (since 2019). As aftermarket dealer for Volvo and Renault Trucks, the Group also operates authorised truck workshops in different locations in Russia.

In December 2019, it was announced that Ferronordic and Volvo Group Trucks Germany had entered into final agreements to appoint Ferronordic dealer for Volvo and Renault Trucks in an area representing approx. 20% of the German market for heavy trucks. In connection herewith, Ferronordic also acquired eleven sites within this area. Nine of these sites were operated by Volvo and were acquired through an asset deal. These assets were transferred to Ferronordic in January 2020. Two of the sites were operated by Auto-Haas GmbH, an existing dealer for Volvo and Renault Trucks. These sites were acquired through a share deal where Ferronordic acquired Auto-Haas. The acquisition was completed in 20 December 2019.

NOTE 2 » BASIS OF PREPARATION

Ferronordic’s financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Financial Standards Board (IASB) as well as the interpretations of the IFRS Interpretations Committee, as adopted by the European Union. RFR 1 on Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, is applied. The annual accounts of the Parent Company are prepared in accordance with the Swedish Annual Accounts Act and RFR 2, Accounting for Legal Entities, issued by the Swedish Financial Reporting Board.

BASIS OF MEASUREMENT

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

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the various units of the Group are valued in each Group Company’s functional currency. The functional currency for the Parent Company is the Swedish krona (SEK). The functional currency for all Group companies in Russia is the Russian rouble (RUB). The functional currency for the Group Company in Kazakhstan is the Kazakh tenge (KZT). The functional currency of the Group companies in Germany is euro (EUR).

The Group and the Parent Company have selected SEK as presentation currency. Except as otherwise noted, all amounts have been rounded to the nearest thousand.

ESTIMATES AND JUDGMENTS

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

Estimates and assumptions are reviewed on an ongoing basis. Changes in estimations and assumptions are recognised in the period when they occur and in future periods affected. The judgments that have the most significant effect on the amounts recognised in the Group’s financial statements are set out in Note 4 (*useful life and residual value of property, plant and equipment; recognition of deferred tax assets; obsolescence provisions in relation to inventories*), Note 20 (*recognition and measurement of provisions and contingencies*) and Note 22 (*allowance for expected credit losses*).

NOTE 3 » CHANGED ACCOUNTING POLICIES

Since 1 January 2019, Ferronordic applies the new accounting standard for leases, IFRS 16 Leases. For transition purposes, the modified retrospective method was used, meaning that the effect of the new standard was recognised in the opening balance on 1 January 2019 without restatement of the comparative. Right-of-use assets were recognised at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses). Ferronordic used the transition exempt rule under IFRS 16 not to make any new assessment if a contract was or contained parts that constitute a lease and therefore applied the standard for all contracts that had previously been identified as leases. Ferronordic also applied the exempt rule to exclude initial direct costs when calculating the right-of-use asset.

The following table details assets and liabilities recognised on transition:

SEK '000	As at 31 December 2018 (before change)	Effect of IFRS 16	As at 1 January 2019 (after change)
Property, plant and equipment	262,824	66,829	329,653
Lease liabilities	53,775	66,829	120,604

The weighted-average rate applied for discounting lease payments when measuring lease liabilities was 9.83%.

SEK '000	
Operating lease commitments as at 31 December 2018 as disclosed under IAS 17	1,686
Finance lease commitments recognised at 31 December 2018 according to IAS 17	61,663
Extension options reasonably certain to be exercised at 31 December 2018	78,272
Effect of discounting	(21,017)
Lease liabilities recognised at 1 January 2019	120,604

The treatment of leases that were recognised as financial leases according to IAS 17 has not changed with implementation of IFRS 16. For leases that were classified as finance leases applying IAS 17, the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application are thus the carrying amount of these assets and liabilities immediately before the date of initial application of IFRS 16.

Comparative figures as if IAS 17 had been applied are set out in the tables below. Excerpt from report on results:

SEK '000	2019 (IFRS 16)	2019 (IAS 17)	2018
EBITDA	493,893	460,895	321,548
Operating profit	357,588	352,909	273,690
Finance costs	(58,148)	(50,277)	(8,891)
Result before income tax	318,356	321,548	267,177
Income tax	(67,537)	(68,175)	(58,061)
Result after income tax	250,819	253,373	209,116

Excerpt from consolidated statement of financial position:

SEK '000	31 December 2019 (IFRS 16)	31 December 2019 (IAS 17)	31 December 2018
Non-current assets			
Property, plant and equipment	700,330	609,036	262,824
Deferred tax assets	51,287	50,649	40,594
Total non-current assets	763,296	671,364	309,551
Equity			
Retained earnings	399,003	401,557	257,177
Total equity	890,342	892,896	655,940
Liabilities			
Long-term lease liabilities	171,847	109,517	27,881
Short-term lease liabilities	96,019	63,763	25,894
Total liabilities	2,087,252	1,992,666	1,727,301

Excerpt from consolidated statement of cash flows:

SEK '000	2019 (IFRS 16)	2019 (IAS 17)	2018
Cash flow from operating activities			
Result before income tax	318,356	321,548	267,177
Adjustment for depreciation and amortisation	136,305	107,986	47,858
Cash flows from operating activities	(330,364)	(355,491)	150,372
Cash flows from financing activities			
Leasing financing paid	(73,249)	(48,122)	(25,287)
Cash flows from financing activities	689,720	714,847	(108,171)

Ferronordic has previously classified specific advance payments to suppliers as trade and other receivables in the condensed consolidated statement of financial position. As Ferronordic finds it more appropriate to classify these payments as prepayments, it reclassified the amounts for the comparative periods accordingly. As at 31 December 2018 the effect of the change on the Group's consolidated statement of financial position was as follows:

SEK '000	31 December 2018 (before change)	Change	31 December 2018 (after change)
Trade and other receivables	318,684	(15,479)	303,205
Prepayments	1,634	15,479	17,113

The Group's consolidated statement of cash flows was adjusted correspondingly.

Save for the foregoing, no changes in accounting policies occurred in 2019.

NOTE 4 » SIGNIFICANT ACCOUNTING POLICIES

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

BUSINESS COMBINATIONS

The Group accounts for business combinations using the acquisition method when control is passed over to the Group. The consideration transferred in the acquisition, as well as the identifiable net assets acquired, are measured at fair value. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred.

Contingent consideration is measured at fair value at the date of acquisition.

SUBSIDIARIES

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

ELIMINATION OF INTRA-GROUP TRANSACTIONS

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

FOREIGN CURRENCY

Foreign currency transactions

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

Monetary assets and liabilities in foreign currencies are translated to functional currency at the exchange rate on the reporting date.

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

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

Foreign currency differences are recognised in profit or loss.

Foreign operations

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

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

If the Group's control, significant influence or joint control over a foreign operation is lost, the accumulated translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests.

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

FINANCIAL INSTRUMENTS

Financial instruments within Ferronordic are financial assets and financial liabilities, all, except for contingent consideration, measured at amortised cost.

Except for trade receivables, which are recognised when they originate, all financial assets and financial liabilities are recognised when Ferronordic becomes bound by the provisions of the relevant instrument.

Trade receivables are initially recognised at the transaction price. Other financial assets and financial liabilities are initially recognised at fair value, plus transaction costs directly attributable to the acquisition or issue of the relevant instrument.

Financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL"):

- the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets are derecognised when the rights to the cash flows from the assets expire, or when the rights to receive the cash flows, and substantially all risks and rewards of ownership of the assets, are transferred. Financial liabilities (or a part thereof) are

derecognised when the obligations specified in the contract are discharged or cancelled or expire.

The financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

SHARE CAPITAL

Ordinary shares in the Parent Company are classified as equity since their holders cannot demand dividends and the shares do not entail obligations on the Group to deliver cash or other assets. Costs that are directly attributable to the issue of shares and share options are recognised as a deduction from equity, net of any tax effects. Dividends are recognised as equity distributions when they are approved by the general meeting.

PROPERTY, PLANT AND EQUIPMENT

Except for land, property, plant and equipment is recognised at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

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

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

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

Subsequent costs

The cost of replacing a component of an item of property, plant and equipment is recognised in the asset's carrying amount if it is probable that the future economic benefits of the asset will flow to the Group and the cost can be measured reliably. The carrying amount of the replaced component is derecognised.

Costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

Depreciation

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

Depreciation is recognised in profit or loss on a straight-line basis over the useful life of each individual asset or group of assets. This reflects how the Group is expected to consume the future economic benefits of the assets. Leased assets are depreciated over the shorter of the lease term or the useful life of the asset, whichever is shortest (if it is reasonably certain that the Group will obtain ownership of the leased asset by the end of the lease term, however, the asset is depreciated during the asset's useful life). Land is not depreciated.

Estimated useful life of certain significant items of property, plant and equipment

• buildings	2-45 years
• machinery and equipment	2-16 years
• contracting services machines	3 years
• rental machines	3 years
• office equipment	2-10 years
• cars	3-7 years

The residual value for contracting services - and rental machines is 25% of the cost of the assets. For all other property, plant and equipment, the residual value is zero.

