FERRONORDIC

ANNUAL REPORT 2016

CONTENT


This is Ferronordic Machines

	2015	2016
REVENUE (SEK MM)	1,469	1,658
EBITDA (SEK MM)	128	154
EMPLOYEES	685	782
OUTLETS	65	69

- Dealer for Volvo CE, Terex Trucks, Dressta and Rottne in all of Russia
- Aftermarket dealer for Volvo and Renault Trucks in select locations
- Country-wide network for service and sales
- Revenue of SEK 1,658m and EBITDA of SEK 154m


2016 **in brief**

- Continuously weak market with recovery towards the end of the year
- Bulldozers from Dressta added to product portfolio
- Forestry machines from Rottne added to product portfolio
- Continuous strong growth in eastern Russia, particularly Siberia
- Continued trend towards larger machines
- Aftermarket absorption rate exceeding 100%
- Strong result and cash flow

SEK MM	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016
New units sold	523	128	103	101	147	479
Revenue	1,469	310	405	406	537	1,658
EBITDA	128	27	36	45	45	154
Margin	*8.7%*	*8.6%*	*9.0%*	*11.2%*	*8.5%*	*9.3%*
EBITA*	87	22	30	40	39	132
Margin	*5.9%*	*7.2%*	*7.4%*	*9.8%*	*7.3%*	*7.9%*
Net debt / (cash)	(82)	(131)	(178)	(77)	(173)	(173)
Total assets	808	781	973	916	1,033	1,033
Equity/total assets	40%	45%	39%	46%	43%	43%

* Excluding one-off writedowns during fourth quarter 2016.

Strong result and **expanded product portfolio**

Lars Corneliusson, CEO

Given that the market has been at historically low levels, I think we have delivered a strong result which proves that our business model holds even in extremely difficult market conditions

COMPARED TO THE LAST TWO YEARS, 2016 WAS MORE STABLE. The oil price rose significantly with a corresponding strengthening of the ruble. Inflation decreased and the interest levels came down. During the second half, the GDP growth also turned positive. Despite this, however, the Russian economy remained relatively weak during the year. Access to capital was still limited. As a result, several construction projects were postponed further and our customers still had difficulties to find reasonable financing solutions.

THE MARKET RECOVERED DURING THE FOURTH QUARTER. During the first nine months, the market was about 10% lower than during the corresponding period last year. Following the fourth quarter, however, the total market in 2016 was slightly higher than in 2015, which means that the market in the fourth quarter isolated grew by more than 30%. As regards our own product mix, we saw an increase in sales of larger machines, including ten dump trucks from Terex Trucks.

WE ALSO NOTED AN INCREASE IN THE CUSTOMERS' MACHINE UTILIZATION, particularly during the second half of the year. This had a positive effect on our aftermarket sales and should contribute further to the pent-up demand in the market.

TURNOVER INCREASED TO SEK 1.7 BILLION, corresponding to an increase of 13%. This was mainly because we managed to sell more larger machines and that the aftermarket developed positively. At the same time, our projects in contracting services continued to contribute to the sales.

PROFITABILITY AND CASH FLOW IMPROVED. The result for the year, excluding one-off expenses during the fourth quarter, increased to SEK 98m, compared to SEK 29m in 2015. This means that we reached a result per ordinary share (calculated after dividends on preference shares) of SEK 4.50. We also managed to increase our net cash position from SEK 82m to SEK 173m. Given that the market has been at historically low levels, I think we have delivered a strong result which proves that our business model holds even in extremely difficult market conditions.

WE EXPANDED OUR PRODUCT PORTFOLIO. During the year, we became the official dealer for Dressta bulldozers and Rottne forestry machines in all of Russia. We are proud of these appointments which, I think, show the strength in our network and our market position. The new products fit perfectly in our existing offering of machines from Volvo CE and Terex Trucks and are completely in line with our strategy to utilize our network to distribute complementary products. There is still potential to utilize our network and organisation to distribute other complementary products.

WE CONTINUE TO IMPROVE OUR PROCESSES AND ROUTINES. During the year we have, among other things, implemented a system where real-time data from Volvo's telematics system, CareTrack, is automatically transformed into suggested sales actions that are uploaded to the mobile phones of our sales personnel. Over time we think this will lead to considerable additional sales. We also continue to realize our strategy towards increased customer integration, e.g. through our projects in contracting services where we provide machines with operators to excavate and transport earth, and then charge the customers based on the volumes of earth transported.

LOOKING FORWARD there is reason for some optimism. Most forecasts predict that the Russian economy will continue to grow in 2017, although modestly. At the same time, there is a clear pent-up demand in the market and the underlying demand is strong. Hence, we believe that the market will continue to recover during 2017, although not as dramatically as during 2010-2011. How strong and quick the recovery will be, however, will depend on a number of factors that cannot be foreseen.

