



**FERRONORDIC**  
machines



# 2015 Year-end Presentation

22 February 2016



## Fourth quarter in summary

- ◇ Similar to the third quarter
- ◇ Continued weak market for sale of construction equipment
  - ◇ Unstable economic indicators – oil price, ruble rate
  - ◇ Liquidity remains a key issue
- ◇ Solid result and cash flow
  - ◇ Net cash position at the end of the quarter
- ◇ Cost savings showing result
- ◇ Improved market share position
- ◇ Product mix shifting towards used machines and aftermarket
- ◇ More evenly distributed revenue between regions in Russia

## Fourth quarter

- ◇ The market continues to be weak
  - ◇ The falling oil price in combination with the economic sanctions against Russia and the unstable situation in Syria and Turkey continue to limit access to capital
- ◇ Change in product mix - lower sales of new machines compensated by higher sales of parts and used machines
- ◇ Cost reduction program showing effect
  - ◇ Selling, general and admin expenses SEK 20m lower than previous year
- ◇ Net finance costs down by SEK 9m
- ◇ Strong cash flow during the quarter
  - ◇ Operating cash flow during the fourth quarter amounted to SEK 73m





## Fourth quarter (cont'd)

- ◇ Continued shift in our revenue mix from western Russia to the eastern parts of Russia
  - ◇ The country wide coverage has been important in this weak market
- ◇ No signs that the market would recover in the short term and thus we expect 2016 to continue to be challenging
- ◇ Optimistic about the long term prospects of the Russian construction equipment market



## Important events

- ◇ EGM on 2 October 2015 - the meeting resolved to pay dividends on the company's preference shares in an amount of SEK 50 per preference share, corresponding to a total dividend payment of SEK 25,000,000. The dividend was paid on 28 October 2015
- ◇ On 15 October, Russian CE Distribution Investors AB sold its entire holding of 2,284,100 ordinary shares in Ferronordic Machines AB. The purchaser of the shares was Skandinavkonsult i Stockholm AB, a company owned by the Swedish investor and entrepreneur Håkan Eriksson and his family



## Important events (cont'd)

- ◇ On 22 December, Lars Corneliusson, CEO and President, and Erik Eberhardson, Head of Business Development, respectively divested 786,968 and 1,269,103 ordinary shares in Ferronordic Machines AB. The divestments were made in order to settle financial commitments to the company's initial investors, and to reallocate the ownership of shares among the executive management.
  - ◇ Out of the sold shares, 1,479,450 shares were transferred to the company's initial investors and 576,621 shares to other members of the executive management.
  - ◇ Following the transactions, Lars Corneliusson and Erik Eberhardson control 13.7% and 13.2% of the of the votes, respectively. Collectively the members of the company's executive management and board of directors control 42.8% of the votes and Skandinavkonsult I Stockholm AB controls 25.9% of the votes.
- ◇ The changes in ownership are not expected to result in any changes to the company's strategy, operations or dividend policy.



## Updated shareholder structure

	Number of Ordinary Shares	Number of Preference Shares	Share of Capital (%)	Share of Votes (%)
Skandinavkonsult i Stockholm AB	2,606,888	-	24.8%	25.9%
Lars Corneliusson (through companies)	1,372,620	600	13.1%	13.7%
Erik Eberhardson (through companies)	1,330,109	-	12.7%	13.2%
Mellby Gård AB	1,216,200	-	11.6%	12.1%
Anders Blomqvist (through companies)	786,299	-	7.5%	7.8%
Creades AB	502,800	16,000	4.9%	5.0%
Fastighetsaktiebolaget Granen	490,800	8,000	4.8%	4.9%
Henrik Carlborg (through companies)	436,130	-	4.2%	4.3%
AltoCumulus S.A.	357,700	-	3.4%	3.6%
Hoist Kredit AB	357,700	-	3.4%	3.6%
Other Shareholders	542,754	475,400	9.7%	5.9%
<b>Total</b>	<b>10,000,000</b>	<b>500,000</b>	<b>100.0%</b>	<b>100.0%</b>

## Q4 2015 Profit & Loss

SEK MM	Q4 2015	Q4 2014	% Change SEK	% Change RUB
Total Units	225	461	(51%)	(51%)
Revenue	400	596	(33%)	(19%)
Gross Profit	85	109	(22%)	(6%)
% Margin	21.2%	18.4%		
EBITDA	32	51	(38%)	(25%)
% Margin	7.9%	8.5%		
EBIT*	24	33	(27%)	(12%)
Net Income*	15	13	14%	34%
Net Debt	(82)	109	NM	NM

\* Excludes amortisation of transaction related intangibles.

