Ferronordic Machines AB

Annual Report 2010

Contents

Directors' Report

The Board of Directors of Ferronordic Machines AB, reg. no. 556748-7953, hereby present their annual report and consolidated financial statements for the financial year 2010. In addition, the parent company's financial year has been extended to 18 months and covers the period from July 1 2009 to 31 December 2010. For the previous financial year, 1 January 2008 to 30 June 2009, the parent company was a dormant entity. All amounts in EUR millions unless otherwise stated.

The business

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

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

Volvo Construction Equipment operates in Russia in the following industries:

- Oil and gas
- Mining
- Forestry
- Road construction
- General construction

Activities in 2010

The period including 2010, represented the Groups' first operational period. The VCE business commenced sales in June 2010. Actual units sold and revenues from sales exceeded the business plan. The construction equipment market in Russia continued to recover from a severe contraction during the previous year.

Net sales

Consolidated net sales for the period were EUR 73.9 million.

Operating profit/loss

The operating profit for the year was EUR 12.9 million.

Earnings after financial items

The net financial cost was EUR 1.2 million. Earnings after financial items were EUR 11.8 million.

Earnings after tax

The income tax benefit for the year was EUR .8 million. The positive income tax benefit reported for the period was due to the recognition of deferred tax assets in Russia of EUR 1.0 million. Earnings after tax for the period were EUR 12.7 million.

Acquisitions

In May 2010, the Group acquired the Volvo Construction Equipment (VCE) distribution business in Russia and became the exclusive dealer by acquiring inputs such as customer lists, manuals, inventories, fixed assets, license to represent Volvo in Russia and franchise agreement and processes such as policies and procedures and an assembled workforce, including key employees and regular staff. The acquired inputs and processes have enabled the Company to sell and service Volvo construction equipment without interruption after having assumed control over the distribution business.

The Company did not receive the financial records of the activity of the Volvo Construction Equipment distribution business for the periods prior to acquisition. The results were shown in the consolidated results of Volvo Construction Equipment and Volvo consolidated financial results. It is therefore not practical for the Company to provide an estimate of revenues and earnings for the period prior to the acquisition.

The Group began operations of the VCE business on 1 June 2010. All of the revenues for the period occurred from 1 June 2010 to 31 December 2010.

Negative goodwill of EUR 18.6 million was recognized in the results from operating activities as a result of the acquisition. The Negative goodwill represents that excess of the fair values of the identified tangible and intangible assets acquired over the cash paid and liabilities assumed in the transaction. The main intangible assets acquired were the customer relationship and the franchise agreement. The main tangible assets acquired were machine and spare parts inventories.

See note 5 to the consolidated financial statements.

Regional markets

(ii) Operations in Russia

During the period the North West region and Central regions have had the highest level of sales. There is currently standard pricing and similar margins throughout Russia. The Group continues to monitor whether any significant differences between the regions begins to appear.

Cash flow and investments

Cash flow from operating activities was EUR 6.2 million. Cash flow from investing activities was EUR (21.9) million. Cash flow from financing activities was EUR 36.8 million and the cash flow for the period was thus EUR 20.8 million.

Financial position

Consolidated cash and cash equivalents at 31 December 2010 were EUR 20.8 million. At 31 December the company had interest-bearing liabilities of EUR 24.8 million.

The amount of current loan to group companies was EUR 20.8 million.

The amount of loans and borrowings was 24.8 million

Equity at the end of the period was EUR 22.6 million, representing an equity/assets ratio of 23.8 per cent.

Employees

Employees as of 31December 2010:		Nationality	
	Total	Russian	Other
Total	326	322	4
Average	203	201	2
Average number of male	156	-	-
Average number of female	47	-	-

Competence development

The Group's provides training to all of its employees. Extensive training is provided to service technicians and the sales force. A significant portion of the training materials are now provided on line through the computer and most have been translated into Russian. Volvo provides and updates much of the training materials.

Recruitment

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

Code of Conduct

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

Significant risks and uncertainties

In its operations, the Group is exposed to various types of risk, both operational and financial. Operational risks are associated with day-to-day operations relating to economic activity, tendering, capacity utilisation, price risks and revenue recognition. The Group is now recruiting to meet the increase in demand as it expands. Due to the Japanese earthquake there are shortages of some machines and parts. Fulfilling demand for short term customer financing of machines, parts and services and maintaining proper stock levels will require borrowings and extended payment terms to maintain adequate working capital levels.

Financial risks arise from the amount of capital tied up and the company's capital requirements. The Group is exposed to greater operational risks than financial risks.

Risk management

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

Operational risks

Economic activity

Fluctuations in the economy and government spending affect the construction equipment sector, which is sensitive to market fluctuations and political decisions that can have an impact on demand for residential and commercial new builds and investments in industry and infrastructure. Demand for service and parts are not as sensitive to fluctuations in the economic cycle.

Capacity utilisation

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

Price risks

VCE and the Group work closely together on monitoring market process and market shares and addressing the prices the Group pays for machines and parts. Unforeseen variations in other input prices and prices charged by VCE constitute a risk. The Group believes that the acquisition pricing arrangement with VCE constitutes an improved methodology to share and to offset the risk of rising prices through the partnership with VCE the Groups main supplier.

Revenue recognition

The Group recognises revenue from sales when goods are delivered and risk of ownership has transferred to the buyer.

Insurances

In Sweden, The Group has adequate insurance cover for its operations, comprising liability, contract and property insurance.

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

Financial risks

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

Material disputes

There have been no material disputes during the period in the Group.

Outlook

The Group has been able to acquire and operate the VCE business successfully for 2010 and 2011 to date. Revenues have exceeded budgeted amounts for 2010 and the first quarter of 2011. Recruitment of qualified and skilled individuals continues as the Group expands its physical coverage in Russia. Indications are that the construction equipment market is robust and continues to grow. The Russian economy continues to expand and is assisted by oil price levels.

Public-sector investment continues to grow and is being funded.

The Group believes it is in a strong position to achieve the goals and objectives set forth in its short range and long range business plans.

Ownership

The Company's Shareholders are:

Russian CE Distribution Investors LLC (Noonday)	42.9%
Investment AB Öresund	12.2%
Mellby Gård AB	12.2%
Ferronordic Machines Holdings Ltd	11.0%
Fastighetsaktiebolaget Granen	4.9%
AltoCumulus	3.6%
Anista Sárl	3.6%
Ferronordic Group Ltd	3.6%
Board of Directors	2.4%

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Others	3.7%
Total	**100%**

The Initial net equity contribution amounted to EUR 13.1 million. In addition, the Investors have loaned the Group EUR 24.8 million via an Investor Loan Facility Agreement.

The work of the Board of Directors

In 2010, the Board convened on 12 occasions. The Board addressed strategic issues, business plans, financial statements, expansion plans and other significant events. Reporting on the activities and financial positions of the company and Group has been a standing agenda item. The Board's work has continued to be focused on further improving the profitability of the Group's operations.

Parent company

The parent company's financial year has been extended to 18 months and covers the period from July 1 2009 to 31 December 2010. For the previous financial year, 1 January 2008 to 30 June 2009, the parent company was only a dormant entity.

During the year the Group acquired the Volvo Construction Equipment Business. The Parent Company acquired certain License rights from VCE which it sub licenses to Ferronordic Machines LLC. In addition, the Parent Company received an Investor Loan and provided an intercompany loan to Ferronordic Machines, LLC. The parent company had two employees.