Vision, objectives **and strategy**

Our vision is to be regarded as the leading service and sales company in the CIS markets

STRATEGIC OBJECTIVES

- Leadership in the market for construction equipment
- Expansion into related business areas, such as other types of machinery and commercial vehicles
- Geographic expansion of current product portfolio
- Extract synergies in dealer network and support functions

FINANCIAL OBJECTIVES

- Double-digit revenue growth in SEK (CAGR over a five-year period)
- EBIT margin of 6-8%
- Net debt to EBITDA of 0-2 times (over a business cycle)
- Absorption rate of 1.0x (the gross profit from the aftermarket shall cover the fixed operating expenses)



CUSTOMER ORIENTATION

- Leading service and product availability
- Tailored service programs
- Financial services offerings
- Developed trade-in system
- Fleet and residual value management
- Rental machines

STRONG BRANDS

- Volvo CE - the third largest manufacturer of construction equipment in the world
- Building on Volvo CE's leading brand position in Russia
- Broad range of equipment for road and general construction, oil and gas, mining, forestry, etc.
- Development through additional strong brands

STRATEGIC CORNERSTONES

SUPERIOR INFRASTRUCTURE

- High density network – many points of presence
- Mobile workshops and service-trucks
- Well equipped, purpose-built facilities in select locations
- Infrastructure to be used for complementary brands

OPERATIONAL EXCELLENCE

- Implementation of best practices and processes
- Leading IT systems
- Close cooperation with equipment manufacturers
- Get the right people to do the right job right
- Continuous improvement of existing processes

Market **overview**

Ferronordic Machines is active on the Russian market for high-quality construction machines. These machines are primarily used for the construction of infrastructure, roads and heavy installation, but also operationally in a wide range of industries, such as mining, quarries, aggregates, oil & gas and forestry. The company also operates services stations for Volvo and Renault Trucks in select locations in Russia.

THE RUSSIAN ECONOMY

Russia is the largest country in the world measured by area. The population amounts to 144 million. The country has an abundance of oil, natural gas, metals and other natural resources. It is the world's second largest producer of oil and it holds the world's second largest proven reserves of natural gas. The country is a leading producer and exporter of minerals and gold. Russia also has 800 million hectares of forest land (1/5 of the total forest area in the world), making it the largest forest country in the world. These natural resources have, and will continue to have, great importance to the Russian economy.

During 2000-2008, the Russian economy grew on average 7% per year. The global financial crisis in 2008 also hit Russia, though no long-term damage was done. Thus, a brief recession was followed by strong recovery, beginning in late 2009. After a few years of strong growth, the economy slowed down somewhat and grew by a mere 1.3% in 2013.

In 2014, international sanctions were imposed on Russia related to Crimea and the conflict in eastern Ukraine. This together with a dropping oil price led to a significant depreciation of the Russian ruble and limited access to capital in the market. Consequently, the Russian economy grew by a mere 0.6% in 2014, followed by a drop of 3.8% in 2015.

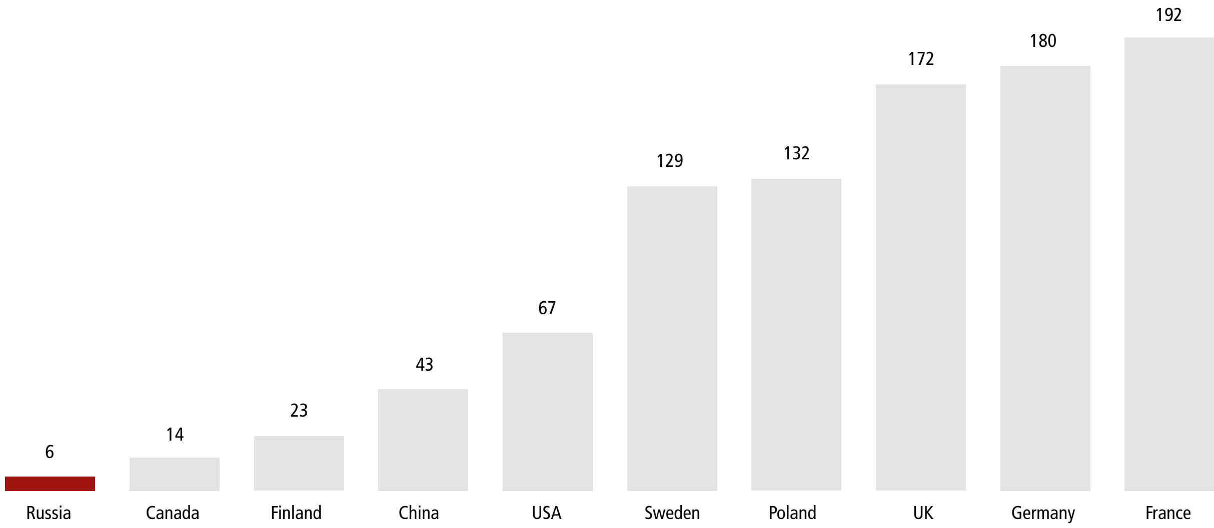
The economy remained weak during 2016. GDP continued to fall through the first half of the year, followed by a slight recovery during the second half, resulting in a reduction of GDP during 2016 of 0.7%. Agriculture was an important contributor to the economy during the year. The oil price increased from USD 36 per barrel to about USD 55. This resulted in a significant recovery of the ruble, which changed from 8.8 to the SEK to 6.8. during the year. Annual inflation came down from 12.9% in 2015 to 5.4% in 2016. For 2017, most forecasts predict that the Russian economy will grow by 1.0-1.5%, depending mainly on the development of the oil price and whether financial sector sanctions will be eased.

Despite the current economic situation, we expect the Russian economy to continue to grow long-term, partly because of the country's significant natural resources, and partly because of the infrastructure investments which will be necessary going forward.

The market for construction equipment is expected to capitalize on the long-term growth in Russia. An important driver for this will be the need to improve the country's aging infrastructure, the bulk of which was built in the Soviet era and generally needs to be upgraded. An example is the country's road and railroad networks, which are not only old and in poor condition but also have very low density.