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

INTANGIBLE ASSETS

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

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

Amortisation

Amortisation of intangible assets is based on the cost of the asset less its residual value. Estimated useful lives of the Group's intangible assets:

• Software and software licenses	2-5 years
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Amortisation methods, useful lives and residual values are reviewed at the end of each financial year and adjusted if appropriate.

LEASES

Leases (after implementation of IFRS 16)

As of 1 January 2019, new leases are accounted for according to IFRS 16. This means that leases are reported as right-of-use assets and corresponding lease liabilities on the commencement day of the lease. Each lease payment is divided between a repayment of the lease liability and an interest expense. The interest expense is distributed over the lease term so that each accounting period is expensed with an amount corresponding to a fixed interest rate for the liability recognised during the respective period. The right-of-use asset is depreciated on a straight-line basis over the shorter of the asset's useful life and the length of the lease. Liabilities arising from leases are initially recognised at present value, discounted at the implicit interest rate if that rate can be determined, and otherwise at the Group's incremental borrowing rate. Lease liabilities include fixed payments and variable lease payments depending on an index or a rate, initially measured using the index or rate as at the commencement date. The incremental borrowing rate is decided based on contract length and contract transaction currency. Payments for short-term contracts and leases of low value are expensed on a straight-line basis in the income statement. In respect of some short-term contracts the Group is certain that possibility to extend the contract will be used for a longer period (at least three years) due to economic or other reasons. Leases under such contracts are reported as right-of-use assets and corresponding lease liabilities. Short-term contracts are contracts with a lease term of 12 months or less. Contracts of low value include various IT-equipment and smaller office furniture.

Leases (in 2018 according to IAS 17)

Leases where the Group assumes substantially all risks and rewards of ownership were classified as finance leases. Assets under finance lease were initially recognised at the lower of fair value or the present value of the minimum lease payments. Thereafter, the asset was accounted for in accordance with the policy applicable to the relevant asset. Payments under finance leases were apportioned between finance expenses and a reduction of the lease obligations. The finance expense was allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining lease obligation. The treatment of leases that were recognised as financial leases according to IAS 17 has not changed with implementation of IFRS 16.

INVENTORIES

Inventories are measured at the lower of cost and net realizable 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. Machines in inventory have specifically identified cost.

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

IMPAIRMENT

Financial instruments

The Group uses a matrix of loss rates to measure its expected credit losses of trade and other receivables. Loss rates are calculated as probability of a loss for each group of receivables, based on the period of delinquency within the Group's different revenue types (i.e. equipment sales, aftermarket sales and other revenue). Loss rates are calculated as a proportion of actual average losses to the average amount of receivables during the twelve months period preceding the reporting date (the Group considers this sufficient to determine whether a loss will happen).

Non-financial assets

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

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

The recoverable amount is the higher of an asset's value in use and its fair value, less selling costs. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the present value and the risks specific to the asset.

An impairment loss is recognised in profit and loss if the carrying amount exceeds the estimated recoverable amount.

EMPLOYEE RELATED LIABILITIES

Termination costs

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

Salaries and other short-term benefits

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

Defined contribution plans

Obligations for contributions to defined contribution plans (e.g. the Russian State Pension Fund) are recognised as employee benefit expenses in profit or loss in the periods during which related services are rendered.

WARRANTIES

The Group provides warranties on new machines and components. The Group's suppliers reimburse the Group for costs incurred as a result of these warranties at agreed rates and amounts. Both the gross provision amount for the warranties and the related receivable from the suppliers are recorded. Provisions for warranties are based on historical data and recognised when the relevant products are sold.

The Group also offers extended warranties for an additional charge. When extended warranties are sold to customers, the Group also purchases a corresponding extended warranty from the relevant supplier. These are recognised as other receivables and amortised to profit and loss evenly during the contract term.

REVENUE

Ferronordic categorises revenue as equipment sales, aftermarket sales (parts and service) and other revenue. Revenue is recognised when control has been transferred from Ferronordic to the customer. Control refers to the customers' ability to use machines, spare parts or services in its operations and to obtain the associated cash flows.

Equipment sales includes sales of new and used machines and attachments. Control over the equipment typically transfers to the customer upon delivery, i.e. when the equipment has been accepted by the customer and the equipment has been physically transferred (although in some cases Ferronordic may allow that the equipment is stored at its premises until it can be moved). If the equipment is transferred at the customer's premises and the customer for some reason does not accept the equipment, no revenue is recognised and the equipment is instead considered to be stored at the customer's premises. The revenue for each unit of equipment sold is specified in the relevant sales contract.

Aftermarket sales includes sales of spare parts, service (maintenance and repairs) and other aftermarket service (e.g. extended warranties). As for parts sales, control transfers to the customer upon delivery, i.e. when the part has been transferred to and accepted by the customer. As for service sales, control transfers when Ferronordic incurs the associated cost to deliver the service and the customer can benefit from the use thereof. As most services rendered are short-term repairs, this typically occurs when the rendered services are completed. Sales of extended warranty contracts is recognised evenly during the contract period. The revenue for each transaction of parts or service sales is specified in the relevant contract or in the individual specification signed by the customer.

Other revenue consists almost entirely of contracting services. Control transfers to the customer when the customer can benefit from the use of the rendered service, i.e. when the transported material (e.g. earth or rock) has been physically delivered to and accepted by the customer. Revenue is measured as the volume of material delivered and confirmed by the customer, multiplied by the price per volume unit agreed (e.g. cubic meter).

The Group does not have significant contract assets from contracts with customers. Information on receivables from contracts with customers is presented in Note 15. Information on contract liabilities from contracts with customers is presented in Note 21.

Disaggregation of revenue is presented in Note 6.

FINANCE INCOME AND COSTS

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

Finance costs consist of interest expense on borrowings and leases. Borrowing costs directly attributable to the acquisition, construction or production of property, plant and equipment are

capitalized to the cost of the asset. Other borrowing costs are recognised in profit or loss using the effective interest method.

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

INCOME TAXES

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

Current tax is the expected tax payable on the taxable result for the period, using applicable tax rates, and any adjustment to tax payable in respect of previous years.

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

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

In Russia and Kazakhstan, tax losses and current tax assets of one Group Company cannot be offset against taxable profits and current tax liabilities of other Group companies. Further, since the tax base is determined separately for each of the Group's main activities, it is not possible to offset tax losses and taxable profits related to different activities.

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

STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new or amended IFRS have been adopted and will become effective in the coming years. Ferronordic has not applied and does not intend to apply these new or amended standards ahead of time. The Group expects that these standards will not have significant effect on its financial statements.

INFORMATION ABOUT THE PARENT COMPANY

Parent Company accounting principles

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

Differences between the accounting policies applied for the Group and the Parent Company

The Parent Company's income statement and balance sheet are presented according to the structure following from the Swedish Annual Accounts Act.

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

The Parent Company classifies all leases as operating leases.

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

NOTE 5 » DETERMINATION OF FAIR VALUE

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

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

If the fair value measurement can be categorised in different levels, the measurement is categorised entirely in the lowest level that is relevant for the measurement. Changes in levels are recognised at the end of the period when the changes occurred.

Fair values of borrowings and finance leases are calculated based on the present value of future cash flows from principal and interest, discounted at the market rate of interest at the reporting date (level 2).

For finance leases, the market rate of interest is determined by reference to similar lease agreements.

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

NOTE 6 » SEGMENT REPORTING AND REVENUE*Segment reporting*

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

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

Reconciliation of EBITDA to result for the year

SEK '000	2019	2018
EBITDA	493,893	321,548
Depreciation and amortisation	(136,305)	(47,858)
Net foreign exchange gains/(losses)	12,458	(4,729)
Finance income	6,458	7,107
Finance costs	(58,148)	(8,891)
Result before income tax	318,356	267,177
Income tax	(67,537)	(58,061)
Result for the year	250,819	209,116

*Disaggregation of revenue***Group**

SEK '000	2019	2018
Equipment sales	2,418,302	2,295,733
Aftermarket sales	925,054	789,597
Other revenue	403,786	155,923
Revenue	3,747,142	3,241,253

In the periods presented, the Group operated in Russia, Kazakhstan and Germany. The shares of revenue of Russia, Kazakhstan and Germany are 98%, 1% and less than 1% respectively. The shares of non-current assets of Russia, Kazakhstan and Germany are 76%, 1% and 23% respectively. No customer represented more than 5% of the revenue in 2019. The Group's fixed assets are located in Russia, Kazakhstan and Germany.

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

SEK '000	2019	2018
Personnel expenses	144,886	125,340
Depreciation	8,445	5,247
Other selling expenses	8,521	7,426
	161,852	138,013

*General and administrative expenses***Group**

SEK '000	2019	2018
Personnel expenses	140,421	115,054
Depreciation and amortisation	31,798	8,935
Rent	19,089	31,283
Other general and administrative expenses	46,638	34,751
	237,946	190,023

Excluding the effect of IFRS 16 the depreciation and amortisation would be SEK 19.3m lower and rent expenses would be SEK 22.3m higher.