Revenue for reporting period is EUR 292 thousand.

Administrative expenses for reporting period is EUR 1,069 thousand.

Cash flow for the reporting period is positive and in amount of EUR 993 thousand.

As of reporting date 31 December 2010 the Parent company's Net assets is EUR 12,108 thousand.

Events after the balance sheet date

After the end of the reporting period the following events have occurred.

A correction of an error in the intercompany loan agreement was made by amendment.

A credit facility was received from TransCreditBank.

See note 27 to the consolidated financial statements

In addition, on 1 March 2011, Mr. Lars Corneliusson joined the company. From 1999–2011 he was employed by the Volvo Group as Managing Director, Volvo Vostok, Russia, and President, Volvo Trucks Russia.

The Group has decided that it will not pursue the automobile business.

Proposed allocation of profit

The Board proposes that the parent company's non-restricted equity of EUR 12,108,000 be allocated as follows:

Dividend EUR 0

Carried forward EUR 12,108,000

Total EUR 12,108,000

For more information about the company’s results and financial position, see the following income statements and balance sheets and the notes to the accounts.

Consolidated statement of comprehensive income

	Note	For the period from 14 December 2009 to 31 December 2010
		EUR '000
Revenue	6	73,943
Cost of sales		(65,397)
Gross profit		8,546
Administrative expenses	7	(12,409)
Negative goodwill	5	18,609
Other income		66
Other expenses	8	(1,828)
Results from operating activities		12,984
Finance income	9	294
Finance costs	9	(1,492)
Net finance costs		(1,198)
Profit before income tax benefit		11,786
Income tax benefit	10	990
Profit for the period		12,776
Other comprehensive income		
Exchange differences on translating to presentation currency		(824)
Other comprehensive income for the period, net of income tax benefit		(824)
Total comprehensive income for the period		11,952
Profit attributable to:		
Owners of the Company		12,776
Non-controlling interests		
Profit for the period		12,776
Total comprehensive income attributable to:		
Owners of the Company		12,776
Non-controlling interests		-
Total comprehensive income for the period		12,776

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Consolidated Balance Sheet

EUR ’000	Note	31 December 2010
ASSETS		
Non-current assets		
Intangible assets	12	24,877
Property, plant and equipment	11	4,116
Deferred tax assets	13	-
Total non-current assets		28,993
Current assets		
Inventories	14	28,921
Other investments		744
Trade and other receivables	15	15,374
Prepayments		87
Other assets		4
Cash and cash equivalents	16	20,776
Total current assets		65,906
Total assets		94,899

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Consolidated Balance Sheet

	Note	31 December 2010
		EUR ’000
EQUITY AND LIABILITIES		
Equity	17	
Non-restricted share capital		95
Additional paid in capital		10,537
Retained earnings		12,776
Translation reserve		(824)
Total equity attributable to equity holders of the Company		22,584
Total equity		22,584
Non-current liabilities		
Loans and borrowings	18	24,766
Deferred income	19	172
Deferred tax liabilities	13	3,333
Long-term portion of finance lease liabilities	18	1,258
Total non-current liabilities		29,529
Current liabilities		
Loans and borrowings	18	-
Trade and other payables	21	40,818
Deferred income	19	688
Provisions	20	998
Short-term portion of finance lease liabilities	18	282
Total current liabilities		42,786
Total liabilities		72,315
Total equity and liabilities		94,899
Pledged Assets and Contingent Liabilities		
Pledged Assets		-
Contingent Liabilities		613

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Consolidated statement of changes in equity

EUR ’000	**Attributable to equity holders of the Company**				
For the period from 14 December 2009 to 31 December 2010	**Share capital**	**Additional paid in capital**	**Retained earnings**	**Translation reserve**	**Total equity**
Total comprehensive income for the period					
Profit/(loss) for the period	-	-	12,776	-	12,776
Other comprehensive income					
Exchange differences on translating to presentation currency	-	-	-	(824)	(824)
Total other comprehensive income	-	-	-	(824)	(824)
Total other comprehensive income for the period	-	-	12,776	(824)	11,952
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Share capital contribution	95	-	-	-	95
Share Premium Reserve	-	10,537	-	-	10,537
Total contributions by and distributions to owners	95	10,537	-	-	10,632
Balance at 31 December 2010	95	10,537	12,776	(824)	22,584

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Consolidated cash flow statement

	Note	For the period from 14 December 2009 to 31 December 2010
		EUR ’000
Cash flows from operating activities		
Profit for the period		11,785
Adjustments for:		
Depreciation and amortisation	11, 12	2,907
Negative goodwill	5	(18,609)
Loss on disposal of property, plant and equipment		26
Net finance costs	9	1,210
Foreign exchange losses less gains		182
Income tax benefit		-
Cash (used in) operating activities before changes in working capital and provisions		(2,499)
Change in inventories		(15,964)
Change in trade and other receivables		(14,831)
Change in prepayments for current assets		(87)
Change in trade and other payables		39,731
Change in provisions and employee benefits		704
Change in deferred income, including government grants		604
Cash flows from operations before interest paid		7,658
Interest paid		(1,504)
Net cash from operating activities		6,154
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment		212
Interest received		294
Acquisition of property, plant and equipment		(2,487)
Acquisition of intangible assets	12	(184)
Acquisition of other investments		(746)
Acquisition of business		(18,986)
Net cash (used in) investing activities		(21,897)

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Cash flows from financing activities		
Proceeds from issue of share capital		95
Proceeds from borrowings		24,844
Contributions of shareholders		10,267
Net leasing financing received		1,544
Net cash from financing activities		36,750
Net increase/(decrease) in cash and cash equivalents		21,007
Cash and cash equivalents at 14 December 2009		-
Effect of exchange rate fluctuations on cash and cash equivalents		(231)
Cash and cash equivalents at 31 December 2010	16	20,776

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Parent Company statement of comprehensive income	**Note**	**For the period from 1 July 2009 to 31 December 2010**	**For the period from 1 January 2008 to 30 June 2009**
EUR ’000			
Revenue	6	292	-
Gross profit		292	-
Administrative expenses	7	(1,069)	-
Other income	8	27	-
Results from operating activities		(750)	-
Finance income	9	1,855	-
Finance costs	9	(1,504)	-
Net finance costs		351	-
Loss before income tax benefit		(399)	-
Income tax benefit	10	105	-
Loss for the period		(294)	-
Total comprehensive losses for the period		(294)	-

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Parent company balance sheet

EUR ’000	Note	31 December 2010	30 June 2009
ASSETS			
Non-current assets			
Property, plant and equipment	11	2	-
Intangible assets	12	2,708	-
Holdings in group Companies	28	12,451	-
Deferred tax assets	10	105	-
Total non-current assets		15,266	-
Current assets			
Current loan to group companies		20,800	-
Trade and other receivables	15	8	1
Prepayments		7	-
Other assets		4	-
Cash and cash equivalents	16	993	-
Total current assets		21,812	1
Total assets		37,078	1

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Parent company balance sheet