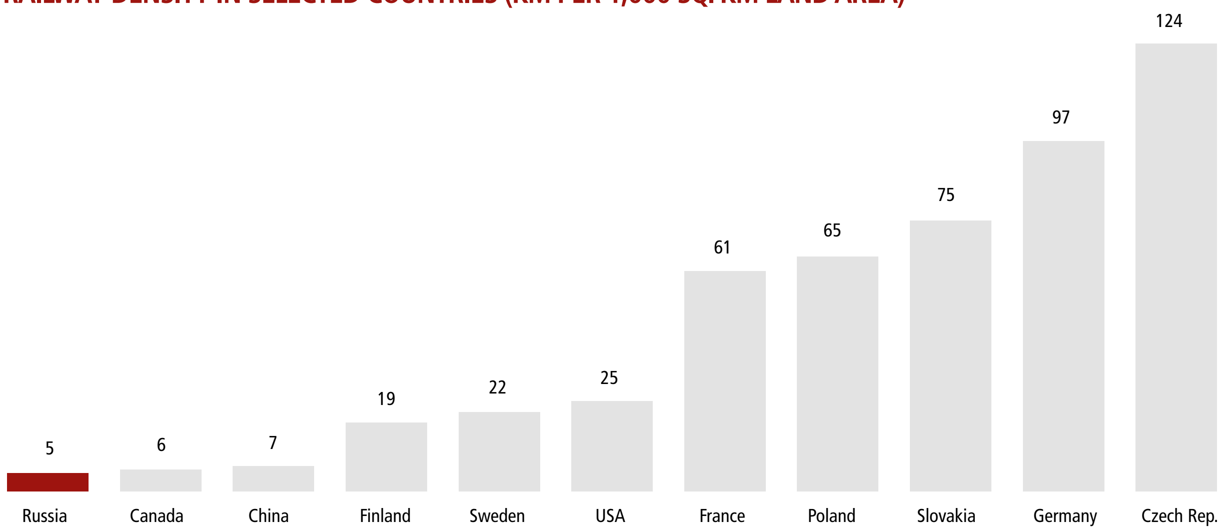
The improvement and the expansion of Russia's road network are expected to be important parts of the country's continued economic development. Several major construction projects are planned or ongoing. In order to carry out these projects, the existing population of construction equipment in Russian must grow significantly.

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



Source: World Bank

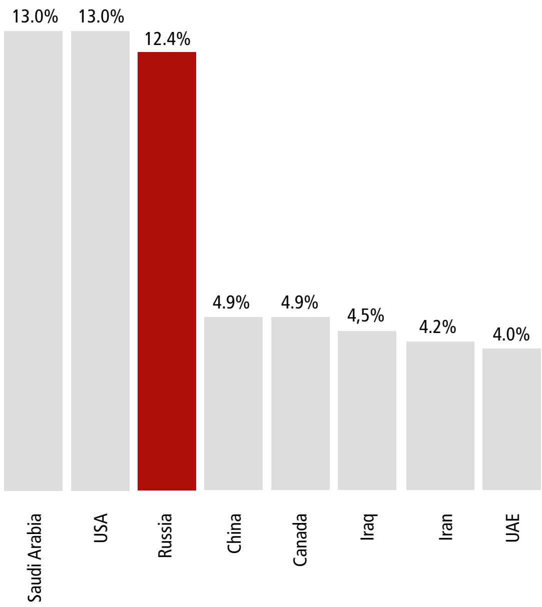
RAILWAY DENSITY IN SELECTED COUNTRIES (KM PER 1,000 SQ. KM LAND AREA)



Source: World Bank

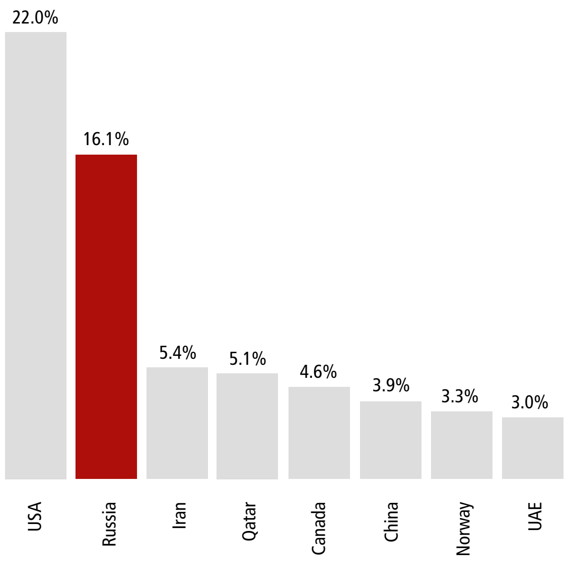
Another driver for long-term growth and future construction projects will be the continued extraction and refinement of natural resources, in particular oil and gas, but also minerals, gold and forestry.

OIL PRODUCTION (% OF TOTAL)



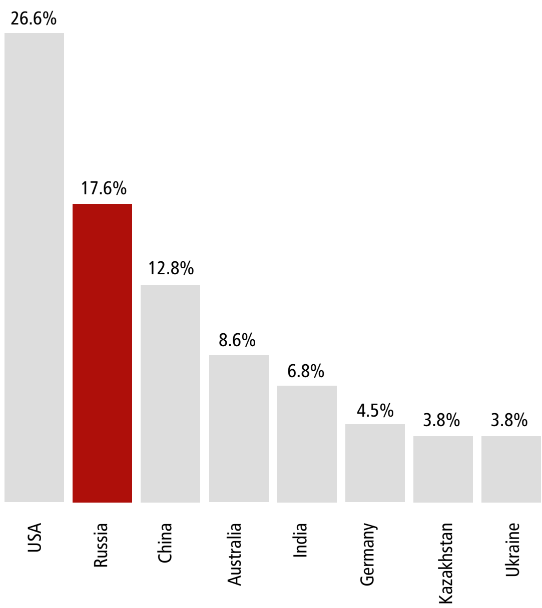
Source: British Petroleums Statistical Review of World Energy, june 2016.