- ◇ Total sold units down 51%
  - ◇ New units down 57%
  - ◇ Used units up 7%
- ◇ Revenue decreased by 33% (19% decrease in rubles)
  - ◇ Sale of equipment decreased by 28% in rubles
  - ◇ Aftermarket increased by 22% in rubles
- ◇ Improved gross margin given higher proportion of aftermarket revenue
- ◇ Reduction in operating expenses compared to Q4 2014
  - ◇ 25% decrease in selling, general and admin expenses
- ◇ SEK 9m decrease in net financial expenses
- ◇ 14% increase in adjusted net income



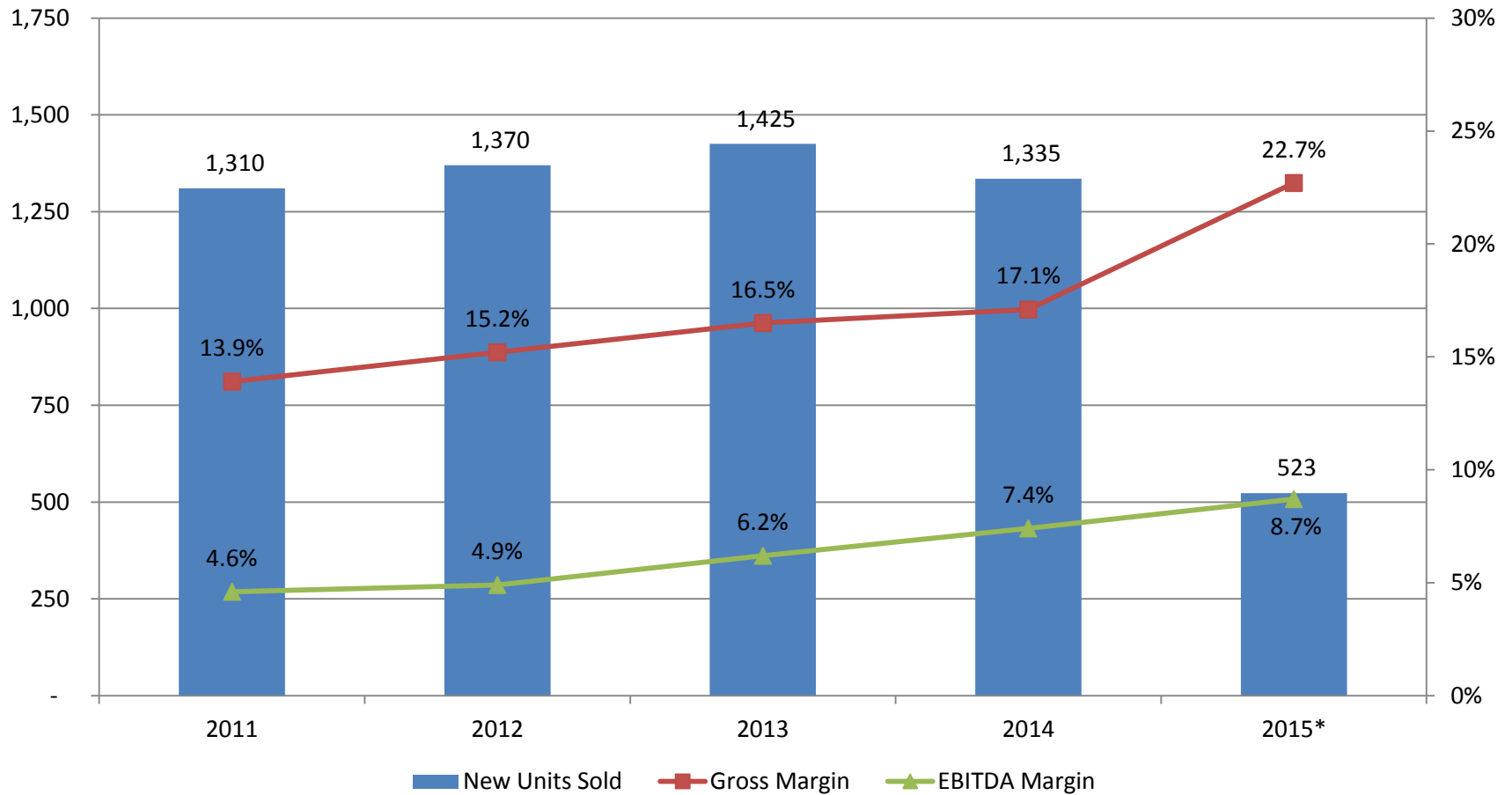
## 2015 Profit & Loss

SEK MM	2015	2014	% Change SEK	% Change RUB
Total Units	749	1 493	(50%)	(50%)
Revenue	1 469	2 335	(37%)	(19%)
Gross Profit	333	398	(16%)	7%
% Margin	22.7%	17.1%		
EBITDA	128	172	(25%)	(6%)
% Margin	8.7%	7.4%		
EBIT*	87	102	(15%)	6%
Net Income*	54	52	5%	32%
Net Debt	(82)	109	NM	NM

\* Excludes amortisation of transaction related intangibles.

- ◇ Total sold units down 50%
  - ◇ New units down 61%
  - ◇ Used units up 43%
- ◇ Revenue decreased by 37% (19% decrease in rubles)
  - ◇ Sale of equipment decreased by 31% in rubles
  - ◇ Aftermarket increased by 24% in rubles
- ◇ Improved gross margin given higher proportion of aftermarket revenue
- ◇ Reduction in operating expenses
  - ◇ 21% decrease in selling, general and admin expenses