EUR ’000	Note	31 December 2010	30 June 2009
EQUITY AND LIABILITIES			
Equity	17		
Restricted equity Share capital (100,000 shares)		100	1
Unrestricted Equity Share Premium Reserve		12,302	-
Loss for the period		(294)	-
Total equity attributable to equity holders of the Company		12,108	1
Total equity		12,108	1
Non-current liabilities			
Loans and borrowings	18	24,787	-
Total non-current liabilities		24,787	-
Current liabilities			
Trade and other payables	21	183	-
Total current liabilities		183	-
Total liabilities		24,970	-
Total equity and liabilities		37,078	1
Pledged Assets and Contingent Liabilities			
Pledged Assets		**-**	**-**
Contingent Liabilities		**-**	**-**

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Parent Company Statement of changes in equity for the period from 1 July 2009 to 31 December 2010

EUR '000	Attributable to equity holders of the Company				
	Share capital	**Additional paid in capital**	**Retained earnings**	**Translation reserve**	**Total equity**
Balance at 01 January 2008	-	-	-	-	-
Transactions with owners, recorded directly in equity, Contributions by and distributions to owners					
Unrestricted share capital contribution	1	-	-	-	1
Balance at 30 June 2009	1	-	-	-	1
Total comprehensive income for the period					
Profit/(loss) for the period	-	-	(294)	-	(294)
Total other comprehensive income for the period	-	-	(294)	-	(294)
Transactions with owners, recorded directly in equity					
Contributions by and distributions to owners					
Unrestricted share capital contribution	99	-	-	-	99
Share premium reserve	-	12,302	-	-	12,302
Total contributions by and distributions to owners	99	12,302	-	-	12,302
Balance at 31 December 2010	100	12,302	(294)	-	12,108

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

Parent Company statement of cash flows

EUR ’000	Note	For the period from 1 July 2009 to 31 December 2010	For the period from 1 January 2008 to 30 June 2009
Cash flows from operating activities			
Loss for the period before income tax benefit		(399)	-
Adjustments for:			
Depreciation and amortisation		293	-
Net finance costs	9	1,504	-
Cash from/(used in) operating activities before changes in working capital and provisions		1,398	-
Change in trade and other receivables		(12)	-
Change in prepayments for current assets		(7)	-
Change in trade and other payables		40	-
Change in provisions and employee benefits		143	-
Cash flows from/(used in) operations before income tax benefit and interest paid		1,562	-
Interest paid		(1,504)	-
Net cash from/(used in) operating activities		58	-
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3)	-
Acquisition of intangible assets		(3,000)	-
Holdings in Group Companies		(33,251)	-
Net cash from/(used in) investing activities		(36,254)	-
Cash flows from financing activities			
Proceeds from issue of share capital		100	-
Proceeds from borrowings		24,787	-
Contributions of shareholders		12,302	-
Net cash from/(used in) financing activities		37,189	-
Net increase/(decrease) in cash and cash equivalents		993	-
Cash and cash equivalents at beginning of period		-	-
Cash and cash equivalents at 31 December	16	993	-

These financial statements are to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 21 to 62.

1 Background

Business environment

Russian business environment

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

Organisation and operations

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

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

2 Basis of preparation

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Financial Standards Board (IASB) as well as interpretations from the International Financial Reporting Interpretations Committee (IFRIC), as adopted by the EU. The parent company applies with the Swedish Annual Accounts Act and Recommendation RFR2, Accounting for Legal Entities, of the Swedish Accounting Standards Council. In cases where the parent applies other accounting policies than the Group this is stated at the end of this note.

Basis of measurement

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

Functional and presentation currency

Items included in the various units of the Group and the Parent Company are valued in the currency in which each company primarily operates (functional currency). For the Consolidated Group financial statements the functional currency is the national currency of the Russian Federation the Russian Rouble ("RUB"), which is the Group's functional currency. The Group and Parent have selected the Euro ("EUR") as the currency for presentation purposes. The RUB is not a readily convertible currency outside the Russian Federation and, accordingly, any conversation of RUB to EUR should not be construed as a representation that the RUB amounts have been, could be, or will be in the future, convertible into EUR at the exchange rate disclosed, or at any other exchange rate.

The Parent functional currency is the Euro.

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

Use of estimates and judgments

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

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

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

Information about estimates and underlying assumptions are included in the following notes:

- Note 12 – determination of fair value of intangible assets acquired in business combination;
- Note 12 - determination of useful life of intangible assets acquired in business combination;
- Note 20 – warranty provision

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

3 Significant accounting policies

Business combinations

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

Acquisitions

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

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus, if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Company entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising in retranslation are recognised in profit or loss.

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

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

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

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

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

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

Loans and receivables

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

Loans and receivables category comprise the following classes of assets: trade and other receivables as presented in and cash and cash equivalents as presented in note 16.

Cash and cash equivalents

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

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the above categories of financial assets. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see note 22) and foreign currency differences on available-for-sale debt instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised or impaired, the cumulative gain or loss in equity is reclassified to profit or loss. Unquoted equity instruments whose fair value cannot reliably be measured are carried at cost.

Non-derivative financial liabilities

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

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

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

Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

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

Share capital

Ordinary shares

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

Property, plant and equipment

Recognition and measurement

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

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

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

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

Subsequent costs

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

Depreciation

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

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

The estimated useful lives are as follows:

- buildings and constructions 5-40 years
- machinery and equipment 3-12 years
- office equipment 2-10 years
- transportation 3-5 years
- other equipment 2-7 years

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

Intangible assets

Intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

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

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

Leased assets

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

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

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

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

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

Impairment

Non-derivative financial assets

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Company, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables

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

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

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

Non-financial assets

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

Employee benefits

Termination benefits

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

Short-term benefits

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

Warranties

In accordance with the Dealer Agreement signed with Volvo Construction Equipment (VCE) the Company is to provide a 1 year warrantee on all machines and parts. As provided in the agreement, Volvo will reimburse the Company for a portion of the costs incurred. The company records both the gross provision amount and a receivable from VCE. The provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities

Revenue

Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

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

Services

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

Other expenses

Lease payments

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

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

Determining whether an arrangement contains a lease

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

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

Social expenditure

To the extent that the Company’s contributions to social programs benefit the community at large and are not restricted to the Company’s employees, they are recognised in profit or loss as incurred.

Finance income and costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings.

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

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

Income taxes

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

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

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

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

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

New Standards and Interpretations not yet adopted

- *A number of new Standards, amendments to Standards and Interpretations are not yet effective* as at 31 December 2010, *and have not been applied in preparing these consolidated financial statements.* Except for IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2013 consolidated financial statements, and could change the classification and measurement of financial assets, *the new Standards are not expected to have a significant effect on the consolidated financial statements of the Company.*

Information about the Parent Company

Parent company accounting principles

The parent company prepares its annual accounts in accordance with the Swedish Annual Accounts Act and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. RFR 2 states that the parent company's annual accounts for the legal entity should be prepared by applying all EU-adopted IFRS statements insofar as this is possible under the Swedish Annual Accounts Act and with regard to the relationship between accounting and taxation. The stated accounting policies have been applied consistently for all periods presented in the parent company's financial statements.

The parent company's financial year has been extended to 18 months and covers the period from 1 July 2009 to 1 December 2010. For the previous financial year, 1 January 2008 to 30 June 2009 the company was dormant/

Differences between the Group and parent company accounting policies

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

Classification and presentation

The Parent Company presents an income statement and a statement of comprehensive income while the group present one total comprehensive income statement. The Parent company uses the terms 'Balance sheet' and 'Cash flow statement' for the reports where the Group uses 'Consolidated statement of financial position' and 'consolidated statement of cash flow' respectively. Profit and loss account and balance sheet for the Parent Company are presented according to the Swedish Annual Accounts Act structure, while the statement of comprehensive income, report of changes in equity and cash flow analysis are based on IAS 1 Presentation of Financial Statements and IAS 7 Consolidated cash flow statements.

