

# 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**

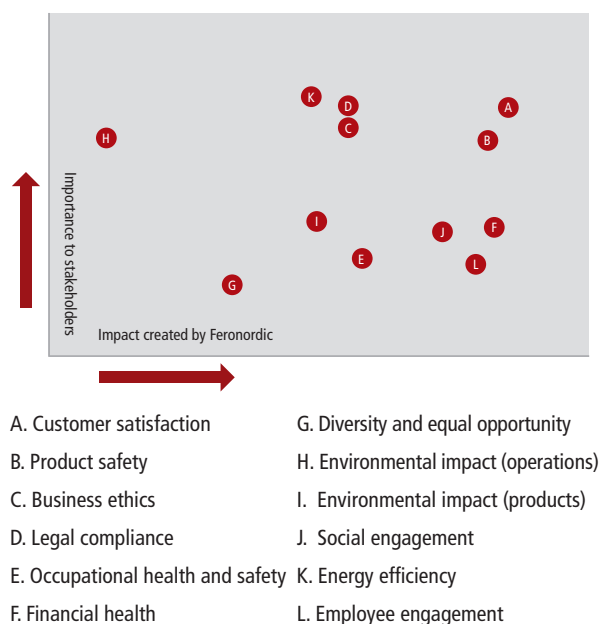
Ferronordic's main stakeholders are the following:

- 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.



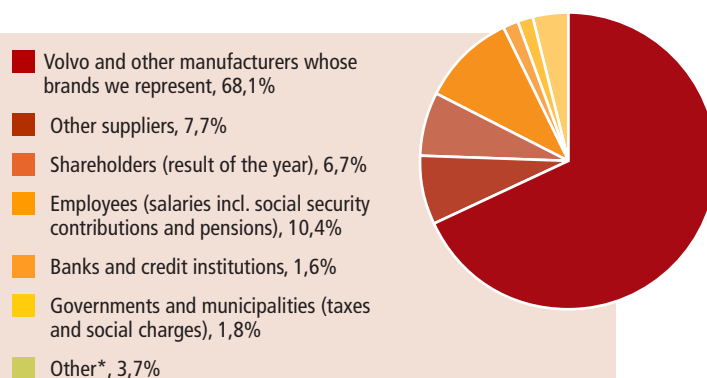
## Economic **impact**

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:



\*Other includes items that cannot be attributed to individual stakeholders, mainly relating to depreciation, impairment and foreign exchange differences.

## Customer **satisfaction**

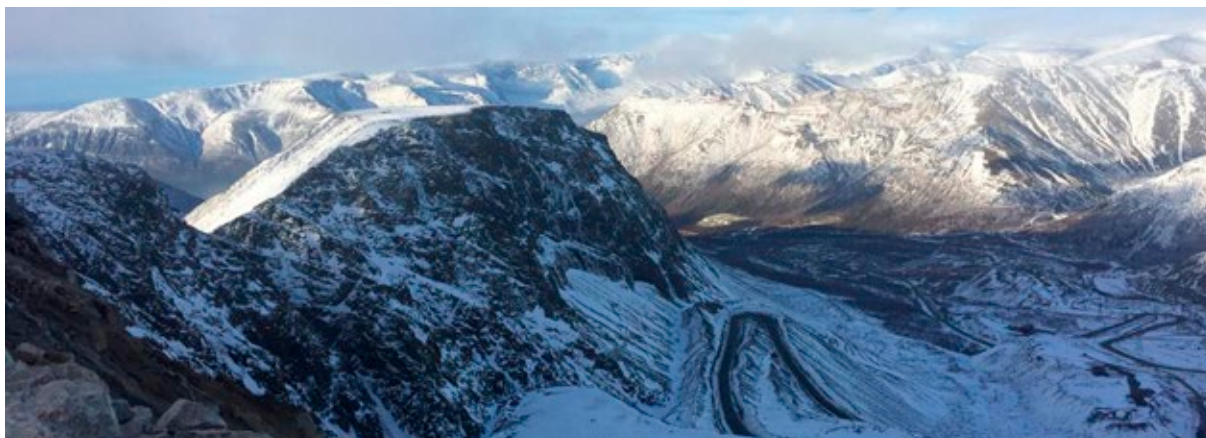
Customer satisfaction is one of our most important sustainability factors. For a company like Ferronordic, customer satisfaction is crucial to build credibility, trust and strong long-term relationships with both customers and manufacturers.

