

# Sustainability

## **SUSTAINABILITY IS ABOUT TRUST**

It is embedded in everything we do, either consciously or subconsciously. It is not just a nice word, but an essential part of our work to constantly improve and make our business more efficient.

## **OUR SUCCESS IS DEPENDENT ON THE SUCCESS OF OUR CUSTOMERS**

By providing qualitative, fuel-efficient and safe machines, and ensuring that they work when and where they should, we contribute to our customers' long-term success. At the same time, we build a sound basis for a sustainable and profitable business going forward. This also helps us to develop and maintain long-term relations with Volvo and other partners, based on mutual trust, which further benefit our business and improve our ability to provide even better support to our customers.

## **TO CONTRIBUTE TO THE SUCCESS OF OUR PARTNERS, 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. 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 2018 and will be equally important for our business going forward.

## **WE DO NOT ACCEPT CORRUPTION**

In markets where corruption is common, this raises trust in our company and the brands we represent and thus increases our long-term competitiveness – both as a provider of products and services and as an employer.

## **THE IMPORTANCE OF SUSTAINABILITY IS GROWING ALSO IN RUSSIA AND KAZAKHSTAN**

To grow sales, we, together with our partners, must be able to offer products with lower environmental footprint and continuously improved safety for our customers. Given the focus on increased electrification and sustainability that exists among our suppliers, particularly Volvo, I am convinced that we will be able to live up to these expectations.



*Lars Corneliusson, CEO*



# Stakeholders and **materiality**

Ferronordic’s main stakeholders are the following:

- 1) Customers
- 2) Manufacturers
- 3) 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, manufacturers, shareholders and employees.

In this report, we have tried to identify the areas where Ferronordic has most significant economic, environmental and social impacts, 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.



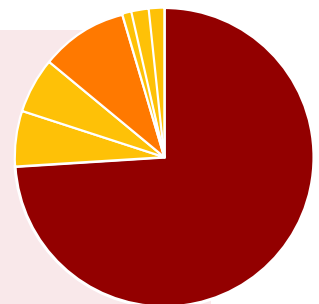
- |                                   |                                      |
|-----------------------------------|--------------------------------------|
| A. Customer satisfaction          | G. Diversity and equal opportunity   |
| B. Product safety                 | H. Environmental impact (operations) |
| 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 2018, we delivered 948 new machines throughout Russia. At the same time, we continued to service the existing population of active Volvo machines in the country of about 11,000 units and a large number of Volvo and Renault Trucks. These machines and trucks continuously support our customers’ profitability by engaging them to meet their customers’ needs. At the same time, we create additional value for the manufacturers 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.

During 2018, our revenue amounted to SEK 3,241m (SEK 2,567m in 2017). The bulk of this was distributed among our stakeholders:

- Volvo and other manufacturers, 74%
- Other suppliers, 6%
- Shareholders (result of the year), 6%
- Employees (salaries, incl. social security contributions and pensions), 9%
- Banks and credit institutions, 1%
- Governments and municipalities (taxes and social charges), 2%
- Other\*, 2%



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

## Customer **satisfaction**

Customer satisfaction is our most important sustainability factor. For a company like Ferronordic, customer satisfaction is crucial to build sustainable relationships with customers and manufacturers.

Partly we achieve this by providing high-quality machines in combination with high parts availability and good and reliable service. Simply, we make sure that our customers' machines work when 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.

We monitor customer satisfaction regularly, e.g. by systematic complaints management. Other important tools are Volvo CE's regular surveys regarding customer satisfaction and brand image.



## 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 maximize productivity and reduce environmental

impact. Machine operators are thoroughly trained to operate machines efficiently and various control mechanisms have been implemented to minimize unnecessary fuel consumption.

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 consists of old machines with suboptimal fuel-efficiency. By replacing these machines, we contribute to a better environment in Russia in general. We also use machine data from the machines' telematics systems to detect inefficient machine usage and make proactive offers to our customers how they can improve their fuel efficiency.