- ◇ SEK 18m decrease in net financial expenses
- ◇ Increase in adjusted net income

# Margin improvement despite weak market



# Balance sheet

SEK MM	Q4 2015	Q3 2015	Q4 2014
Cash & Cash Equivalent	175	148	177
Debt	86	96	246
Financial leases	8	12	40
<b>Net debt</b>	<b>(82)</b>	<b>(41)</b>	<b>109</b>
<i>Net Debt/EBITDA</i>	<i>NM</i>	<i>NM</i>	<i>0.6x</i>
Working capital	97	145	184
<i>% of Revenue</i>	<i>7%</i>	<i>9%</i>	<i>8%</i>
Shareholders Equity	322	368	372
Total Assets	<b>808</b>	<b>869</b>	<b>1 173</b>
<i>Equity/Assets</i>	<i>40%</i>	<i>42%</i>	<i>32%</i>

# Cash Flow

<b>SEK MM</b>	<b>Q4 2015</b>	<b>Q4 2014</b>	<b>2015</b>
<b>Cash flow from:</b>			
Operating Activities	73	120	234
<i>of which change in working capital</i>	<i>54</i>	<i>81</i>	<i>133</i>
Investing Activities	3	(12)	8
<b>Cash Flow before Financing Activities</b>	<b>77</b>	<b>108</b>	<b>242</b>
Financing Activities	(28)	57	(211)
<b>Cash Flow (before FX fluctuations)</b>	<b>49</b>	<b>166</b>	<b>31</b>



## Outlook – CEO comment

“With the continuously difficult economic situation in Russia and the weak market for new machines, it is clear that 2016 will also be difficult.

All in all, however, we are still optimistic about the future of our business as the long-term fundamentals in the Russian construction equipment market remain strong.”