Parent Company

SEK '000	2019	2018
Personnel expenses	8,429	8,092
Depreciation and amortisation	135	5
Other general and administrative expenses	6,562	3,574
	15,126	11,671

NOTE 8 » OTHER EXPENSES**Group**

SEK '000	2019	2018
Bank services	3,690	7,056
Impairment of trade receivables	8,934	6,423
Sundry expenses	13,274	3,537
	25,898	17,016

Sundry expenses in 2019 include a SEK 9m provision relating to a loss of machines in the rental business.

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

SEK '000	2019	2018
Interest income on bank deposits	6,458	7,107
Finance income	6,458	7,107
Interest expense on lease obligation	(18,222)	(5,339)
Interest expense on bank loans	(34,142)	(907)
Other finance costs	(5,784)	(2,645)
Finance costs	(58,148)	(8,891)
Finance income/(costs) net	(51,690)	(1,784)

Excluding the effect of IFRS 16 the interest expense on finance lease obligation would be SEK 7.9m lower.

No interest income or interest expenses relate to financial instruments measured at fair value through profit or loss.

Parent Company

SEK '000	2019	2018
Interest income on loans to subsidiary	11	15,622
Interest income on bank deposits	144	174
Interest income	155	15,796
Interest cost on loans from subsidiary	-	(4,193)
Other finance costs	(181)	(178)
Interest costs	(181)	(4,371)
Interest income (net)	(26)	11,425

NOTE 10 » INCOME TAXES

The Parent Company is a tax resident of Sweden where the applicable tax rate for 2019 was 21.4% (22% in 2018). During 2018 it became clear that the tax rate for companies in Sweden will be reduced, firstly to 21.4% in 2019-2020, and then to 20.6%

from 2021 and onwards. As a result, in 2018 the losses carry-forward of the Parent Company were reduced by SEK 773,000 and an equivalent loss was recognised in the result.

In 2018 and 2019 the Parent Company's income tax was settled by a reduction of the Parent Company's tax loss carry forwards and thus had no effect on cash flows

The other Group companies that were operational in the presented periods are tax residents of Russia where the applicable tax rate for 2019 was 20% (same as previous year), Kazakhstan 20%, Germany 15% correspondingly.

Income tax is calculated separately for each Group entity by multiplying the applicable tax rate with the taxable results for the period. The average tax rate of the Group in 2019 was 21.2% (21.8%).

SEK '000	Group		Parent Company	
	2019	2018	2019	2018
Current tax expense	(68,447)	(56,563)	-	-
Deferred tax benefit / (expense)	910	(1,498)	(309)	(3,558)
Total income tax	(67,537)	(58,061)	(309)	(3,558)

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

SEK '000	2019		2018	
Result for the year	250,819		209,116	
Total income tax	(67,537)		(58,061)	
Result before tax	318,356	100%	267,177	100%
Income tax at applicable tax rate	(64,605)	(20.3%)	(54,707)	(20.5%)
Revaluation of tax loss carry forwards	(327)	(0.1%)	(773)	(0.3%)
Non-deductible expenses	(2,605)	(0.8%)	(2,581)	(1.0%)
	(67,537)	(21.2%)	(58,061)	(21.8%)

Parent Company

SEK '000	2019		2018	
Result for the year	(393)		8,967	
Total income tax	(309)		(3,558)	
Result before tax	(84)	100%	12,525	100%
Income tax at applicable tax rate	18	(21.4%)	(2,756)	(22.0%)
Revaluation of tax loss carry forwards	(327)	389.3%	(773)	(6.2%)
Other items	-	-	(30)	(0.2%)
	(309)	367.9%	(3,558)	(28.4%)

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

SEK '000	Land	Buildings	Machinery and equipment	Contracting services machines	Rental machines	Office equipment	Cars	Under construction	Right of use assets related to facilities rent	Total
Cost										
Balance 1 January 2019	11,167	41,629	46,624	151,914	4,757	8,945	105,603	8,533	66,829	446,001
Additions	-	2,536	19,736	65,801	-	4,302	45,555	71,443	39,751	249,124
Transfers from inventory	-	-	-	55,135	86,143	-	-	-	-	141,278
Business acquisition	-	-	422	-	86,619	96	456	-	10,544	98,137
Disposals	-	(458)	(548)	-	(8,857)	(113)	(16,520)	-	-	(26,496)
Transfers to inventory	-	-	-	(24,605)	(7,627)	-	-	-	-	(32,232)
Transfers	-	-	452	-	-	-	1,405	(1,857)	-	-
Translation difference	2,769	7,024	8,388	28,382	2,239	1,628	18,612	2,680	3,270	74,992
Balance 31 December 2019	13,936	50,731	75,074	276,627	163,274	14,858	155,111	80,799	120,394	950,804
Depreciation and impairment losses										
Balance 1 January 2019	2,836	17,824	30,501	17,709	769	6,253	33,564	6,892	-	116,348
Depreciation	-	3,191	7,458	53,906	12,712	2,095	25,322	-	28,351	133,035
Disposals	-	(250)	(342)	-	(258)	(32)	(11,475)	-	-	(12,357)
Transfers to inventory	-	-	-	(7,868)	(705)	-	-	-	-	(8,573)
Translation difference	1,376	3,056	4,759	4,416	435	1,055	5,925	250	749	22,021
Balance 31 December 2019	4,212	23,821	42,376	68,163	12,953	9,371	53,336	7,142	29,100	250,474
Carrying amounts										
1 January 2019	8,331	23,805	16,123	134,205	3,988	2,692	72,039	1,641	66,829	329,653
31 December 2019	9,724	26,910	32,698	208,464	150,321	5,487	101,775	73,657	91,294	700,330

The property, plant and equipment under construction includes prepayment for assets from Volvo in Germany in the amount of SEK 71m as at 31 December 2019. After the deal was closed in January 2020 the property, plant and equipment was transferred to the Group. For more details please see Note 27, Events subsequent to the reporting date.

SEK '000	Land	Buildings	Machinery and equipment	Contracting services machines	Rental machines	Office equipment	Cars	Under construction	Total
Cost									
Balance 1 January 2018	12,670	45,031	43,392	21,042	-	10,510	86,894	10,324	229,863
Additions	-	2,723	10,083	9,387	-	1,952	37,676	1,694	63,515
Transfers from inventory	-	-	-	136,162	5,114	-	-	-	141,276
Disposals	-	(1,952)	(2,588)	-	-	(2,533)	(8,458)	(2,008)	(17,539)
Transfers to inventory	-	-	-	(2,649)	-	-	-	-	(2,649)
Transfers	-	290	527	-	-	-	-	(817)	-
Translation difference	(1,503)	(4,463)	(4,790)	(12,028)	(357)	(984)	(10,509)	(660)	(35,294)
Balance 31 December 2018	11,167	41,629	46,624	151,914	4,757	8,945	105,603	8,533	379,172
Depreciation and impairment losses									
Balance 1 January 2018	3,439	18,169	26,881	2,279	-	8,291	27,245	7,339	93,643
Depreciation	-	3,048	6,570	19,020	822	1,200	16,102	-	46,762
Disposals	-	(1,533)	(201)	-	-	(2,529)	(6,563)	-	(10,826)
Transfers to inventory	-	-	-	(2,155)	-	-	-	-	(2,155)
Translation difference	(603)	(1,860)	(2,749)	(1,435)	(53)	(709)	(3,220)	(447)	(11,076)
Balance 31 December 2018	2,836	17,824	30,501	17,709	769	6,253	33,564	6,892	116,348
Carrying amounts									
1 January 2018	9,231	26,862	16,511	18,763	-	2,219	59,649	2,985	136,220
31 December 2018	8,331	23,805	16,123	134,205	3,988	2,692	72,039	1,641	262,824

Depreciation was allocated as follows:

- Cost of sales: SEK 96.1m (SEK 33.8m)
- Selling expenses: SEK 8.4m (SEK 5.2m)
- General and administrative expenses: SEK 28.5m (SEK 7.8m)

Right of use assets:

SEK '000	Rental machines	Contracting services machines	Cars	Right of use assets related to facilities rent	Total
Cost					
Balance 1 January 2019	4,588	27,861	64,123	66,829	163,401
Additions	-	69,341	38,345	39,751	147,437
Business acquisition	-	-	-	10,544	10,544
Buy-out from lease	-	(8,003)	(26,591)	-	(34,594)
Translation difference	767	6,558	11,085	3,270	21,680
Balance 31 December 2019	5,355	95,757	86,962	120,394	308,468
Depreciation and impairment losses					
Balance 1 January 2019	742	3,518	16,448	-	20,708
Depreciation	1,305	14,615	13,115	28,351	57,386
Buy-out from lease	-	(4,610)	(11,714)	-	(16,324)
Translation difference	159	832	2,734	749	4,474
Balance 31 December 2019	2,206	14,355	20,583	29,100	66,244
Carrying amounts					
1 January 2019	3,846	24,343	47,675	66,829	142,693
31 December 2019	3,149	81,402	66,379	91,294	242,224

Property, plant and equipment under finance leases (before implementation of IFRS 16):

SEK '000	Rental machines	Contracting services machines	Cars	Total
Cost				
Balance 1 January 2018	-	9,359	54,279	63,638
Additions	-	-	16,628	16,628
Transfers from inventory	4,933	22,351	-	27,284
Buy-out from finance lease	-	(1,480)	(358)	(1,838)
Translation difference	(345)	(2,369)	(6,426)	(9,140)
Balance 31 December 2018	4,588	27,861	64,123	96,572
Depreciation and impairment losses				
Balance 1 January 2018	-	1,615	8,903	10,518
Depreciation	793	2,906	9,048	12,747
Buy-out from finance lease	-	(709)	(59)	(768)
Translation difference	(51)	(294)	(1,444)	(1,789)
Balance 31 December 2018	742	3,518	16,448	20,708
Carrying amounts				
1 January 2018	-	7,744	45,376	53,120
31 December 2018	3,846	24,343	47,675	75,864

In the consolidated statement of cash flows, cash flows, relating to purchases and disposals of machines in contracting services are classified as operating cash flows. This is because the machines have initially been purchased for equipment sales and then transferred from inventories to property, plant and equipment.