Subsidiaries

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

Financial instruments and hedge accounting

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

In the parent company, financial assets are valued at cost less any impairment and financial current assets at lower of cost or net realizable value. The acquisition cost for fixed-income instruments is adjusted for accrual difference between initial cost, less transaction costs, and the sum paid on the closing date (premiums and discounts). Forward exchange contracts that are used to reduce transaction exposure on receivables and liabilities in foreign currency are measured at the exchange rate prevailing on the hedging date.

Leases

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

Group contribution and shareholders' contribution for legal entities

The company reports Group contributions and shareholders' contributions in accordance with the Swedish Financial Reporting Board's statement for financial reporting (UFR 2). Shareholders' contribution is implemented directly to equity with the recipient and is capitalized in shares and participations with the giver unless impairment is required. Group contributions are reported according to economic substance. This means that Group contributions paid and received for the purpose of minimizing the Group's total tax is recognized directly to retained earnings after deduction of present tax effects.

Group contributions that form part of a dividend are deferred as a dividend. This means that Group contributions received and their present tax effect are recognized as profit or loss. Group contributions paid and their present tax effect are recognized directly in retained earnings.

Group contributions that form part of shareholders' contribution are recognized, measured with respect to present tax effect, with the recipient directly in retained earnings. The giver reports the Group contribution and its present tax effect as an investment in shares in Group companies, unless impairment is necessary.

4 Determination of fair values

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

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction, after proper marketing, wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on market approach and cost approaches using quoted market prices for similar items when available.

When no quoted market prices are available, the fair value of property, plant and equipment is primarily determined using depreciated replacement cost. This method considers the cost to reproduce or replace the property, plant and equipment, adjusted for physical, functional or economical depreciation, and obsolescence.

Intangible assets

The fair value of franchise agreement acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the franchise agreement being obtained. The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

Inventories

The fair value of inventories acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, a bulk discount and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when acquired in a business combination.

Non-derivative financial liabilities

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

Contingent consideration

The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). Since the contingent consideration is long-term nature, it is discounted to present value.

5 Acquisitions and disposals of subsidiary

(a) Acquisition of Volvo Construction Equipment Business

On 27 May 2010, the Company obtained control of the Volvo Construction Equipment distribution business in the Russian Federation by acquiring inputs such as customer lists, manuals, inventories, fixed assets, license to represent Volvo in Russia and franchise agreement and processes such as policies and procedures and an assembled workforce, including key employees and regular staff. The acquired inputs and processes have enabled the Company to sell and service Volvo construction equipment without interruption after having assumed control over the distribution business.

No receivables were acquired.

The Group did not receive the financial records of the activity of the VCE business for the periods prior to acquisition. The results were shown in the consolidated results of Volvo Construction Equipment and Volvo consolidated financial results. It is therefore not practical for the Group to provide an estimate of revenues and earnings for the period prior to the acquisition.

The following summarizes the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date.

(ii) Consideration transferred

	Note	**27 May 2010**
		EUR ’000
Cash		(19,513)
		(19,513)

(iii) Identifiable assets acquired and liabilities assumed

The identifiable assets acquired and the liabilities assumed were as follows:

	Note	**27 May 2010**
		Recognised fair values on acquisition
		EUR ’000
Non-current assets		
Intangible assets		28,692
Property, plant and equipment		551
Current assets		
Inventories		14,963
		EUR ’000
Trade and other receivables		621
Non-current liabilities		
Warrantee Provision		(643)

	Note	27 May 2010 Recognised fair values on acquisition
Current liabilities		
Trade and other payables		(1,221)
Deferred tax liabilities		(4,841)
Net identifiable assets, liabilities and contingent liabilities		38,122

The trade receivables comprise warranty claims to Volvo on sold goods before acquisition date. The warranty provision comprises expected warranty provision on goods sold before acquisition date.

(iv) Negative goodwill

Negative goodwill income was recognised as a result of the acquisition as follows:

	27 May 2010 EUR '000
Total consideration transferred	19,513
Fair value of identifiable net assets	(38,122)
Negative goodwill	(18,609)

The net effect of the transaction has generated negative goodwill. The negative goodwill arose because the Company negotiated the transaction at the peak of the financial crisis and the Company contractually committed significant resources to expand the Volvo Construction Equipment distribution business in Russia (See footnote 26). This is to be accomplished in full compliance with Volvo's quality standards and with significant commitments to high quality corporate governance. Internationally, the distribution business is non-core for Volvo and is usually accomplished through dealers. . As a result of the factors described above and having considered in particular the fair value of intangible assets acquired in the business combination, the management consider the negative goodwill to be recognized appropriately on acquisition.

(v) Acquisition-related costs

(b) The Company incurred acquisition-related costs EUR 170 thousand related to external legal fees. The legal fees have been included in administrative expenses in the Company's income statement.

6 Revenue

EUR '000	For the period from 14 December 2009 to 31 December 2010	For the period from 1 July 2009 to 31 December 2010	For the period from 1 January 2008 to30 June 2009
	Group	Parent	Parent

Sales of goods	72,012	-	-
Revenue from services provided	1,637	-	-
Other revenue	294	292	-
Total revenues	73,943	292	-

7 Administrative expenses

EUR '000	For the period from 14 December 2009 to 31 December 2010	For the period from 1 July 2009 to 31 December 2010	For the period from 1 January 2008 to 30 June 2009
	Group	Parent	Parent
Payroll and unified social tax	4,254	347	-
Amortisation and depreciation	2,843	293	-
Professional fees	2,238	358	-
Advertising	106	-	-
Other Operating Expenses	2,968	71	-
	12,409	1,069	-

8 Other expenses

EUR '000	For the period from 14 December 2009 to 31 December 2010	For the period from 1 July 2009 to 31 December 2010	For the period from 1 January 2008 to 30 June 2009
	Group	Parent	Parent
Net foreign exchange income/(losses)	(1,353)	27	-
Bank services	(467)	-	-
Other	(8)	-	-
Total Other Expenses	(1,828)	27	-

9 Finance income and finance costs

The Company Recognized Finance Income and expense of:

EUR ’000	For the period from 14 December 2009 to 31 December 2010	For the period from 1 July 2009 to 31 December 2010	For the period from 01 January 2008 to 30 June 2009
	Group	**Parent**	**Parent**
Finance income	294	1,855	-
Finance costs	(1,492)	(1,504)	-
Other	-	-	-
	(1,198)	351	-
Recognised in profit or loss			
Interest income on loan to subsidiary	-	-	-
Interest income on bank deposits	294	-	-
Finance income	294	-	-
Interest expense on financial liabilities measured at amortised cost	(1,492)	-	-
Finance costs	(1,492)	-	-
Net finance costs recognised in profit or loss	**(1,198)**	-	-
Recognised in other comprehensive income			
Foreign currency translation differences for foreign operations	**-**	**-**	**-**
Finance income recognised in other comprehensive income, net of tax	**(42)**	**-**	**-**
Attributable to:			
Equity holders of the Company	(42)	-	-
Non-controlling interest	-	-	-
Finance income recognised in other comprehensive income, net of tax	**(42)**	**-**	**-**

10 Income tax benefit

The Company is a tax resident of Sweden with applicable corporate tax rate of 26.3%. Subsidiaries pay income taxes in accordance with the legislative requirements of their respective tax jurisdictions. For subsidiaries domiciled in Russia the applicable tax rate is 20%; For Cyprus the rate 10%.