NATURAL GAS PRODUCTION (% OF TOTAL)



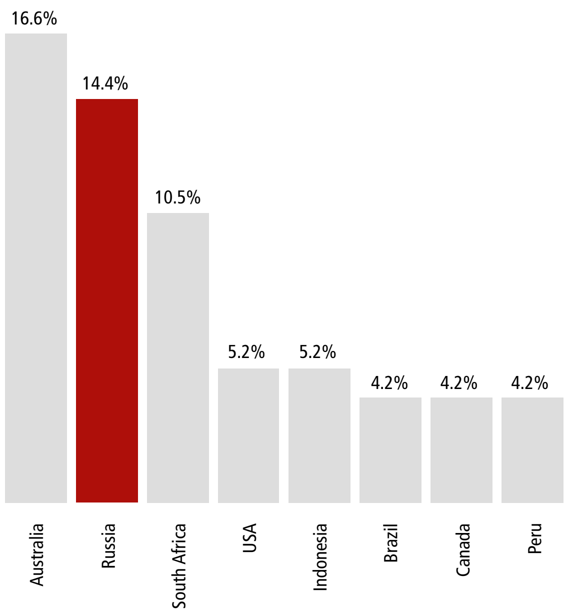
Source: British Petroleums Statistical Review of World Energy, june 2016.

COAL RESERVES (% OF TOTAL)



Source: British Petroleums Statistical Review of World Energy, june 2016.

GOLD RESERVES (% OF TOTAL)



Source: U.S. Geological Survey, Mineral Commodity Summaries, January 2017.

THE RUSSIAN CONSTRUCTION EQUIPMENT MARKET

Construction machines are used in a wide range of applications in the construction industry and several other industries. The areas of use include construction and maintenance of roads, heavy industry, utilities, residential housing, as well as infrastructure for the oil and gas industry. The machines are also used operationally in, for example, mining, quarries, aggregates and forestry.

Industry	Main area of use	Main geographical areas	Portion of Ferronordic new equipment sales
Mining	• Construction of infrastructure • Operational use in day-to-day operations (e.g. excavation, earth-moving, etc.)	• Urals • Siberia • Far East	28%
General construction and other	• Construction of heavy industry • Construction of utilities • Construction of residential and commercial properties	• Whole Russia	22%
Forestry	• Site construction and maintenance • Harvesting • Transportation of logs	• North West • Siberia • Far East • Volga	21%
Road construction	• Construction of new roads • Upgrading of existing roads • Maintenance and repair of roads	• Whole Russia	16%
Quarries and aggregates	• Extraction and production of raw material for the construction industry	• North West • South • Siberia • Central • Urals	10%
Oil & gas	• Construction of pipelines and other infrastructure etc. • Construction of refineries and other facilities • Maintenance of existing infrastructure	• Volga • Urals • Siberia	3%

Note: General construction and other also include areas such as agriculture and landscaping, demolition, industrial material handling, recycling and waste.

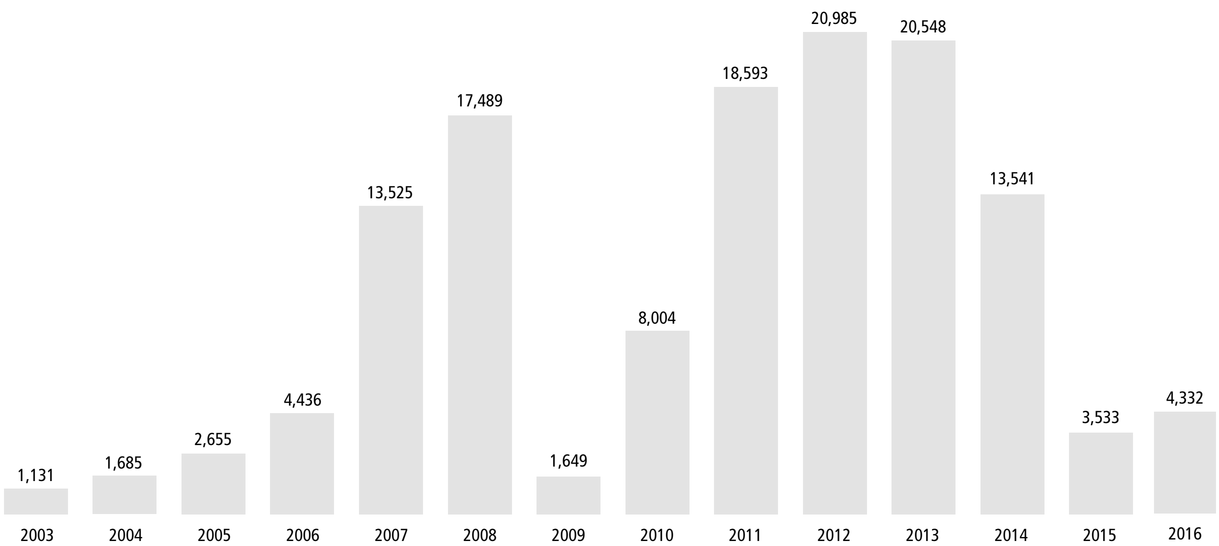
Market **development**

Unsurprisingly, the negative development of the Russian economy since 2014 has had a significant negative impact on the demand for new construction equipment in the country. During 2014 and 2015, the market for new machines fell by 25% and 65%, respectively. During 2016, the market continued to fall during the first nine months, but then recovered during the fourth quarter. In total, the market 2016 was therefore somewhat larger than in 2015. Despite the weak market during the last years, however, the import of foreign construction equipment to Russia has generally grown significantly during the last 10 years. The main reason has been the general growth in construction in the country, as well as the need to replace and upgrade the existing machine population - a trend we expect to continue going forward once the market normalizes.