Parent Company

SEK '000	Office equipment	SEK '000	Office equipment
Cost		Cost	
Balance 1 January 2019	59	Balance 1 January 2018	59
Additions	-	Additions	-
Disposals	-	Disposals	-
Translation difference	-	Translation difference	-
Balance 31 December 2019	59	Balance 31 December 2018	59
Depreciation and impairment losses		Depreciation and impairment losses	
Balance 1 January 2019	55	Balance 1 January 2018	50
Depreciation	4	Depreciation	5
Disposals	-	Disposals	-
Translation difference	-	Translation difference	-
Balance 31 December 2019	59	Balance 31 December 2018	55
Carrying amounts		Carrying amounts	
Balance 31 December 2019	0	Balance 31 December 2018	4

NOTE 12 » INTANGIBLE ASSETS

Group

SEK '000	Software and software licenses	Goodwill	Total
Cost			
Balance 1 January 2019	7,469	-	7,469
Additions – internally developed	173	-	173
Acquisitions – separately acquired	4,137	-	4,137
Business acquisition	-	2,607	2,607
Disposals	(1,385)	-	(1,385)
Translation difference	2,185	(7)	2,178
Balance 31 December 2019	12,579	2,600	15,179
Amortisation			
Balance 1 January 2019	1,336	-	1,336
Amortisation	3,270	-	3,270
Disposals	(1,385)	-	(1,385)
Translation difference	279	-	279
Balance 31 December 2019	3,500	-	3,500
Carrying amounts			
31 December 2019	9,079	2,600	11,679

SEK '000	Software and software licenses	Total
Cost		
Balance 1 January 2018	6,453	6,453
Additions – internally developed	623	623
Acquisitions – separately acquired	1,703	1,703
Disposals	(737)	(737)
Translation difference	(573)	(573)
Balance 31 December 2018	7,469	7,469
Amortisation		
Balance 1 January 2018	946	946
Amortisation	1,096	1,096
Disposals	(577)	(577)
Translation difference	(129)	(129)
Balance 31 December 2018	1,336	1,336
Carrying amounts		
31 December 2018	6,133	6,133

Amortisation of SEK 3.3m (SEK 1.1m) was recognised as general and administrative expenses.

Parent Company

SEK '000	Software and software licenses	SEK '000	Software and software licenses
Balance 1 January 2019	721	Balance 1 January 2018	-
Acquisitions	403	Acquisitions	721
Balance 31 December 2019	1,124	Balance 31 December 2018	721
Amortisation		Amortisation and impairment losses	
Balance 1 January 2019	-	Balance 1 January 2018	-
Amortisation	131	Amortisation	-
Balance 31 December 2019	131	Balance 31 December 2018	-
Carrying amounts		Carrying amounts	
31 December 2019	721	31 December 2018	721

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

SEK '000	31 December 2019			31 December 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	-	(6,348)	(6,348)	-	(6,072)	(6,072)
Intangible assets	-	(274)	(274)	-	(981)	(981)
Inventories	5,739	-	5,739	5,263	-	5,263
Trade and other receivables	1,277	-	1,277	940	-	940
Prepayments	224	-	224	1,134	-	1,134
Provisions	151	-	151	3,408	-	3,408
Deferred income	5,643	-	5,643	3,436	-	3,436
Trade and other payables	14,422	-	14,422	11,857	-	11,857
Tax loss carry-forwards	23,831	-	23,831	20,515	-	20,515
Tax assets/ (liabilities)	51,287	(6,622)	44,665	46,553	(7,053)	39,500
Set off of tax	-	-	-	(5,959)	5,959	-
Net tax assets/(liabilities)	51,287	(6,622)	44,665	40,594	(1,094)	39,500

Parent Company

SEK '000	31 December 2019			31 December 2018		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Tax loss carry-forwards	17,024	-	17,024	17,333	-	17,333
Net tax assets/(liabilities)	17,024	-	17,024	17,333	-	17,333

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

SEK '000	1 January 2019	Recognised in profit or loss	Business combination	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2019
Property, plant and equipment	(6,072)	5,405	(4,848)	-	(833)	(6,348)
Intangible assets	(981)	845	-	-	(138)	(274)
Inventories	5,263	(391)	-	-	867	5,739
Trade and other receivables	940	176	-	-	161	1,277
Prepayments	1,134	(1,066)	-	-	156	224
Trade and other payables	11,857	564	-	-	2,001	14,422
Provisions	3,408	(3,712)	-	-	455	151
Deferred income	3,436	1,584	-	-	623	5,643
Tax loss carry-forwards	20,515	(2,495)	1,939	3,342	530	23,831
Net tax assets/(liabilities)	39,500	910	(2,909)	3,342	3,822	44,665

Parent Company

SEK '000	1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2019
Tax loss carry-forwards	17,333	(309)	-	-	17,024
Net tax assets/(liabilities)	17,333	(309)	-	-	17,024

Group

SEK '000	1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2018
Property, plant and equipment	(1,654)	(4,922)	-	504	(6,072)
Intangible assets	(1,101)	14	-	106	(981)
Inventories	2,555	3,179	-	(471)	5,263
Trade and other receivables	2,236	(1,159)	-	(137)	940
Prepayments	1,271	(14)	-	(123)	1,134
Trade and other payables	6,527	6,415	-	(1,085)	11,857
Provisions	2,634	1,108	-	(334)	3,408
Deferred income	2,404	1,361	-	(329)	3,436
Tax loss carry-forwards	26,202	(7,480)	2,190	(397)	20,515
Net tax assets/(liabilities)	41,074	(1,498)	2,190	(2,266)	39,500

Parent Company

SEK '000	1 January 2018	Recognised in profit or loss	Recognised in equity	Effect of movement in exchange rates	31 December 2018
Tax loss carry-forwards	20,890	(3,558)	-	-	17,333
Net tax assets/(liabilities)	20,890	(3,558)	-	-	17,333

NOTE 14 » INVENTORIES

SEK '000	Group		Parent Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Raw materials and consumables	20,419	3,757	-	-
Work in progress	15,098	10,696	-	-
Goods for resale	1,254,370	726,390	-	-
	1,289,887	740,843	-	-

Inventories of SEK 2,611m (SEK 2,375m) were sold during the year and recognised as cost of sales. Write-down of inventories to net realisable value of SEK 7.0m (SEK -0.3m) was recognised as cost of sales.

NOTE 15 » TRADE AND OTHER RECEIVABLES

SEK '000	Group		Parent Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Trade receivables	267,453	271,224	-	-
Trade receivables due from subsidiaries	-	-	81,081	51,956
VAT receivable	4,446	5,334	411	245
Warranty claims	16,741	16,395	-	-
Prepaid income tax	15,995	2,322	-	-
Other receivables	16,909	7,930	347	1,049
	321,544	303,205	81,839	53,250

Credit risks, currency risks and losses related to trade and other receivables are presented in Note 22, Financial instruments and risk management.

NOTE 16 » CASH AND CASH EQUIVALENTS

SEK '000	Group		Parent Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Bank balances	246,353	214,668	39,327	126,356
Call deposits	273,008	141,921	-	34
Cash and cash equivalents	519,361	356,589	39,327	126,390

Interest risk, currency risk and a sensitivity analysis for financial assets and liabilities are presented in Note 22 (*Financial instruments and risk management*).

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

Number of shares	Ordinary shares		Preference shares	
	2019	2018	2019	2018
In issue 1 January	14,532,434	14,532,434	-	66,728
Issue of ordinary shares	-	-	-	-
Conversion of preference shares	-	-	-	-
Redemption of preference shares	-	-	-	(66,728)
In issue 31 December, fully paid	14,532,434	14,532,434	-	-
Par value per share	SEK 0.089	SEK 0.089	-	SEK 0.089

Each ordinary share carries one vote. Each preference share carried one tenth vote.