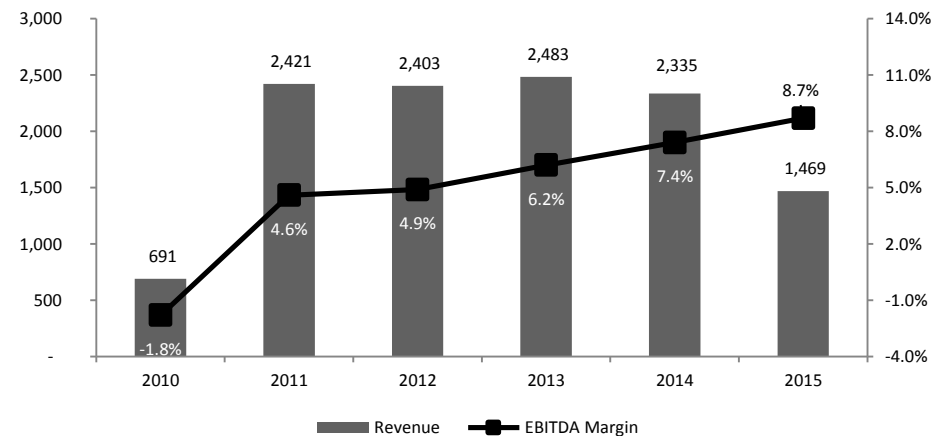


# Ferronordic Machines overview

## Overview

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

## Financial development (SEKm)

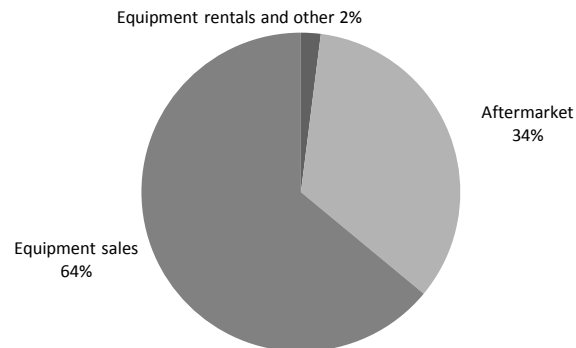


## Development

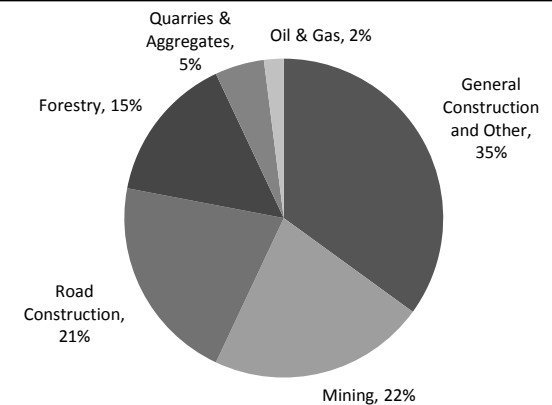
	2010	2015
Employees	326	685
Revenue (SEK M)	1 184 <sup>(1)</sup>	1 469
Outlets	12	65

(1) Annualized

## Revenue per segment 2015



## Revenue per customer type 2015



# Strong long-term fundamentals

## Key facts

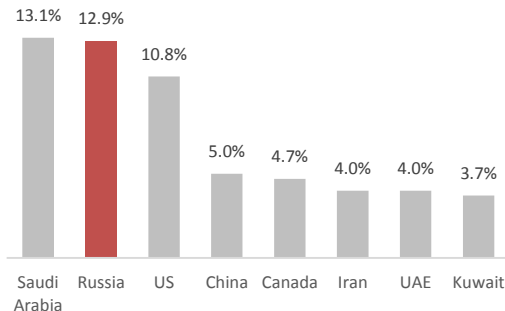
- Capital: Moscow
- Population: ~144 million
- Area:
  - ~2x the size of Canada
  - ~5x the size of India
  - ~38x the size of Sweden
- Rich on forest, oil and minerals
  - World's largest forest land
  - Approx. 50% of revenues for Federal Government relates to oil and gas
- Approx. USD 300 billion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