Ferronordic Machines mainly distributes machines from Volvo CE, a well-known brand in Russia. In addition, we distribute machines from Terex Trucks (owned by Volvo CE), Dressta and Rottne. Our product offering ranges from large machines, such as rigid dump trucks and large bulldozers with prices exceeding SEK 10m, to compact excavators with prices under SEK 0.5m. The main competitors are other manufacturers of high-quality construction equipment, such as Caterpillar, Komatsu and Hitachi.

Among imported equipment, we see a clear difference between western manufacturers, offering machines of higher quality, higher prices and good aftermarket support, and Chinese manufacturers, offering less expensive, standardized and often small-type machines (such as small wheel-loaders).

RUSSIAN CONSTRUCTION EQUIPMENT IMPORT STATISITCS (UNITS)



Source: Russian import statistics provided by Volvo CE and Ferronordic Machines.
Note: The decrease in number of imported machines in 2015 amounted to 74%. As described above, the market in 2015 dropped by 65%. The difference in the decrease in number of imported machines and the decrease in the market was caused by the fact that, in early 2015, there were inventories of machines imported already 2014. The market drop is based on sales statistics rather than import statistics. However, over a longer period of time, these two statistics are similar.
Note: Excludes Chinese machines.

Pent-up **demand**

As explained above, there is a general need to increase the total number of construction machines in Russia, partly to carry out necessary infrastructure projects, and partly to be able to continue the substantial extraction of natural resources. However, a very large part of the machines that exist in Russia today also need to be replaced as they are already old and outdated.

To our benefit, this will also drive the market for new machines going forward. During the last three years, this pent-up demand has grown even quicker than before, as customers, due to the economic situation, were forced to operate their machines longer than usual.

The Company

Ferronordic Machines is the authorized dealer of Volvo Construction Equipment and Terex Trucks in Russia. It is also the official distributor of Dressta and Rottne in Russia. Ferronordic Machines has also been appointed aftermarket dealer for Volvo and Renault Trucks in certain parts of Russia. The company began its operations in 2010 and has expanded rapidly across all of Russia. The company is well established in all federal districts with 69 outlets and about 800 employees. The vision of Ferronordic Machines is to be regarded as the leading service- and sales company in the CIS markets. The preference shares of Ferronordic Machines AB are listed on NASDAQ OMX First North Premier. The company has appointed Avanza Bank AB as its Certified Advisor.

(SEK MM)	2011	2012	2013	2014	2015	2016
Outlets	53	69	74	75	65	69
Employees	540	654	731	767	685	782
Revenue	2,421	2,402	2,483	2,335	1,469	1,658
EBITDA	111	117	153	172	128	154

BUSINESS CONCEPT

In more developed markets, the focus of construction equipment customers has generally shifted from initial price to total cost of ownership during the machine's entire life-cycle, including fuel costs, cost of repair and maintenance, cost of standstill, residual value, etc. In Russia, however, customers often continue to focus on initial price. Factors like quality, productivity, high machine utilization and residual value have been less important. However, we see that this is changing.

To meet the individual needs and increasing sophistication of our customers, we have developed a complete offering, both for Volvo CE and our other brands. Thus, in addition to delivering high-quality machines, we also provide consultancy services, such as fleet management, operator training, trade-in of used machines, site simulation and advice regarding optimal fleet composition and specifications. Since 2014, we are even performing certain operations for customers in the mining industry. Although still on a small scale, we expect this business to grow. Altogether, these services make Ferronordic Machines an integrated partner for our customers and more than ”just” a supplier of equipment.

As such, Ferronordic Machines is also a strong force, we think, in driving the shift in focus in Russia from initial purchase price towards total life-cycle cost. Going forward, this will benefit both Volvo CE and other manufactures of premium machines.

An important part of reducing the total lifecycle cost is to ensure that the machines have high utilization. Machines that cannot be used, because of poor planning or breakdown, can have catastrophic effect on the customer's profitability. The high cost of machines at standstill results in great demands on dealers as regards service levels and availability of spare parts. This has been a key driver for us for building a high-density, mobile network across the whole of Russia. Proximity to customers, a large number of outlets and high availability of service and parts are three differentiating factors of Ferronordic Machines on the Russian market. The fact that we operate all over the country has been crucial during the last years since we have been able to move resources to regions and sectors less affected by the economic downturn.

For our market, we also have an unusually strong focus on the commercialization of the aftermarket, i.e. a proactive and competitive offering of customer service and spare parts supply, based on real-time data from the existing machine population and long experience in the industry. Lately we have implemented a system where signals from Volvo CE's telematics system, CareTrack, is automatically transformed into proposed sales actions (for both machine and aftermarket sales) that are uploaded to the mobile phones of the sales staff. We believe that this will lead to significant additional sales in the future.

Our business concept has been a strong contributing factor to the further strengthening of the number one brand position of Volvo CE in Russia between the years 2011 and 2016[1]. Customers surveyed have in particular appreciated customer relations, dense network and good service packages when answering the survey.

1 According to the Volvo Construction Equipment Brand Track Survey in 2016

Brands

VOLVO CONSTRUCTION EQUIPMENT

Ferronordic Machines is the official dealer for Volvo Construction Equipment in Russia since 2010. Volvo CE is our main brand and represents about 82% of our total revenue. The agreement with Volvo CE is in force until further notice. Either party can terminate the agreement by giving 180 days' prior notice, which is in line with Volvo CE's standard terms for dealers around the world.