Redemption of preference shares in 2018

On 27 April 2018, the Board decided to reduce the Parent Company's share capital by approx. SEK 5,958 by redemption of all remaining 66,728 preference shares. The total redemption price amounted to approx. SEK 81m.

According to the articles of association, the redemption price for each preference share was SEK 1,200, plus accrued and unpaid dividends of SEK 8.31 per share. The redemption price was paid on 18 May 2018.

Following the redemption, Ferronordic has no preference shares outstanding.

(b) Translation reserve

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

(c) Dividends

At the AGM on 14 May 2019, it was decided to pay dividends on ordinary shares in an amount of SEK 3.75 per share, and an extra dividend of SEK 3.75 per share, i.e. in total SEK 7.50 per share. The dividend was paid on 21 May 2019.

SEK '000	2019	2018
Dividends paid on preference shares	-	4,585
Dividends paid on ordinary shares	108,993	25,141

Proposed allocation of profit

The following amount is available for allocation by the AGM in 2020: SEK 239,850,957

The Board proposes that this amount be allocated as follows:

SEK	
Dividend	61,762,845
Amount carried forward	178,088,112
<i>of which to the share premium reserve</i>	560,385,387
Total	239,850,957

For the AGM in 2020, the Board has proposed an ordinary dividend of SEK 4.25 per share, corresponding to a total dividend of approx. SEK 62m. The proposed record date is 29 June 2020 and payment would take place around 2 July 2020. This would be in line with Ferronordic's dividend policy. Given the extraordinary uncertainty and the rapidly changing business environment in the wake of the outbreak of the novel coronavirus, the Board may review its dividend recommendation ahead of the AGM.

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

SEK '000	31 December 2019		31 December 2018	
	Outstanding balance	Credit facility limit	Outstanding balance	Credit facility limit
Current liabilities				
Secured short term borrowings	-	-	-	64,559
Unsecured short term borrowings	639,280	840,471	-	296,971
	639,280	840,471	-	361,530

(b) Long-term borrowings

SEK '000	31 December 2019		31 December 2018	
	Outstanding balance	Credit facility limit	Outstanding balance	Credit facility limit
Non-current liabilities				
Unsecured long term borrowings	205,296	288,403	-	-
	205,296	288,403	-	-

In June 2019, Ferronordic Machines LLC entered into two agreements with Sberbank regarding credit facilities for RUB 2,000m and RUB 1,000m, respectively (approx. SEK 300m and SEK 150m, respectively). The facilities replaced a previous facility with Sberbank and expanded the total credit limit. The facilities are available until June 2021.

In July 2019, Ferronordic Machines LLC entered into an agreement with Bank Otkritie regarding a credit facility for RUB 1,000m (approx. SEK 150m). The facility is available until June 2022.

In October 2019, Ferronordic Machines LLC entered into an agreement with Sberbank, regarding a credit

facility for RUB 1,300m (approx. SEK 200m). The facility is available until October 2022.

In connection with acquisitions of assets and business in Germany in December 2019, Ferronordic entered into an agreement with Nordea bank for a EUR 30m loan facility. EUR 22m (SEK 230m) was drawn on the facility in 2019 to finance the acquisitions and to fund additional investments to build up the German business.

At the end of 2019 the Group had also several outstanding credit and lease obligations in the acquired Auto-Haas Company in Germany, which in total amounted to SEK 67.7m.

(c) Lease liabilities

At the end of 2019, the Group had a lease limit from RB Leasing in the amount of RUB 650m and from Raiffeisen Leasing in the amount of RUB 260m. In 2019, the limit with RB Leasing was partly used to

finance cars in the carpool. In 2019, the Group has used leases from Volvo Financial Services to finance machines in contracting services.

*Future minimum lease payments (where Group is a lessee):***Group**

SEK '000	31 December 2019			31 December 2018		
	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	117,983	(21,964)	96,019	30,987	(5,093)	25,894
Between one and five years	186,782	(16,091)	170,691	30,676	(2,795)	27,881
Between one and five years	1,295	(139)	1,156	-	-	-
	306,060	(38,194)	267,866	61,663	(7,888)	53,775

*(d) Reconciliation of movements of liabilities to cash flows from financing activities***Group**

SEK '000	Liabilities		
	Lease liabilities	Borrowings	Total
Balance 1 January 2019	120,604	-	120,604
Changes in cash flows from financing activities			
Proceeds from borrowings	-	1,276,497	1,276,497
Repayment of loans	-	(474,553)	(474,553)
Payment of liabilities	(73,249)	-	(73,249)
Financing received	70,018	-	70,018
Total	(3,231)	801,944	798,713
Other changes related to equity			
Effect of changes in foreign exchange rates	14,685	22,779	37,464
Total	14,685	22,779	37,464
Other changes related to liabilities			
New leases	77,419	-	77,419
Business acquisition	10,544	67,698	78,242
Reclassification	47,845	(47,845)	-
Total	135,808	19,853	155,661
Balance 31 December 2019	267,866	844,576	1,112,442

Group

SEK '000	Liabilities	
	Finance lease liabilities	Total
Balance 1 January 2018	40,404	40,404
Changes in cash flows from financing activities		
Payment of finance lease liabilities	(25,287)	(25,287)
Lease financing received	26,916	26,916
Total	1,629	1,629
Other changes related to equity		
Effect of changes in foreign exchange rates	(5,254)	(5,254)
Total	(5,254)	(5,254)
Other changes related to liabilities		
New finance leases	16,996	16,996
Total	16,996	16,996
Balance 31 December 2018	53,775	53,775

NOTE 19 » DEFERRED INCOME

SEK '000	Group		Parent Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deferred income short-term due to lease back transaction	7,832	2,652	-	-
Deferred income short-term relating to service contracts	13,621	12,168	-	-
Total	21,453	14,820	-	-

SEK '000	Group		Parent Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Deferred income long-term due to lease back transaction	7,174	2,358	-	-
Total	7,174	2,358	-	-

NOTE 20 » PROVISIONS**Group**

SEK '000	Warranties	Other	Total
Balance 1 January 2019	16,395	646	17,041
Provisions made	24,589	394	24,983
Business acquisition	-	4,412	4,412
Provisions used	(26,893)	-	(26,893)
Translation difference	2,650	89	2,739
Balance 31 December 2019	16,741	5,541	22,282
Non-current	-	-	-
Current	16,741	5,541	22,282
	16,741	5,541	22,282

Group

SEK '000	Warranties	Other	Total
Balance 1 January 2018	9,098	4,073	13,171
Provisions made	24,026	-	24,026
Provisions used	(15,229)	(3,258)	(18,487)
Translation difference	(1,500)	(169)	(1,669)
Balance 31 December 2018	16,395	646	17,041
Non-current	-	-	-
Current	16,395	646	17,041
	16,395	646	17,041

Warranties on new machines and components

The Group's suppliers provide warranties on new machines and new components which the Group extends to its customers. The suppliers also offer extended warranties for an additional charge, which the Group offers its customers, also for an additional charge. The suppliers compensate the Group for costs related to the warranties at pre-agreed rates and amounts.

Both the gross provision amount of the standard warranties and the receivables from the suppliers are recognised. Provisions for standard warranties are recognised when the products that the warranties relate to are sold. Warranty provisions are based on historical data. Amounts of expected reimbursement as of 31 December 2019 and 31 December 2018, respectively, are disclosed in Note 15.

NOTE 21 » TRADE AND OTHER PAYABLES

SEK '000	Group		Parent Company	
	31 December 2019	31 December 2018	31 December 2019	31 December 2018
Trade payables	741,539	855,341	55,323	37,580
Advances from customers	43,697	42,496	-	-
Other payables and accrued expenses	94,513	58,535	3,880	4,209
Payables to related parties	-	-	824	-
Income tax payable	9,089	2,866	-	-
Other taxes payable	28,441	23,035	253	59
	917,279	982,273	60,280	41,848

The Parent Company's trade payables relate to machines and parts from Dressta, Rottne and Mecalac, purchased by the Parent Company and resold to its subsidiaries. Starting from 2020, the Parent Company will only sell machines and attachments to its Russian and Kazakh subsidiaries and payables relate only to machine and attachment purchases.

Currency and liquidity risks related to trade and other payables are disclosed in Note 22.

Advances from customers of SEK 44m (SEK 42m) and deferred income relating to service contracts of SEK 14m (SEK 12m) (see Note 19) relate to contract liabilities under the contracts with customers.

Out of contract liabilities at the end of 2018 SEK 50m was recognised as revenue during 2019.

NOTE 22 » FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group is exposed to various types of credit risk, liquidity risk and market risk. The Group has established policies and procedures to identify, analyse and minimise these risks, as well as to establish appropriate limits and control mechanisms to monitor that these are adhered to. Employees are trained to understand the risks at hand and the requirements of applicable policies and procedures. Policies and procedures are reviewed regularly and amended to reflect changed market conditions or changes in the business.

The purpose of the Group's policies and procedures is to develop a control environment where employees

understand their roles and obligations. The Board also oversees how management monitors compliance with the Group's policies and procedures and reviews the adequacy of the risk management framework in relation to relevant risks.