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.

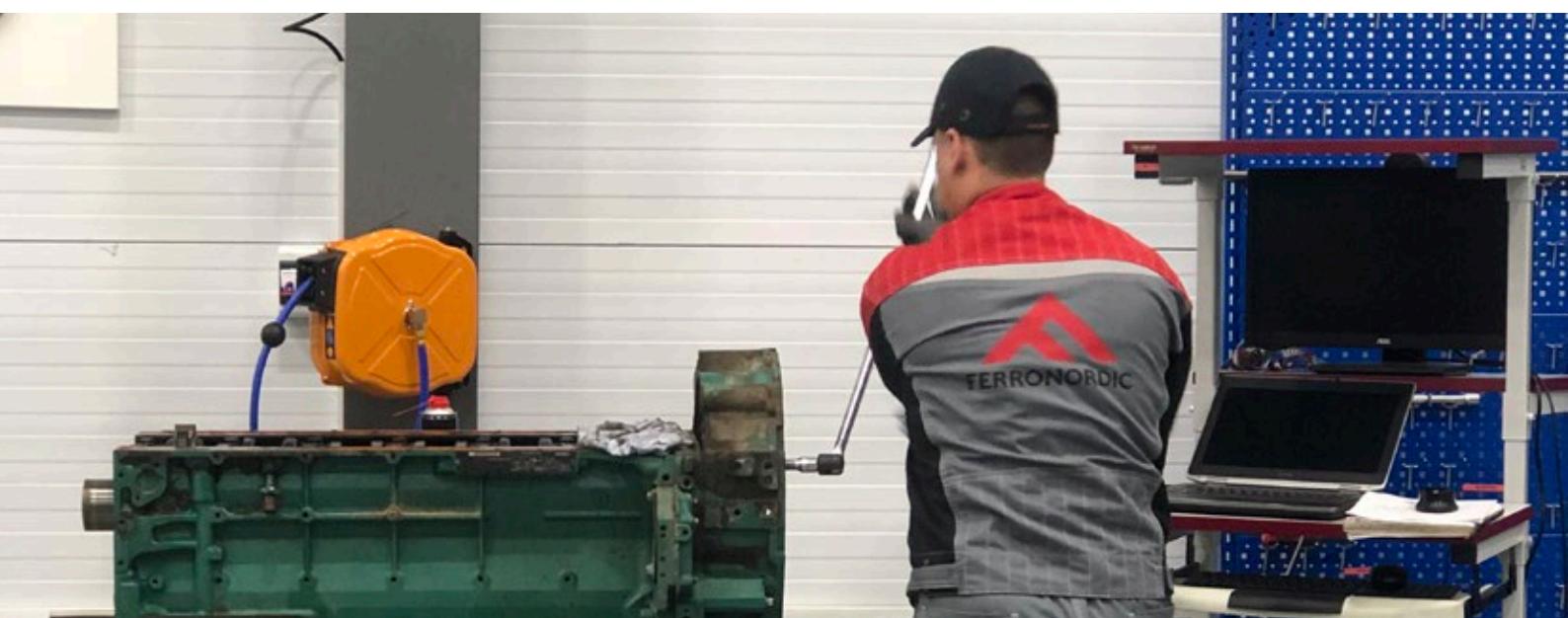
Our certified rebuild program and our newly established component rebuild center in Ekaterinburg allow for extension of the lives of machine fleets and recycling of components and parts that might otherwise be scrapped as waste. The center will repair used machines, rebuild worn out components and utilise 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.