Volvo CE is a leading international manufacturer of premium construction equipment, and with over 14.000 employees it is one of the largest companies in the industry. Volvo CE is the leading brand in Russia. The product offering includes a wide range of machines in different sizes and categories.
In 2016, we sold 446 new Volvo CE machines.

TEREX TRUCKS

Since December 2014, we are the official dealer for Terex Trucks in all of Russia. Our agreement with Terex Trucks (which is owned by Volvo CE) is largely the same as the agreement with Volvo CE. The agreement is in force until further notice and can be terminated by either party by giving 180 days' prior notice. In its factory in Scotland, it produces dump trucks with payloads from 41 to 91 tons. Since 2007, Terex Trucks has sold about 200 dump trucks to Russia and CIS. Terex Trucks has contributed well to our aftermarket sales since the start. During 2016, we also sold our first ten dump trucks.

DRESSTA

In July 2016, Ferronordic Machines was appointed the official distributor of Dressta-branded bulldozers and pipelayers in all of Russia. The cooperation added to our product offering a full range of crawler bulldozers. Headquartered in Poland, Dressta is a global manufacturer of dozers and pipelayers. The addition of Dressta bulldozers fits perfectly into our offering of products from Volvo CE and Terex Trucks, and improves our ability to offer full-package solutions to our customers. The appointment is fully in line with our strategy to use our network to distribute complementary products. In 2016, we sold one Dressta machine.

ROTTNE

In December 2016, Ferronordic Machines became the official distributor for Rottne forestry equipment in all of Russia. The product range includes a complete program of forwarders and harvesters. As part of the cooperation with Ferronordic Machines, Rottne will develop a new series of forwarders and harvesters for the Russian market. All machines will be equipped with engines from Volvo Penta. The Rottne machines are complementary to our Volvo CE offering, and the fact that the machines will have Volvo engines make the synergies even greater. As the appointment only became effective in December, we did not sell any Rottne machines in 2016.

VOLVO TRUCKS AND RENAULT TRUCKS

Ferronordic Machines is also an authorized aftermarket (parts and service) dealer for Volvo Trucks and Renault Trucks. Currently we operate service stations for trucks in eight locations: eastern Moscow, Krasnodar, Arkhangelsk, Kotlas, Khabarovsk, Sakhalin, Norilsk and Noviy Urgengoy. Preparations for the opening of a new truck station in Surgut is currently under way. The truck business is still under development but has become an increasingly important part of our business. It has the potential of being highly profit generating on its own and is very synergetic to our general business. The trucks business also makes it possible to utilize our facilities more efficiently.

Volvo Trucks is the second-largest heavy-duty truck brand in the world. The trucks are sold and serviced in more than 140 countries all over the world. The business is supported by over 2,300 dealerships and workshops. Renault Trucks is also a leader in the industry and active in over 100 countries.

GENSETS

Ferronordic Machines also sells its own labelled diesel generators (gensets), consisting of a Volvo Penta engine with an electric generator. Our gensets are used in places that lack connection to a power grid, or as emergency power-supply if the grid fails. We sold 21 gensets in 2016.


VOLVO


DRESSTA
DRESSTA
TD-20M

Products and **services**

EQUIPMENT SALES

Equipment sales consist of sales of new and used machines, as well as different types of attachments. Most of the revenue from equipment sales comes from new machines from Volvo CE, such as articulated haulers, wheel loaders, excavators, pipelayers, and asphalt pavers. In 2016, the sales of new Volvo CE machines represented 92% of the new machine sales. Sales of new machines also include machines from Terex Trucks, Dressta and Rottne, and attachments from different producers.

Equipment sales also includes sales of used machines. Used machines can either be machines from our own rental fleet, or machines that we trade-in in connection with sales of new machines. The sales of used machines was high during 2015 as we sold out most of our previous rental fleet. During 2016 the sales of used machines went back to lower levels. Another reason for this was the low supply of used machines in the market as customers held on to their used machines in the economic downturn. Compared to dealers on more developed markets, our sales of used machines is still low and thus has potential to grow significantly as the market develops.

During 2015, Volvo CE discontinued the production of motor graders and backhoe loaders. The last grader was sold in November 2015 and since then we have not had access to this product. Regarding backhoe loaders, the supply was sufficient during 2016, but the last machines will probably be sold out during the first half of 2017. We have so far not found any alternative manufacturers for these products. Naturally, the addition of Terex Trucks in 2014 and Dressta and Rottne in 2016 somewhat compensates for these products.

PARTS

Sales of parts is the largest revenue stream from the important aftermarket. In addition to parts for construction machines, we also sell parts for trucks from Volvo and Renault. Good parts availability is a fundamental attribute for dealers and can be a differentiating factor. For this reason we keep inventory of parts throughout Russia. Proximity to customers is decisive for fast delivery and our presence in all districts in Russia makes it possible for us to deliver excellent customer support. We also offer repairs of vital components, such as engines and gearboxes.

SERVICE

Service consists of repairs and maintenance of machines and trucks. It includes planned maintenance, diagnostics and planned and unplanned repairs. We also offer different types of service contracts, tailor-made to fit the customers' individual needs. The service contracts give increased stability in the operations and improve our possibilities to predict future revenue and cashflow.