The Group's internal auditor evaluates the Group's risks, monitors that established policies and procedures are complied with, and suggests how the Group's control environment can be improved. The internal auditor reports to the Board's audit committee.

CREDIT RISK*General*

The Group to a certain extent sell products and services on credit and is thus exposed to certain credit risk. The risk is influenced mainly by the characteristics of the individual customers, but management also considers the profile of the Group's customer base as a whole, such as general default risk in the customers' different industries.

At the end 2019, the 20 largest trade receivables comprised 54% of the total trade receivables (at the end of 2018 the corresponding figure was 69%).

To minimise credit risk, the Group first and foremost strives to sell as much as possible without credit.

For machine sales, customers are usually financed by leasing companies that purchase the machines from the Group in cash. For aftermarket sales, the Group typically require payments in advance. However, there

are cases where the Group itself offers credits to its customers, both for machine sales and sales of parts and services.

For machines, the Group can provide credits up to 12 months, but typically with a relatively large down-payment and always with retention right or pledge to the sold machines (in some cases, additional collateral can be requested, usually in the form of sureties from the customers' owners). To satisfy the customers' financing needs, the Group can also offer short-term rental agreements, also up to 12 months, where the Group retains ownership in the machine. Often the customer then purchases the machines from the Group at the expiry of the rental agreement.

For sales of spare parts and service the Group typically does not require any collateral, but in individual cases, personal sureties are required.

Credit approvals

The Group has a structured process for approving credits and settling credit limits where all customers are assessed individually by both the finance and the security department before credits are offered.

The review typically includes external ratings (when available) and searches in various databases. New

credits and/or new limits are then referred to the regional management and/or to the Group's credit committee for approval, depending on the size of the credit and the recommendation of the finance and security departments.

*(i) Exposure to credit risk***Group**

SEK '000	Note	2019 Carrying amount	2018 Carrying amount
Trade receivables	15	267,453	271,224
Cash and cash equivalents	16	519,361	356,589
		786,814	627,813

The credit risk in the periods presented by geographical region is:

SEK '000	Note	2019 Carrying amount	2018 Carrying amount
Russia		225,633	271,224
Kazakhstan		17,695	-
Germany		24,125	-
		267,453	271,224

*(ii) Impairment of receivables**Aging of trade receivables***Group**

31 December 2019

SEK '000	Gross amount	Average loss rate	Impairment
Not past due	192,540	0.0%	(71)
Past due 0-30 days	51,930	2.2%	(1,155)
Past due 31-120 days	19,179	3.0%	(569)
Overdue above 120 days	28,912	80.6%	(23,313)
	292,561		(25,108)

Group

31 December 2018

SEK '000	Gross amount	Average loss rate	Impairment
Not past due	213,964	0.0%	-
Past due 0-30 days	33,331	0.4%	(118)
Past due 31-120 days	25,094	10.0%	(2,516)
Overdue above 120 days	15,080	90.3%	(13,611)
	287,469		(16,245)

*Movement in expected credit losses in respect of trade receivables***Group**

SEK '000	2019	2018
Balance 1 January	(16,245)	(21,489)
Net change during the year	(8,934)	(6,423)
Business acquisition	(2,049)	-
Amounts written off against trade receivables	4,815	9,801
Translation differences	(2,695)	1,866
Balance 31 December	(25,108)	(16,245)

LIQUIDITY RISK

The Group strives to maintain sufficient cash and cash equivalents to meet its operational needs and financial commitments.

The Group's treasury department monitors liquidity risk continuously and controls that financial liabilities are discharged on time, using a payment calendar tool. The treasury department performs annual, monthly and daily planning to control cash flows.

*Maturities of financial liabilities (including estimated interest payments)***Group**

SEK '000	Carrying amount	Contractual cash flows	31 December 2019						
			0-6 mths	6-12 mths	1-2 years	2-3 years	3-4 year	4-5 year	Over 5 years
Lease liabilities	267,866	306,060	61,893	56,090	111,392	55,200	11,298	8,892	1,295
Borrowings	844,576	903,625	313,580	368,144	47,877	66,357	107,667	-	-
Trade and other payables	836,052	836,052	836,052	-	-	-	-	-	-
	1,948,494	2,045,737	1,211,525	424,234	159,269	121,557	118,965	8,892	1,295

Group

SEK '000	Carrying amount	Contractual cash flows	31 December 2018			
			0-6 months	6-12 months	1-2 years	2-3 years
Finance lease liabilities	53,775	61,663	16,297	14,690	20,119	10,557
Trade and other payables	913,876	913,876	913,876	-	-	-
	967,651	975,539	930,173	14,690	20,119	10,557

The cash flows presented are not expected to occur significantly earlier or at significantly different amounts.

CURRENCY RISK

While most of the Group's sales and purchases are made in RUB, KZT, and EUR the Group is exposed to currency risk on purchases and borrowings that are denominated in other currencies. These transactions primarily occur in USD, GBP or SEK.

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

*Exposure to currency risk related to change of rate of USD, EUR, SEK, GBP against RUB and KZT***Group**

SEK '000	USD		EUR		SEK		GBP	
	2019	2018	2019	2018	2019	2018	2019	2018
Cash and cash equivalents	0	6,408	2,533	10,648	991	5,705	20,713	48,685
Trade and other payables	21,602	(178)	(9,174)	(24,335)	(47,326)	(15,253)	(22,759)	(94,963)
Net exposure	21,602	6,230	(6,641)	(13,687)	(46,335)	(9,548)	(2,046)	(46,278)

Applied exchange rates

IN RUB	Average rate		Reporting date spot rate	
	2019	2019	2018	2018
USD	64.7188	61.8234	62.6187	69.4791
GBP	82.5424	81.0491	83.5156	87.8901
EUR	72.4409	69.2319	73.8902	79.5807
SEK	6.8410	6.6355	7.2041	7.7449

Sensitivity analysis

A strengthening (weakening) of the RUB and KZT against other currencies would at 31 December 2019 have increased (decreased) profit or loss before taxes by the amounts shown below.

The analysis assumes that other variables, in particular interest rates, remain unchanged. The analysis was performed on the same basis for 2018.

	Strengthening	Weakening
31 December 2019		
USD (20% movement)	(4,320)	4,320
EUR (20% movement)	1,328	(1,328)
GBP (20% movement)	409	(409)
SEK (20% movement)	9,267	(9,267)

	Strengthening	Weakening
31 December 2018		
USD (20% movement)	(1,246)	1,246
EUR (20% movement)	2,737	(2,737)
GBP (20% movement)	9,256	(9,256)
SEK (20% movement)	1,910	(1,910)

INTEREST RATE RISK

The Group seeks to borrow funds at variable interest rates and is therefore exposed to interest rate risk during the term of its credit facilities. Part of the Group's borrowings are based on fixed interest rate. However, as is common in Russia, most of the

Group's credit agreements allow the banks to increase interest rates in case of exceptional changes in the key rate of the Russian Central Bank or exceptional economic circumstances.

Profile of interest-bearing financial instruments at the reporting date

The Group has fixed and variable rate borrowings and borrowings at rates calculated on the basis of the variable central bank key rate in the country of borrowing. These instruments are included in the table below.

Group

SEK '000	31 December 2019	31 December 2018
Fixed rate instruments		
Bank deposits	273,008	141,921
Borrowings	(844,576)	-
Lease liabilities	(267,866)	(53,775)
	(839,434)	88,146

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

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

CAPITAL MANAGEMENT

Debt to capital ratio

Group

SEK '000	31 December 2019	31 December 2018
Total liabilities	2,087,252	1,071,361
Cash and cash equivalents	(519,361)	(356,589)
Net debt	1,567,891	714,772
Total equity	890,342	655,940
Debt to capital ratio	1.76	1.09

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

Financial instruments subject to the above agreements

Group

SEK '000	Trade and other receivables	Trade and other payables
31 December 2019		
Gross amounts	39,755	634,617
Net amounts presented in the statement of financial position	39,755	634,617
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(17,759)	(17,759)
Net amount	21,996	616,858
31 December 2018		
Gross amounts	23,154	803,552
Net amounts presented in the statement of financial position	23,154	803,552
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(7,399)	(7,399)
Net amount	15,755	796,153

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

CARRYING VALUES AND FAIR VALUES

The carrying amounts of the Group's financial assets and liabilities as at 31 December 2019 approximate their fair values.

Offsetting financial assets and liabilities

The Group may at times enter into sales and purchase agreements with the same counterparty in its normal course of business. The related amounts receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This may be because the Group lacks a currently legally enforceable right to offset recognised amounts or because the right to offset may be enforceable only on the occurrence of future events. Under Russian law, an obligation can only be offset against a similar claim if it is due, has no maturity or is payable on demand.

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

NOTE 23 » LEASES*(a) Leases and lessee*

The following information is related to leases of the Group when the Group is a lessee.