	For the period from 14 December 2009 to 31 December 2010	For the period from 1 July 2009 to 31 December 2010	For the period from 1 January 2008 to 30 June 2009
EUR ’000	**Group**	**Parent**	**Parent**
Current tax expense			
Deferred tax benefit	-	-	-
Origination and reversal of temporary differences	990	105	-
Total income tax benefit	990	105	-

Reconciliation of effective tax rate:

	For the period from 01 July 2009 to 31 December 2010	
	Group	
	EUR ’000	**%**
Profit for the period	12,776	100
Total income tax benefit	990	(8)
Profit excluding income tax	11,786	
Effect of negative goodwill recognized in profit and loss	4,841	41
Income tax at applicable tax rate	(3,360)	(29)
Effect of different tax rates for foreign subsidiaries	500	4
Non-deductible expenses	(991)	(8)
	990	(8)

11 Property, plant and equipment

GroupEUR '000	Buildings and constructions	Machinery and equipment	Office equipment	Transportation	Other equipment	Under construction	Total
Cost or deemed cost/Revalued amount							
Acquisitions through business combinations	3	184	93	-	245	-	525
Additions	161	2,862	568	58	69	304	4,022
Disposals	-	(180)	(64)	-	-	-	(244)
Balance at 31 December 2010	164	2,866	597	58	314	304	4,303
Depreciation and impairment losses							
Depreciation for the period	9	64	86	4	32	-	195
Disposals	-	(8)	-	-	-	-	(8)
Balance at 31 December 2010	9	56	86	4	32	-	187
Carrying amounts							
At 31 December 2010	155	2,810	511	54	282	304	4,116

Depreciation expense of EUR 63 thousand has been charged to cost of goods sold, EUR 132 thousand to administrative expenses.

The Group leases machinery and equipment under a finance lease agreement. At 31 December 2010, the carrying amount of leased machinery and equipment was EUR 1,539 thousand.

Parent

EUR '000	Office equipment	Total
Cost or deemed cost/Revalued amount		
Acquisitions through business combinations	-	-
Additions	3	3
Disposals	-	-
Balance at 31 December 2010	3	3

EUR ’000	Office equipment	Total
Depreciation and impairment losses		
Depreciation for the period	1	1
Disposals	-	-
Balance at 31 December 2010	1	1
Carrying amounts		
At 31 December 2010	2	2

12 Intangible assets

Group

EUR ’000	Software and software licenses	Customer relationships	Franchise agreement	Total
Cost				
Acquisitions through business combinations	-	17,579	11,113	28,692
Other acquisitions – separately acquired	184	-		184
Effect of movements in exchange rates	-	(794)	(501)	(1,295)
Balance at 31 December 2010	184	16,785	10,612	27,580
Amortisation and impairment losses				
Amortisation for the period	(40)	(1,637)	(1,035)	(2,712)
Effect of movements in exchange rates	-	5	3	8
Balance at 31 December 2010	(40)	(1,632)	(1,032)	2,704
Carrying amounts				
At 31 December 2010	144	15,153	9,580	24,877

a) Amortization

Acquisition intangibles include license, operating agreement and other intangible assets see note 5.

Amortization expense of EUR 2,712 thousand has been charged to administrative expenses.

Franchise agreement and customer relationships arise from agreements with CJSC Volvo Vostok. Duration of these agreements is six years and the Company does not have unconditional right to prolong the agreements. Hence, useful life of customer relationships and franchise agreement was limited to six years.

(b) Determination of fair value of intangible assets acquired in business combination

Intangible assets acquired in business combination comprise customer relationships and franchise agreement.

Fair value of franchise agreement was measured based on the relief from royalty method under which the value of franchise agreement was calculated based on expected future cash flows on the basis of key assumptions about useful life, royalty rate and budgeted revenue. Useful life of franchise agreement was determined to be six years. Royalty rate used was 1.4%. Revenues were projected based on Company's long-term budget until 2012 and since 2013 revenue growth was assumed to be equal to inflation rate. Expected future cash flows were discounted using after-tax discount rate of 15%. The discount rate was estimated based on weighted average cost of capital which is based on a debt to total capital ratio of 46% at market interest rate of 12.4%.

Fair value of customer relationships was measured using multi-period excess earnings model, whereby the customer relationships were valued based on cash flows from customers acquired in the business combination less return on other assets that are part of creating these cash flows. The calculation was based on key assumptions about sales revenue from customers existing as at the date of business combination, EBITDA margin, discount rate and useful life of customer relationships. Useful life of customer relationships was determined to be six years. Sales revenue from existing customers was estimated by applying attrition rate to total projected revenues from sales of equipment, parts and services. EBITDA margin was estimated based on budget and supported by historical data. Expected future cash flows were discounted using the discount rate calculated in the same manner as for valuation of franchise agreement.

Parent

EUR '000	**Acquisition Intangibles, License**	**Total**
Cost		
Other acquisitions – separately acquired	3,000	3,000
Balance at 31 December 2010	3,000	3,000
Amortisation and impairment losses		
Amortisation for the period	292	292
Balance at 31 December 2010	292	292
Carrying amounts		
At 31 December 2010	2,708	2,708

13 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2010		
	Group		
EUR '000	**Assets**	**Liabilities**	**Net**
Property, plant and equipment	-	(15)	(15)
Intangible assets	-	(4,946)	(4,946)
Prepaid expenses and accrued income	3	-	3
Inventories	-	(574)	(574)
Trade and other receivables	948	-	948
Provisions	200	-	200
Deferred income	52	-	52
Trade and other payables	711	-	711
Tax loss carry-forwards	288	-	288
Tax assets/(liabilities)	2,202	(5,535)	(3,333)
Set off of tax	-	-	-
Net tax assets/(liabilities)	2,202	(5,535)	(3,333)

	31 December 2010		
	Parent		
EUR '000	**Assets**	**Liabilities**	**Net**
Tax loss carry-forwards	105	-	105
Tax assets/(liabilities)	105	-	105
Set off of tax	-	-	-
Net tax assets/(liabilities)	105	-	105

(b) **Movement in temporary differences during the period**

Group

EUR '000	14December 2009	Acquired through business combination	Recognised in comprehensive income	Recognised directly in equity	Foreign currency translation	31 December 2010
Property, plant and equipment	-		(15)	-	-	(15)
Intangible assets	-	(5,738)	536	-	256	(4,946)
Prepaid expenses and accrued income	-		3	-	-	3
Inventories	-	204	(772)	-	(6)	(574)
Trade and other receivables	-	(124)	1,069	-	3	948
Trade and other payables	-	688	55	-	(32)	711
Provisions	-	129	77	-	(6)	200
Deferred income	-		52	-	-	52
Tax loss carry-forwards	-		(15)	303	-	288
	-	(4,841)	990	303	215	(3,333)

Parent

EUR '000	1 July 2009	Acquired through business combination	Recognised in comprehensive income	Recognised directly in equity	Foreign currency translation	31 December 2010
Tax loss carry-forwards	-	-	105	-	-	105
	-	-	105	-	-	105