CONTRACTING SERVICES

As part of our strategy to be more integrated in our customers' operations, we offer so-called "contracting services", where we not only provide and service machines, but also machine operators to carry out specific tasks. Currently, the customers consist of mining companies that have outsourced to us the excavation and transportion of earth and ore at their mine sites. The compensation in these projects is based on the volume of ore and earth transported. This type of outsourcing is common in the mining industry in other parts of the world, particularly in Australia and South Africa. In Russia, this is still a relatively undeveloped business which we expect to grow. In the future, contracting services may also involve projects in other industries.

SOFT PRODUCTS

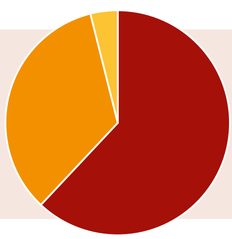
In connection with the sales and servicing of machines, we also offer various soft products, either ourselves or together with our partners. For instance, this includes the Volvo CareTrack system, a telematics system that gives our customers and ourselves information about the customers' machines and how they are used (fuel consumption, etc.). Thanks to CareTrack, we can advise our customers on how to reduce fuel costs, optimize performance, and manage the service plan for their entire fleets and maximize uptime. The system transfers machine data via mobile network or satellite. CareTrack increases our ability to provide a high level of customer service, both in terms of technical support by our mechanics, as well as proactive offers for spare parts and trade-ins of used machines. Soft products also include, *inter alia*, fleet management, project simulations, consulting on fleet optimization, financial services (on or own or through leasing companies), operator training, extended warranties, etc.

REVENUE SPLIT 2016

Machine sales 62.0%

Aftermarket 34.1%

Other 3.9%



Product type	Sample product	New units sold 2016	Description
Excavators		163	Used for a wide range of purposes, e.g. landscaping, trenching, excavation, demolition, loading, piping etc.
Backhoe loader		114	Used in a wide range of applications, including excavation, lifting, loading and material handling.
Wheel loaders		81	Used to move or load materials. Come in several sizes and models, from compact machines to large production machines.
Articulated haulers/dump trucks		59	Volvo CE developed the articulated hauler concept and is the market leader of articulated hauling in demanding conditions. Since 2014 we also sell Terex-branded articulated haulers. Applications include road construction, quarrying, mining and waste handling.
Road construction equipment		24	Pavers (tracked or wheeled) are used to lay asphalt in connection with the construction of roads, airports, etc. Compactors are used to press surfaces, e.g. asphalt or earth, also in connection with construction of roads or similar.
Skid steer loaders		4	Small and versatile machines that can be equipped with a wide range of attachments for snow-removal, digging, loading, demolition, etc.
Pipelayers		1	Pipelayers are excavators with long boom sticks, developed especially to handle different types of pipes. Pipelayers are used in connection with construction and maintenance of various types of piping infrastructure, e.g. sewages or pipelines for oil & gas.
Rigid dump trucks		10	Massive trucks with payloads ranging from 41 to 91 tons. Used to move earth and other heavy loads in connection with mining, quarrying, road construction, etc.
Bulldozer		1	Used to move earth, for example in road construction, aggregates, mining, etc.
Forestry Machines		1	Harvesters are used for felling, delimbing and bucking trees. Forwarders are used to transport logs from the stump to the roadside.
Gensets		21	Power generators driven by a diesel engine from Volvo Penta, assembled in Russia and sold under our own brand.

Our **network**

We operate in a cyclical industry. At the same time we have customers in a number of different industries throughout Russia. This makes us less exposed to trends and business cycles that impact specific regions or industries. During the last economic downturn, for example, the market for new construction equipment has been particularly weak in the European part of Russia, where the construction industry is important, but less so in Siberia and Far East, where mining and forestry are important segments.

Another buffer is provided by our strong focus on the aftermarket, including the increasingly important sales of parts and service for Volvo and Renault Trucks. As seen during 2015 and 2016, the aftermarket sales is less sensitive to changes in business cycles, compared to the sales of machines.

In December 2016 we had 69 outlets throughout Russia. Most facilities are located in large cities or other places that have (or are expected to get) significant investments and high construction activity (e.g. clusters for the oil & gas or mining industries). Standards vary from basic to purpose-built.

Currently we have two owned facilities in operation, both for Volvo CE and for Volvo and Renault Trucks: a 2,382m^2 facility in eastern Moscow region and a 2,620m^2 facility in Arkhangelsk. We also own land plots ready for construction. Other permanent facilities are rented. The smallest facilities consist of a single mechanic with a van, based at home.

We also establish temporary facilities in connection with large projects. These are usually modular service depots based on air-filled hangars and/or containers. These projects are often located in very remote locations (e.g. mines or oil fields) and are often so large and demanding that it is necessary to establish a service station with a small parts warehouse at site. We currently operate eight such customer-based outlets.

Geographic **presence**

Ferronordic Machines has outlets all over Russia. The network is divided into seven regions: Central, Northwest, Volga, South, Ural, Siberia and Far East. These regions roughly correspond to the division of federal districts in the Russian Federation. The company also has a department in Moscow, responsible for relations with larger customers with operations in several regions.

When Ferronordic Machines was founded in 2010, about 82% of all units sold were sold in the Northwest and Central regions. Since then we have continuously expanded the operations to other regions to capitalize on the large projects in the eastern parts of Russia. Thanks to these efforts, the share of units sold in other regions than Northwest and Central has increased to more than 50% in 2016.