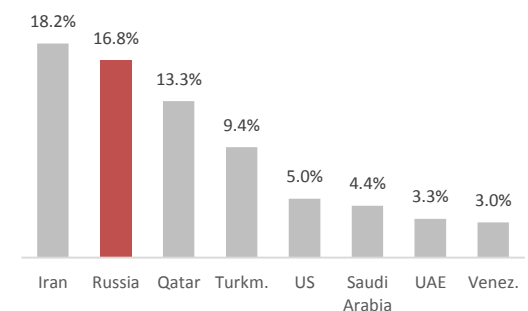
## Major geographic regions

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

## Oil production (% of total)



## Proved reserves of gas (% of total)



# Infrastructure improvements

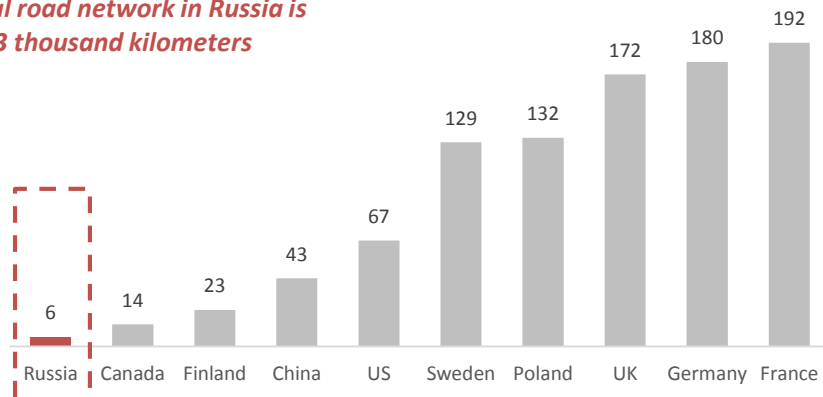
## The general quality of infrastructure in Russia is poor

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

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

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

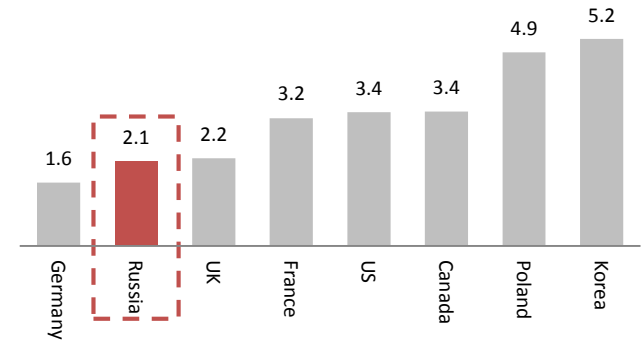
**Total road network in Russia is ~983 thousand kilometers**



Source: World Bank

## Relatively low infrastructure investments historically

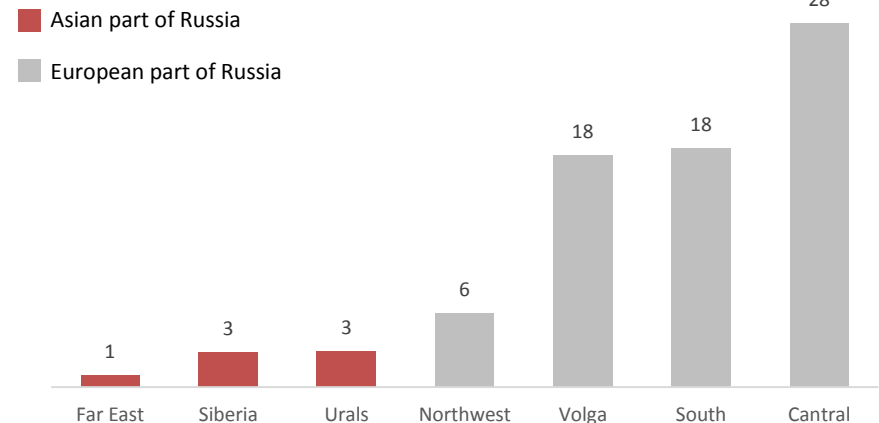
### Average public investment 2006-2011 (% of GDP)



Source: OECD

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

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



Source: PMR Publications



# Market demand drivers

## Old and inefficient equipment

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

## Underlying market activity

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

## Aftermarket development

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

## End user maturity drives outsourcing trend

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

## Substitution effect

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

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