EUR '000	01 January 2008	Acquired through business combination	Recognised in comprehensive income	Recognised directly in equity	Foreign currency translation	30 June 2009
Tax loss carry-forwards	-	-	-	-	-	-
	-	-	-	-	-	-

14 Inventories

	31 December 2010	
EUR '000	**Group**	**Parent**
Raw materials and consumables	14	-
Work in progress	357	-
Finished goods and goods for resale	28,550	-
	28,921	-

15 Trade and other receivables

		31 December 2010		30 June 2009
EUR '000		**Group**	**Parent**	**Parent**
	Note			
Trade receivables		8,712	-	-
VAT receivable		3,652	-	-
Warranty claims		965	-	-
Other receivables		2,045	8	1
		15,374	8	1

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

16 Cash and cash equivalents

	31 December 2010		30 June 2009
EUR '000	**Group**	**Parent**	**Parent**
Bank balances	11,202	593	-
Call deposits	9,574	400	-
Cash and cash equivalents in the statement of cash flows	20,776	993	-

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

17 Capital and reserves

Group

(a) Share capital and share premium

	Ordinary shares
Number of shares unless otherwise stated	**EUR**
Authorised shares	100,000
Par value	1
On issue at 1 January	100,000
Issued for cash	100,000
On issue at 31 December, fully paid	100,000

Ordinary shares

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

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. In respect of the Company's shares that are held by the Company, all rights are suspended until those shares are reissued.

The Group policy is not to pay dividends

(b) Translation reserve

The translation reserve comprises all foreign currency differences arising from the translation of the consolidated financial statements of foreign operations, as well as from the translation of liabilities that hedge the Company's net investment in a foreign operation.

18 Loans and borrowings

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

	31 December 2010		30 June 2009
EUR '000	**Group**	**Parent**	**Parent**
Non-current liabilities			
Loan from Investors	24,766	24,787	-
	24,766	24,787	-
	24,766	24,787	-

(a) **Terms and debt repayment schedule**

Terms and conditions of outstanding loans were as follows:

	31 December 2010				
	Group				
EUR '000	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Loan from Investors	EUR	15%	2015	24,766	24,766
Total interest-bearing liabilities				24,766	24,766

(b) **Finance lease liabilities are payable as follows:**

During the year 2010, the Group entered in a sale and leaseback arrangement which resulted in a finance lease: machines with carrying value of EUR 1,281 thousand were sold to lessor for EUR 1, 539 thousand and immediately leased back. The excess of sales proceeds over carrying amount in amount EUR 258 thousand was deferred over the lease term, see note 19.

Future minimum lease payments were as follows as at 31 December 2010:

	2010		
	Group		
EUR '000	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Less than one year	540	(258)	282
Between one and five years	1,591	(333)	1,258
More than five years	-	-	-
	2,131	(591)	1,540

The Group has entered into a finance lease as 29 December 2010. The lease equipment is VCE machines.

19 Deferred income/revenue

	31 December 2010	
EUR '000	**Group**	**Parent**
Deferred income on Volvo service fee	602	-
Deferred income short-term due to lease back transaction	86	-
Deferred income long-term due to lease back transaction	172	-
	860	-

20 Warrantee Provision

	Group	
EUR '000	**Warranties**	**Total**
Balance at 14 December 2009	-	
Assumed in a business combination	643	643
Provisions made during the period	914	914
Provisions used during the period	(530)	(530)
Provisions reversed during the period		
Translation difference in currency presentation	(29)	(29)
Balance at 31 December 2010	998	998
Non-current	-	-
Current	998	998
	998	998

(a) Warranties

In accordance with the Dealer Agreement signed with Volvo Construction Equipment (VCE) the Company is to provide a 1 year warrantee on all machines and parts. As provided in the agreement, Volvo will reimburse the Company for a portion of the costs incurred. The company records both the gross provision amount and a receivable from VCE. The provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities

21 Trade and other payables

	31 December 2010		30 June 2009
EUR '000	**Group**	**Parent**	**Parent**
Trade payables	35,074	8	-
Other taxes payable	256	17	-
Other payables and accrued expenses	5,488	158	-
	40,818	183	-

Other payables are primarily advances from customers.

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

22 Financial instruments and risk management

(a) Overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

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

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

(b) Credit risk

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

(ii) Trade and other receivables

The Group’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group’s customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk. Approximately 12% of the Group’s revenue is attributable to sales transactions with a single customer.

The Companies standard payment terms require payment in advance of delivery. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. In addition, the Group also offers limited (less than 180 days) credit to some customers for sales and services. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and represent the maximum open amount; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

About 50% of the Group's customers have been transacting with the Group or VCE for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the Risk Management Committee, and future sales are made on a prepayment basis with approval of the Risk Management Committee.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

(iii) Exposure to credit risk

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

		Group
		Carrying amount
	Note	**EUR '000**
Trade receivables	15	8,712
Cash and cash equivalents	16	20,776
		29,488

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

	Group
	Carrying amount
	EUR '000
Russia	8,712
	8,712

Impairment losses

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

	Group	
	31 December 2010	
EUR '000	Gross	Impairment
Not past due	4 903	-
Past due 0- 30 days	1 333	-
Past due 31-120 days	2 476	-
	8 712	-

Although collection of receivables could be affected by economic factors, management believes that there is no significant risk of loss to the Group. At 31 December 2010, no impairment loss in relation to trade receivables was recognised.

(c) **Liquidity risk**

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

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

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

31 December 2010

EUR ’000	**Carrying amount**	**Contractual cash flows**	**0-6 mths**	**6-12 mths**	**1-2 yrs**	**2-3 yrs**	**3-4 yrs**	**4-5 yrs**	**Over 5 yrs**
Non-derivative financial liabilities									
Finance lease liabilities	1,540	2,130	270	270	539	1,052	-	-	-
Loans and borrowings	24,766	24,766	-	-	-	-	-	24,766	-
Trade and other payables	40,818	40,818	40,515	303	-	-	-	-	-
	67,124	67,124	40,785	573	539	1,052	-	24,766	-

(d) **Market risk**

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

(ii) Currency risk

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

Interest on borrowings is denominated in the currency of the borrowing. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily RUB, but also in EURO. This provides an economic hedge without a need to enter into derivatives contracts. In addition, the Group maintains some funds in EURO in order to repay EURO loans.

In 2010 the borrowings were denominated in Euro which exposed the Company to foreign currency risk. In 2011 the Company obtained RUB-denominated loans which match the currency in which cash flows are generated. See note 27.