The Group rents premises and facilities used for workshops, warehouses and offices. Right-of-use assets under IFRS 16 related to these rental contracts are presented in Note 11, Property, plant and equipment. Interest expenses on lease liabilities are disclosed in Note 9, Financial expenses. The future minimum lease payments are disclosed in Note 18, Borrowings.

The table below summarizes expenses relating to short-term leases and expenses relating to variable lease payments not included in the measurement of lease liabilities.

Group	
SEK '000	2019
Short-term lease of premises and facilities	6,430
Short-term lease of equipment	18,901
Variable lease payments	7,319
	32,650

The Group had no significant expenses relating to lease of low value assets. Total cash outflow for leases during 2019 amounted to SEK 91m.

The Group has an option to purchase one of its rented outlets for RUB 200m (increased by the rate of Russian inflation since the option became exercisable in September 2017).

NOTE 24 » CAPITAL COMMITMENTS

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

NOTE 25 » CONTINGENCIES*Taxation contingencies*

Significant changes to the Russian and Kazakh tax system have taken place in recent years as previous legislation regarding important taxes (e.g. corporate income tax, transfer pricing, taxing at source and VAT) has been gradually replaced. The application of the legislation is, in many aspects, still unclear. The application of established tax rules, such as existing double-taxation treaties, is also subject to regular review. Furthermore, the Russian tax authorities are generally aggressive in their interpretation of tax legislation and their enforcement and collection of tax.

*Operating lease expenses under IAS 17***Group**

SEK '000	2018
Lease of premises and facilities	36,778
Lease of equipment	12,511
	49,289

(b) Leases as lessor

The Group to some extent makes short-term and long-term operating leases of equipment to customers. The rental income during 2019 amounted to SEK 25m (21m during 2018).

The table below shows maturity analysis of lease payments receivable (not discounted):

Group

SEK '000	31 December 2019
Less than one year	16,379
	16,379

Russia's recent economic downturn did not improve the situation. Technical violations of contradictory laws and edicts may lead to severe penalties. In practice, the tax authorities often interpret legislation to the disadvantage of the taxpayers, which thus are required to turn to the courts to defend their positions. Consequently, the Group's tax liability may come to significantly exceed the amounts which thus far have been booked, paid or reported in the Group's financial statements. Additional tax liability, as well as unforeseen changes in Russian and Kazakh tax legislation, could have an adverse effect on the Group's business, result and financial position.

NOTE 26 » RELATED PARTY TRANSACTIONS*Control relationships*

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

At the end of the year, members of management and the Board controlled 36% of the shares and votes in the Parent Company (same as previous year).

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

SEK '000	2019		2018	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Services provided:				
Subsidiaries	19,320	14,940	14,785	14,769
Interest accrued:				
Subsidiaries	11	11	15,621	-
Equipment sold:				
Subsidiaries	125,870	66,141	159,347	36,244
	145,201	81,092	189,753	51,013

Expenses

SEK '000	2019		2018	
	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Interest payable:				
Subsidiaries	-	-	(4,193)	-
Cost of sales:				
Subsidiaries	(824)	(824)	-	-

Other balances

SEK '000	31 December 2019	31 December 2018
Contributions to subsidiaries	158,785	193,610
Loans to subsidiaries	2,627	-
	161,412	193,610

Services provided constitute compensation from subsidiaries to the Parent Company for usage of the Ferronordic trademark and compensation for sureties provided by the Parent Company to secure the subsidiaries' obligations. The outstanding balance as at 31 December 2019 represents accrued royalties under an intra-group trademark license agreement.

Transactions with employees

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

Remuneration to management is included in personnel costs and presented in Note 29.

Interest accrued relates to loans from the Parent Company to its subsidiary in Russia (repaid during the year).

Equipment sold relates to machines and parts from Dressta, Rottne and Mecalac purchased by the Parent Company and sold to the subsidiaries in Russia. Starting in 2020, the Parent Company will only sell machines and attachments to the subsidiaries in Russia and Kazakhstan, while parts will be imported directly by the Russian and Kazakh subsidiaries.

NOTE 27 » EVENTS SUBSEQUENT TO THE REPORTING DATE

On 20 December 2019, it was announced that Ferronordic and Volvo Group Trucks Germany had entered into final agreements to appoint Ferronordic dealer for Volvo and Renault Trucks in an area representing approx. 20% of the German market for heavy trucks. In connection herewith, Ferronordic acquired eleven sites within this area. Nine of these sites were operated by Volvo and were acquired through an asset deal. These assets were transferred to Ferronordic in January 2020. The assets were treated as prepayments on 31 December 2019, with SEK 71m of mostly real estate and improvements thereof in property, plant and equipment and SEK 25m of mostly parts inventories in prepayments. In January 2020 it has become known that the amount of property, plant and equipment transferred is SEK 4.2m higher, and the amount of inventory and cash transferred is SEK 3.4m lower. The outstanding balance to Volvo is SEK 0.9m. In this regard the Group did not make any adjustments to the consolidated statement of financial position as of 31 December 2019.

Except for this nothing that the Group is aware of has changed that requires disclosure in the financial statements.

On March 11, the WHO declared the outbreak of the novel coronavirus, COVID-19, a pandemic. The outbreak and the measures taken to slow down the spread of COVID-19 have caused extraordinary uncertainty across Ferronordic's markets. In late March, the Volvo Group, and several other producers, announced temporary suspension of production in response to a deteriorating demand outlook.

The suspension will negatively impact Ferronordic's supply of construction equipment in Russia and Kazakhstan and the supply of trucks in Germany. If protracted, the closures could also impact the supply of spare parts. Meanwhile, demand is likely to be negatively affected in Ferronordic's markets. The direct and indirect impact of the virus and the efforts to contain its spread on Ferronordic's operations and financial position cannot be assessed at this time.

NOTE 28 » INTERESTS IN GROUP COMPANIES

As of 31 December 2019, the Group consisted of the following legal entities:

Subsidiary	Corporate Identity Number	Country of incorporation	2019		2018	
			Ownership/ voting	Carrying amount	Ownership/ voting	Carrying amount
Ferronordic AB	556748-7953	Sweden	Parent Company	-	Parent Company	-
Ferronordic Machines LLC		Russia	100%	137,837	100%	192,536
Ferronordic Machines Arkhangelsk LLC		Russia	100%	12,566	100%	12,566
Ferronordic Torgovaya Kompaniya LLC		Russia	100%	2	100%	2
Ferronordic Torgoviy Dom LLC		Russia	100%	981	100%	981
Ferronordic Kazakhstan LLP		Kazakhstan	100%	14,114	100%	91
Ferronordic Germany Holding AB		Sweden	100%	5,844	-	-
Ferronordic GmbH		Germany	100%	26,389	-	-
Ferronordic Immobilien GmbH		Germany	100%	1,054	-	-
Auto-Haas GmbH		Germany	100%	27,466	-	-
Auto-Haas Charter GmbH		Germany	100%	10,875	-	-
				237,128		206,176

NOTE 29 » EMPLOYEES, BOARD AND MANAGEMENT*(a) Number of employees (average)*

	2019	of which female	2018	of which female
Parent Company – Citizenship				
Sweden	2	50%	2	50%
Total in Parent Company	2	50%	2	50%
Subsidiaries – Citizenship				
Russia	1,105	13%	875	14%
Sweden	2	0%	2	0%
Ukraine	1	0%	2	0%
Kazakhstan	23	27%	1	100%
Belarus	2	50%	1	0%
UK	1	0%	1	0%
Turkey	1	0%	1	0%
Total in subsidiaries	1,135	13%	883	14%
Total Group	1,137	13%	885	14%

(b) Breakdown between men and women in management

	Group		Parent Company	
	Female representation		Female representation	
	2019	2018	2019	2018
Board	17%	17%	17%	17%
Management	10%	11%	0%	0%

(c) Personnel costs

	2019		2018	
	Salaries and other remuneration	Social security expenses	Salaries and other remuneration	Social security expenses
SEK '000				
Parent Company	5,259	2,545	5,257	2,821
(of which pension costs)		1,165		1,374
Subsidiaries	308,368	68,299	237,858	51,450
(of which pension costs)		36,884		25,918
Total	313,627	70,844	243,115	54,271
of which pension costs	-	38,049	-	27,292

The Parent Company's personnel costs include remuneration to the members of the Board.

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

The members of the Board and management in the Parent Company, the subsidiaries and the Group in 2019 amounted to 9 (9), 9 (8) and 15 (15), respectively.

	2019		2018	
	Board and management	Other employees	Board and management	Other employees
SEK '000				
Parent Company	4,894	365	5,018	239
(of which bonuses)	574	50	1,288	-
Subsidiaries	34,224	274,144	27,242	210,616
(of which bonuses)	15,003	108,019	10,073	85,189
Total	39,118	274,509	32,260	210,855
(of which bonuses)	15,577	108,069	11,361	85,189

(d) Remuneration to the Board

Remuneration paid to the Board in 2019 amounted to SEK 1.9m (1.7m). The AMG 2018 resolved that the remuneration to the Board should be paid in an amount of SEK 1.8m. Of this SEK 600,000 should be paid to the chairman and SEK 300,000 to each of the other Board members, except Lars Corneliusson who is employed by the Group. No additional remuneration is paid for work on the board committees.