Compliance with legal and other applicable environmental standards is a requirement included in our Code of Conduct. No breaches of authorisation conditions or environmental legislation occurred in 2018 (in 2017 a minor non-observance took place that resulted in a minor fine).

## Social impact – **employees**

At the end of 2018 we employed 1,032 people in 79 locations (compared to 848 employees in 74 locations at the end of 2017). Our aim is to have the right number of people with the right competencies in the right place at the right time, at the right cost. The average age of our employees at the end of 2018 was 36 years (same as 2017). About 14% of our employees are female (compared to 15% the year before).

Employees are encouraged to take part in the continuous improvement of our operations, including business development and strategy. According to our latest survey, 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, in 2016). Our employees were crucial for our success in 2018 and will be equally important for the continued improvement of our operations.

We prefer 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 2018, we made 163 internal promotions (compared to 107 in 2017), including to various management positions. For example, Andrey Korneev, Director Contracting Services and Key Accounts, became a member of management, Nikita Pshenichniy was promoted from Branch Manager to Managing Director Far East, and Yuriy Deinekin was promoted from Commercial Aftermarket Director to Managing Director Kazakhstan.

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

## Social impact – **manufacturers and suppliers**

We cooperate with manufacturers and other suppliers that share our values. For the Volvo Group, which represents 90% of our 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 (see Volvo's 2018 annual- and sustainability report for further information).

As regards the 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.

## Training and **education**

Part of our work to build sustainable development is the significant investment we make in training and development of our employees. In 2018, we provided about 52,000 hours of training to our employees, compared to about 49,000 in 2017.

The aim is to utilize internal competence and give employees the opportunity to develop and take greater responsibility within the company – while at the same time empowering local employees.

## 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.

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

## 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. Each individual manager and employee is responsible for sustaining a safe working environment. However, we share this 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 the organisation.

The company-wide program to underline the importance of labor safety that was launched in 2017 continued through 2018. Additional trainings have

been implemented and health and safety aspects are now an integrated part of the regular assessment tests for our mechanics.

One serious work-related accident occurred in 2018 which required hospitalisation but fortunately did not result in long-term consequences for the employee (in 2017, one serious accident occurred which unfortunately did result in disability for the employee). No work-related fatalities occurred in either 2018 or 2017.

The number of reported days of sick leave during 2018 was 2,292, which was marginally more than 2,237 days of sick leave reported in 2017. However, the average days of sick leave per employee decreased from 2.6 days per year to 2.1 days per year.



## Anti-**corruption**

We have zero tolerance for bribery and corruption. This is not only to comply with applicable law. On our markets, this also makes Ferronordic a more attractive employer and a reliable partner for the manufacturers whose brands we represent. It 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 2018, all employees except for some machine operators in our contracting services operations

participated in the anti-corruption training. An updated Code of Conduct with simplified and clearer rules of what is expected of us in different areas was implemented in 2017.

# Shares and shareholders

Since the redemption of the last preference shares in the second quarter of 2018, Ferronordic Machines 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 2018, the company had approx. 1,500 shareholders. The shares are listed on Nasdaq Stockholm under the ticker "FNM".

## Larger shareholders 31 December 2018:

	Number of shares	Share of capital	Share of votes
Skandinavkonsult i Stockholm AB*	2,260,774	15.6%	15.6%
Falkstenen AB	1,193,000	8.2%	8.2%
Scandsib Group Ltd**	1,082,205	7.4%	7.4%
Lars Corneliussen (through companies)	935,749	6.4%	6.4%
Man GLG Partners LLP	824,591	5.7%	5.7%
Avanza Pension	531,637	3.7%	3.7%
Swedbank Robur	521,053	3.6%	3.6%
Anders Blomqvist (through companies)	510,410	3.5%	3.5%
Unionen	500,000	3.4%	3.4%
Fastighets AB Arwidsro	487,292	3.4%	3.4%
Other shareholders	5,685,723	39.1%	39.1%
<b>Total</b>	<b>14,532,434</b>	<b>100.0%</b>	<b>100.0%</b>

\*Associated person of Håkan Eriksson

\*\*Associated person of Erik Eberhardson