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

Exposure to currency risk

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

	Group	
	EUR-denominated	**SEK-denominated**
	2010	**2010**
	EUR '000	**EUR '000**
Cash and cash equivalents	4,968	25
Loans and borrowings	(24,766)	-
Trade and other payables	(108)	(35)
Net exposure	(19,906)	(10)

The following exchange rates were applied during the period:

In RUB	Average rate	Reporting date spot rate
	2010	2010
EUR	40.2076	40.3331
SEK	4.3035	4.4805

(iii) Interest rate risk

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

Profile

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

	Group Carrying amount 2010 EUR '000
Fixed rate instruments	
Loans and borrowings	24,766
Finance lease liabilities	1,540
	26,306

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

Accounting classifications and fair values

(i) Fair values versus carrying amounts

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

Capital management

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

	2010 EUR ’000
Total liabilities	72,480
Less: cash and cash equivalents	(20,776)
Net debt	51,704
Total equity	23,243
Debt to capital ratio at 31 December	2.2

23 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group	Parent	
EUR ’000	**For the period from 14 December 2009 to 31 December 2010**	**For the period from 1 July 2009 to 31 December 2010**	**For the period from 1 January 2008 to 30 June 2009**
Assets held under operating leases			
Minimum lease payments	2,175	7	-
Variable payments	-	-	-
Total lease costs	**2,175**	**7**	**-**
Breakdown of lease payments by agreements			
Lease payments, vehicles	1,196	-	-
Lease payments, premises	979	7	-
Total lease costs	**2, 175**	**7**	**-**
Future lease commitments			
Less than one year	776	-	-
Between one and five years	1,510	-	-

More than five years	-	-	-
	2,285	**-**	**-**
Future commitments, rent for premises			
Less than one year	3,783	-	-
Between one and five years	1,407	-	-
More than five years	-	-	-
	5,191	**-**	**-**

The Group leases a number of cars under operating leases. The leases typically run for an initial period of three to four years.

During the period ended 31 December 2010 an amount of EUR 1,744 thousand was recognised as an expense in profit or loss in respect of operating leases.

The Group has no contingent rent arrangements and subleases.

24 Capital commitments

During the period ended 31 December 2010, the Company entered into a contract on construction project development that is structured in stages. The term of the contract considered consequential implementation each stage. As at 31 December 2010, the Company has no opportunity to reliably estimate the amount of future payment except for initial stage. Expected payments in 2011 related to this agreement are EUR 208 thousand.

In accordance with the dealer agreement with Volvo Vostok, the Company approved an investment plan to invest EUR 70,000 thousand until 2015. The Expected amount of payment for 2011 is EUR 19,339 thousand.

25 Contingencies

(a) Taxation contingencies

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

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

During 2010, the Group incurred certain expenses which management believed were deductible for income tax purposes. However, based on the uncertainty of legislation, the tax authorities could take a different position and attempt to assess additional tax. The potential amount of such assessment is EUR 613 thousand. Management has not made any provision because it believes it is not probable that an outflow of funds relating to any such assessment will take place.

26 Related party transactions

(a) Control relationships

The Company's immediate parent company is Ferronordic Machines Russia AB. The Company's ultimate parent and controlling company is Ferronordic Machines AB

No publicly available consolidated financial statements are produced by the Company's ultimate parent company or any other intermediate parent company.

Key management control 14.54% of the voting shares of the Company.

(ii) Management remuneration

Key management received the following remuneration during the period, which is included in personnel costs:

	For the period from 14 December 2009 to 31 December 2010	**For the period from 01 July 2009 to 31 December 2010**	**For the period from 01 January 2008 to 30 June 2009**
EUR '000	**Group**	**Parent**	**Parent**
Salaries and bonuses	828	136	-
Contributions to State pension fund	43	26	-
	871	162	-

(b) **Transactions with other related parties**

The Group

The Group's related party transactions are disclosed below.

(ii) Expenses

	For the period from 14 December 2009 to 31 December 2010	
EUR '000	**Transaction value**	**Outstanding balance**
Services received:		
Other related parties (i)	561	-
Interest accrued:		
Investors (ii)	1, 462	-
Other related parties	1	-
	2,024	-

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

(i) Management fee for stewardship of the business operations;
(ii) For terms of interest accrued to investors see note to Loans and borrowings.

All outstanding balances with related parties are to be settled in cash within six months of the reporting date. None of the balances are secured.

During several months in 2010, top management of Group was employed by a separate legal entity. In addition to key management remuneration disclosed above, management fee paid to this entity for the period from 19 December 2009 to 31 December 2010 was EUR 561 thousand.

(iii) Loans

	Group	
	31 December 2010	
	Amount loaned	Outstanding balance
	EUR '000	EUR '000
Loans received:		
Investors (iii)	24,844	24,776
Other related parties	124	-
	24,968	24,776

(iii) The loan from the Group's investors is at 15% and is repayable in 2015.

The Parent

(iv) Revenue

	For the period from 01 July 2009 to 31 December 2010		For the period from 01 January 2008 to 30 June 2009	
EUR '000	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Services provided:				
Subsidiary(i)	292	-	-	-
Interest income:				
Subsidiary(ii)	1,855	-	-	-
	2,147	-	-	-

(i) Payment received from Ferronordic Machines LLC for Volvo business sub-licence liabilities;

(ii) For terms of interest accrued from Ferronordic Machines LLC see (iii).

(v) Expenses

	For the period from 01 July 2009 to 31 December 2010		For the period from 01 January 2008 to 30 June 2009	
EUR '000	Transaction value	Outstanding balance	Transaction value	Outstanding balance

EUR '000	For the period from 01 July 2009 to 31 December 2010		For the period from 01 January 2008 to 30 June 2009	
	Transaction value	**Outstanding balance**	**Transaction value**	**Outstanding balance**
Interest expense:				
Investors(iii)	1,504	-	-	-
	1,504	-	-	-

(iii) For terms of interest accrued to investors see to note to Loans and borrowings.

(vi) Loans

	31 December 2010		30 June 2009	
	Amount loaned EUR '000	**Outstanding balance EUR '000**	**Amount loaned EUR '000**	**Outstanding balance EUR '000**
Loans received:				
Investors (iii)	24,787	24,776	-	-
Other related parti	-	-	-	-
	24,787	24,776	-	-

(iii) The loan from the Parent's investors is at 10% and is repayable in 2015. Interest rates increase if the loan is not repaid by 31 December 2011.

(vii) Other balances

EUR '000	31 December 2010	30 June 2009
Investments in subsidiaries	12,451	-
Loans to related parties (group companies) *(iv)*	20,800	-
	33,251	-

(*iv*) Loans given to Ferronordic Machines LLC unsecured and bear interest at rates 15% per annum. Of the total balance, EUR'000 20,800 of loans to related parties was repayable on demand with the remaining balance repayable in 2011. In 2011 the Parent concluded amendment to loan agreement with subsidiary. According to the amendment, the loan is payable on 1 January 2015.

27 Events subsequent to the reporting date.

The following subsequent events have taken place after 31 December 2010:

On 28 March 2011 and 22 April 2011, the Group has entered into a two borrowing facility agreements with Transcreditbank. Secured borrowing facilities are EUR 7 438 thousand and EUR 9 917 thousand at the interest rate of 8-10% p.a. depending from the term of borrowing facility and maturity date of the loans 24 months from 28 March 2011 and 22 April 2011 accordingly. The loans are secured by inventory, which carrying amounts are EUR 9 104 thousand and EUR 12 067 thousand accordingly.

On 22 April 2011, the Company entered into amendment agreement to correct an error in the Intercompany Loan Agreement of EUR 20,800 thousand. This amendment corrects the repayment terms from payable on demand to payable on 1 January 2015, as originally intended

During the period from 19 December 2009 to 31 December 2010, the Group acted as managing company for car retail business, in which Group's ultimate parent company had 15% stake. Sales revenue from providing managing services to car retail business amounted to EUR 306 thousand for the period from 19 December 2009 to 31 December 2010. Subsequent to the reporting date the Company has decided that it will not pursue the car retail business.