Remuneration to the Board (SEK '000)

Name	2019	2018
Staffan Jufors	600	600
Magnus Brännström	300	300
Lars Corneliusson	-	-
Erik Eberhardson	449	151
Håkan Eriksson	300	300
Annette Brodin-Rampe	300	300
Total	1,949	1,651

(e) Remuneration to management

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

The CEO's remuneration in 2019 amounted to SEK 11,653,000. The right to pension contributions amounts to 12% of the fixed gross salary.

Management

Name	2019	2018
Nadezhda Arzumanova	full year	full year
Anders Blomqvist	till February	full year
Henrik Carlborg	full year	full year
Lars Corneliusson	full year	full year
Erik Danemar	from May	-
Onur Gucum	full year	full year
Andrey Korneev	full year	from November
Alexander Shmakov	full year	full year
Jonathan Tubb	full year	full year
Anton Zhelyapov	full year	full year

Remuneration to CEO and other executives

SEK '000	2019			2018		
	CEO	Other executives	Total	CEO	Other executives	Total
Fixed salary	6,092	15,657	21,749	5,186	14,361	19,547
Variable salary	4,833	10,744	15,577	4,535	6,826	11,361
Pension costs	728	53	781	702	420	1,122
Total	11,653	26,454	38,107	10,423	21,607	32,030

NOTE 30 » AUDITORS' FEES AND EXPENSES

SEK '000	Group		Parent Company	
	2019	2018	2019	2018
KPMG				
Audit assignments	1,558	1,595	906	775
Other assignments	61	73	-	-
	1,619	1,668	906	775

NOTE 31 » EARNINGS PER ORDINARY SHARE

The calculation of earnings per ordinary share is based on the result attributable to holders of ordinary shares and thus is calculated as the result for the year, less dividends on preference shares related to the period,

divided by the average number of ordinary shares outstanding. Basic and diluted earnings per share are the same for the Group, as it currently has no dilutive instruments outstanding.

(a) Result attributable to holders of ordinary shares

SEK '000	2019	2018
Result for the year	250,819	209,116
Dividends on preference shares required for the year	-	(3,093)
Difference between redemption price and carrying value of preference shares	-	(13,966)
Result attributable to holders of ordinary shares	250,819	192,057

(b) Average number of ordinary shares

	2019	2018
Number of ordinary shares		
Ordinary shares outstanding 1 January	14,532,434	14,532,434
Impact of issue of ordinary shares	-	-
Impact of conversion of preference shares	-	-
Weighted-average number of ordinary shares during the year	14,532,434	14,532,434

NOTE 32 » ACQUISITION OF SUBSIDIARY

On 12 September 2019, Ferronordic announced intentions to expand to Germany as dealer for Volvo Trucks and Renault Trucks and plans to take over nine workshops from Volvo in certain parts of Germany from January 2020.

On 19 December 2019, Ferronordic GmbH, a Group subsidiary established in Germany, thus acquired 100% of the shares in Auto-Haas GmbH, obtaining control in the Company. Auto-Haas is a dealer for Volvo and Renault Trucks, as well as Volvo Cars, and also manages a trucks rental fleet. It operates two workshops in Magdeburg and Dessau.

The acquisition of the two sites is part of Ferronordic's strategy to grow and improve the service and sales network in Germany. The area of the Auto-Haas workshops and its customer base fits well in the area that Ferronordic is taking over from Volvo and

Ferronordic sees benefits and potential synergies from combining the business of Auto-Haas with the business to be taken over by Volvo, supporting further growth and profitability.

The consideration consists of a cash transfer in the amount of EUR 3.3m (SEK 34.9m) and a contingent consideration of EUR 0.5m (SEK 5.2m), booked as other debt, which will be paid in part or in full by July 2020. The purchase price is based on Auto-Haas net asset value as at the end of November, with a goodwill paid for the potential synergies and intangible assets Ferronordic sees in the integration of the business into Ferronordic's German operations. The contingent consideration is subject to adjustment in 2020 and will depend on the book values of the acquired assets per 31 December 2019. The Group believes that the contingent consideration will not change significantly.

Consideration	SEK '000
Cash	34,931
Liability	5,232
Consideration total	40,163

The Group believes that the book value of the assets (including provisions) acquired and liabilities assumed represent their fair value. The fair value of receivables at the date of acquisition was EUR 1.5m (SEK 15.6m), which is derived from a gross amount EUR 1.7m (SEK 17.7m), reduced by the provision for expected credit losses of EUR 0.2m (SEK 2.1m).

Net assets	SEK '000
Property, plant and equipment	98,137
Inventories	22,865
Trade and other receivables	15,571
Cash and cash equivalents	14,118
Borrowings	(67,698)
Deferred tax assets/(liabilities) (net)	(2,909)
Trade and other payables	(27,572)
Provisions	(4,412)
Lease liabilities	(10,544)
Net assets	37,556

Costs related to the acquisition in the amount of SEK 2.8m have been included in “general and administrative expenses” in the condensed consolidated statement of comprehensive income.

Goodwill	SEK '000
Consideration total	40,163
Fair value of net assets acquired	(37,556)
Goodwill	2,607

The revenue and result of the acquired subsidiary included in the consolidated statement of comprehensive income from the time of acquisition up to the reporting date was EUR 0.9m and EUR 0.1m, respectively (SEK 10.0m and 0.6m). If the acquisition had taken place at the beginning of the reporting period (1 January 2019), the combined revenue of the Group would be EUR 25.8m (SEK 273.0m) higher, and the result would be EUR 0.4m (SEK 4.7m) higher.

The Group believes that the provision is an adequate evaluation of cash receivables not expected to be collected. Most of the receivables are from customers.

The following table details the recognised amounts of assets acquired and liabilities assumed in the transaction.

Net cash outflow	SEK '000
Cash consideration transferred	34,931
Cash acquired	(14,118)
Net cash outflow	20,813

Goodwill was recognised in the acquisition at EUR 0.2m (SEK 2.6m). Goodwill is not expected to be deductible for tax purposes.

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 14 April 2020. 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 25 June 2020.

Stockholm, 14 April 2020

Staffan Jufors
Chairman

Annette Brodin Rampe
Director

Magnus Brännström
Director

Lars Corneliusson
Director

Erik Eberhardson
Director

Håkan Eriksson
Director

Lars Corneliusson
Managing Director

Our audit report was submitted on 14 April 2020

KPMG AB

Mattias Lötborn
Authorised Public Accountant

Auditor's Report

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Ferronordic AB (publ) for the year 2019.

The annual accounts and consolidated accounts of the company are included on pages 30-39 and 48-105 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. A corporate governance report have been issued and can be found on pages 30-39 in the annual report. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

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

Basis for Opinions

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

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

Key Audit Matters

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

Valuation of inventory

See disclosure 14 and accounting principles on page 77 in the annual account and consolidated accounts for detailed information and description of the matter.

Description of key audit matter

The consolidated statement of financial position includes inventory amounting to SEK 1 289m as at 31 December 2019. Inventory represents 43% of total assets.

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

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

Response in the audit

We have performed the following substantive procedures:

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

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

Valuation of accounts receivables

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

Description of key audit matter

Consolidated statement of financial position includes accounts receivables amounting to SEK 267m after provision for bad debts by SEK 23m as at 31 December 2019.

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

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

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

Response in the audit

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

We have performed the following substantive audit procedures in relation to valuation of trade receivables as at 31 December 2019:

- We have reviewed the Group's provision for doubtful receivables per 31 2019, based upon estimated credit losses in accordance with the requirements as stipulated by IFRS 9. We have also reviewed the historical outcome of credit provisions and credit losses in order to assess the reliability of the provision for doubtful debts of A/R per the balance sheet date.
- Review of ageing list of receivables as at 31 December 2018 to verify its accuracy and completeness;
- We examined significant balances overdue more than 90 days at reporting date, but not included in the provision and investigated reasons for non-inclusion.
- We have also considered effect of payments from customers received after year end on valuation of trade receivables as at 31 December 2019
- Retrospective review of the provision recognised as at 31 December 2018 by comparing the amount of provision to actual outcome to obtain information regarding the effectiveness of Group's estimation process and identify potential bias

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

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-29 and on pages 40-47.

The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

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

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

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

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

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Ferronordic AB (publ) for the year 2019 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor's responsibility

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

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

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

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

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 55-62 has been prepared in accordance with the Annual Accounts Act.

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

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

The auditor's opinion regarding the statutory sustainability report

The Board of Directors is responsible for the sustainability report on pages 30-39, and that it is prepared in accordance with the Annual Accounts Act.

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

A statutory sustainability report has been prepared.

KPMG AB, Box 382, 101 27, Stockholm, was appointed auditor of Ferronordic AB (publ) by the general meeting of the shareholders on 13 May 2019. KPMG AB or auditors operating at KPMG AB have been the company's auditor since 2010.

Stockholm 14 April 2020

KPMG AB

Mattias Lötbörn
Authorized public accountant

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