28 Interests in group companies

	2010
Parent Company	
Accumulated Cost	
At beginning of period	-
Purchases	12,451
Carrying amount at end of period	12,451

Specification of interests in group companies

The Group consists of the following Entities as of 31 December 2010:

Subsidiary	Corporate Identity	Country of incorporation	2010 Ownership/voting	Carrying amount

	Number			
Ferronordic Machines AB	556748-7953	Sweden	Holding	-
Ferronordic Machines Russia AB	556799-7613	Sweden	100%	12,451
Ferronordic Machines Ltd.		Cyprus	100%	-
Ferronordic Machines LLC		Russia	100%	-
				12,451

Shareholding structure of the Group:

Shareholder	**31 December 2010**	
	Number of shares	**% held**
Ferronordic Machines Holding Ltd.	11,000	11%
Investors	89,000	89%
		100%

The main principal beneficial owners of the Group are the shareholders

29 Employees, staff costs and compensation to senior executives

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

:

	For the period from 14 December 2009 to 31 December 2010	**For the period from 01 July 2009 to 31 December 2010**	**For the period from 01 January 2008 to 30 June 2009**
EUR ’000	**Group**	**Parent**	**Parent**
Salaries and bonuses	714	224	-
Social-security contribution	201	-	-
Contributions to State pension fund	43	26	-
	958	250	-

The total fee paid to the Board of Directors of the parent company, as adopted at the general shareholders' meeting in 2010, was EUR 88 thousand, paid on Parent company level. No social -security contribution payment was paid to the Board of Directors. The compensation paid to senior executives refers mostly to fixed salaries. The key management personnel payment was EUR 626 thousand. The key management personnel contract is subject to 12 month' notice by either party. In case of termination the CEO also has a right to severance pay in the form of 12 months' salary. The CEO has an individual occupational pension plan with a pension premium to the basic salary.

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

	For the period from 14 December 2009 to 31 December 2010	**For the period from 01 July 2009 to 31 December 2010**	**For the period from 01 January 2008 to 30 June 2009**
EUR '000	**Group**	**Parent**	**Parent**
Salaries and bonuses	3,183	44	-
Social-security contribution	256	30	-
Contributions to State pension fund	629	24	-
	4,069	98	-

30 Auditors' fees and expenses

	For the period from 14 December 2009 to 31 December 2010	**For the period from 1 July 2009 to 31 December 2010**	**For the period from 1 January 2008 to 30 June 2009**
EUR '000	**Group**	**Parent**	**Parent**
KPMG			
Audit assignments	151	55	-
Tax advice	25	25	-
Other assignments	15	15	-
OTHER			
Other assignments	163	-	-
	354	**95**	**-**

Styrelsens underskrifter

Styrelsen försäkrar att årsredovisningen har upprättats i enlighet med god redovisningssed i Sverige och koncernredovisningen har upprättats i enlighet med de internationella redovisningsstandarder som avses i Europaparlamentets och rådets förordning (EG) nr 1606/2002 av den 19 juli 2002 om tillämpning av internationella redovisningsstandarder. Årsredovisningen respektive koncernredovisningen ger en rättvisande bild av moderbolagets och koncernens ställning och resultat. Förvaltningsberättelsen för moderbolaget och koncernen ger en rättvisande översikt över utvecklingen av moderbolagets och koncernens verksamhet, ställning och resultat samt beskriver väsentliga risker och osäkerhetsfaktorer som moderbolaget och de företag som ingår i koncernen står inför.

Stockholm den 29 maj 2011

Per-Olof Eriksson
Ordförande

Marika Fredriksson
Styrelseledamot

Kjell Åkesson
Styrelseledamot

Martin Leach
Styrelseledamot

Erik Eberhardson
Styrelseledamot

Vår revisionsberättelse har lämnats den 29 maj 2011

KPMG AB

Mattias Lötborn
Auktoriserad revisor

Årsredovisningen och koncernredovisningen har, som framgår ovan, godkänts för utfärdande av styrelsen den 29 maj 2011. Koncernredovisningen och rapporten över totalresultatet, koncernbalansräkningen och moderbolagets resultaträkning och balansräkning kommer att bli föremål för fastställelse på årsstämman den 7 juni 2011.

Independent Auditors’ Report

To the annual meeting of the shareholders of Ferronordic Machines AB

Corporate identity number 556748-7953

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors of Ferronordic Machines AB for the financial year 2009-07-01 - 2010-12-31. The board of directors are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by board of directors and significant estimates made by the board of directors when preparing the annual accounts and the consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member. We also examined whether board member has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company’s financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group’s financial position and results of operations. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts. We recommend to the annual meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the statutory administration report and that the board of directors be discharged from liability for the financial year.

Stockholm May 29 2011
(signature on original document)

KPMG AB

Mattias Lötborn
Authorized Public Accountant

KPMG

Revisionsberättelse

Till årsstämman i Ferronordic Machines AB

Org nr 556748-7953

Vi har granskat årsredovisningen, koncernredovisningen och bokföringen samt styrelsens förvaltning i Ferronordic Machines AB för räkenskapsåret 2009-07-01 - 2010-12-31. Det är styrelsen som har ansvaret för räkenskapshandlingarna och förvaltningen och för att årsredovisningslagen tillämpas vid upprättandet av årsredovisningen samt för att internationella redovisningsstandarder IFRS sådana de antagits av EU och årsredovisningslagen tillämpas vid upprättandet av koncernredovisningen. Vårt ansvar är att uttala oss om årsredovisningen och koncernredovisningen samt förvaltningen på grundval av vår revision.

Revisionen har utförts i enlighet med god revisionssed i Sverige. Det innebär att vi planerat och genomfört revisionen för att med hög men inte absolut säkerhet försäkra oss om att årsredovisningen och koncernredovisningen inte innehåller väsentliga felaktigheter. En revision innefattar att granska ett urval av underlagen för belopp och annan information i räkenskapshandlingarna. I en revision ingår också att pröva redovisningsprinciperna och styrelsens tillämpning av dem samt att bedöma de betydelsefulla uppskattningar som styrelsen gjort när den upprättat årsredovisningen och koncernredovisningen samt att utvärdera den samlade informationen i årsredovisningen och koncernredovisningen. Som underlag för vårt uttalande om ansvarsfrihet har vi granskat väsentliga beslut, åtgärder och förhållanden i bolaget för att kunna bedöma om någon styrelseledamot är ersättningsskyldig mot bolaget. Vi har även granskat om någon styrelseledamot på annat sätt har handlat i strid med aktiebolagslagen, årsredovisningslagen eller bolagsordningen. Vi anser att vår revision ger oss rimlig grund för våra uttalanden nedan.

Årsredovisningen har upprättats i enlighet med årsredovisningslagen och ger en rättvisande bild av bolagets resultat och ställning i enlighet med god redovisningssed i Sverige. Koncernredovisningen har upprättats i enlighet med internationella redovisningsstandarder IFRS sådana de antagits av EU och årsredovisningslagen och ger en rättvisande bild av koncernens resultat och ställning. Förvaltningsberättelsen är förenlig med årsredovisningens och koncernredovisningens övriga delar.

Vi tillstyrker att årsstämman fastställer resultaträkningen och balansräkningen för moderbolaget och koncernen, disponerar vinsten i moderbolaget enligt förslaget i förvaltningsberättelsen och beviljar styrelsens ledamöter ansvarsfrihet för räkenskapsåret.

Stockholm den 29 maj 2011

KPMG AB

Mattias Lötborn
Auktoriserad revisor