NORTHWEST (Europe)

Population: 14m

Regional hub: St. Petersburg

Regional director: Sergey Godun

CENTRAL (Europe)

Population: 39m

Regional hub: Moskva

Regional director: Andrey Korneev

SOUTH (Europe)

Population: 24m

Regional hub: Krasnodar

Regional director: Andrej Vyrodov

VOLGA (Europe)

Population: 30m

Regional hub: Kazan

Regional director: Petr Egorov

URAL (Europe)

Population: 12m

Regional hub: Ekaterinburg

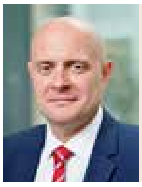
Regional director: Vladimir Gorodchikov

SIBERIA (Asia)

Population: 19m

Regional hub: Krasnojarsk

Regional director: Vladimir Shadrin



FAR EAST (Asia)

Population: 6m

Regional hub: Khabarovsk

Regional director: Vitaliy Demidenko

Sustainability

SUSTAINABILITY IS ABOUT TRUST

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

OUR SUCCESS IS DEPENDENT ON THE SUCCESS OF OUR CUSTOMERS

By providing world-class, fuel-efficient and safe machines, excellent parts availability, and innovative service solutions, we contribute to our customers' long-term success. By doing so, we build a sound basis for a sustainable and profitable business going forward. This will also help us to develop and maintain long-term relations with Volvo and our other partners, based on mutual trust, which further benefit our business and improve our ability to provide even better support to our customers.

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

By allowing our people to learn from their mistakes, we encourage initiatives and creativity. By caring for their safety and wellbeing, we create trust and loyalty. By paying fair salaries and transparent bonuses, we increase motivation. According to our latest employee survey, we have an overall employee engagement score in the company as high as 83%. This has been crucial during the last difficult years in Russia and will be an important driver for our business going forward.

WE HAVE ZERO TOLERANCE FOR CORRUPTION AND ANTI-COMPETITIVE BEHAVIOUR

In a market where corruption is common, this raises trust in our company and the brands we represent and thus increases our long-term competiveness.

THE IMPORTANCE OF SUSTAINABILITY IS GROWING ALSO IN RUSSIA

To grow sales, we, together with Volvo and our other partners, must continue to be able to offer products with lower environmental footprint and continuously improved safety for our customers.

Lars Corneliusson, CEO


VOLVO


VOLVO
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ГДЕ VOLVO
ТАМ ПРАЗДНИК


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VOLVO

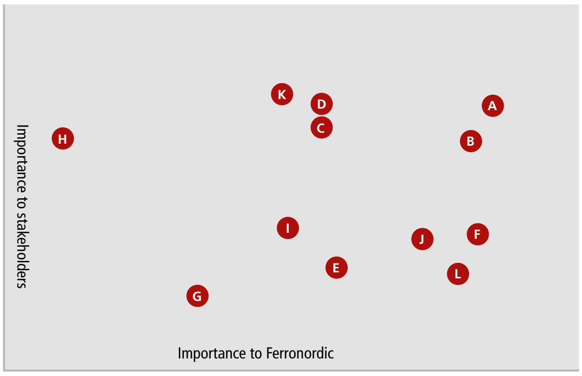
Stakeholders and **materiality**

Our main stakeholders are the following:
1) Customers
2) Partners (manufacturers whose brands we represent)
3) Suppliers
4) Investors (shareholders)
5) Employees
6) Banks and credit institutions
7) Governments and municipalities

We keep an ongoing formal and informal dialogue with our stakeholders to understand their expectations and how to ensure that our business builds additional value for the company and the society. Our most important stakeholders are our customers, our partners, our investors, and our employees.

In this report, we have tried to identify the most significant economic, environmental and social impacts of Ferronordic Machines, as well as the topics that materially influence the assessments and decision of our internal and external stakeholders. The assessment is made based on ongoing discussions with our stakeholders. Many of our partners, in particular the Volvo Group, also clearly communicates their sustainability priorities in their annual reports and on their websites.

The materiality analysis resulted in 12 significant topics that reflect Ferronordic's economic, environmental and social impact:



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

Economic **impact**

We support our customers' value creating by providing high quality products, outstanding parts availability and innovative service solutions. In 2016, we delivered 479 units of new construction equipment. At the same time, we continued to service an existing population of active Volvo CE machines in Russia of about 11,000 units. These machines continuously support our customers' profitability by engaging them to meet their customers' needs. At the same time, we create value for the equipment manufacturers we represent by purchasing machines and parts, promoting their brands, and delivering feedback from customers as to how their needs can be better satisfied.

During 2016, our revenue amounted to SEK 1,658 million (SEK 1,469 million in 2015). The bulk of this was distributed among our stakeholders:

Volvo and other manufacturers whose brands we represent, 68%

Suppliers, 9%

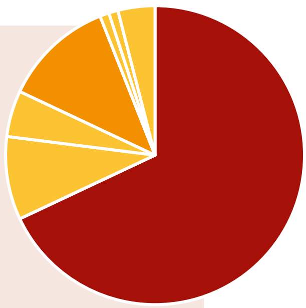
Shareholders (result of the year), 5%

Employees (salaries incl. social security contributions and pensions), 12%

Banks and credit institutions, 1%

Governments and municipalities (taxes and social charges), 1%

Other*, 4%



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

Customer **satisfaction**

Both internal and external stakeholders rank customer satisfaction as our most important sustainability factor. For a company like Ferronordic, ensuring high customer satisfaction is crucial to build sustainable relationships with customers and manufacturers.

Partly we achieve this by providing world-class machines in combination with outstanding parts availability and excellent service. Simply, we make sure that the customers' machines work when they are supposed to, anywhere, anytime.

Another important aspect, however, is our strategy towards increased customer integration, for example through our contracting services in the mining sector, where we provide machines with operators and charge the customers based on the volumes of earth excavated and transported.

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

Environmental **impact**

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

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

An essential part of our work to promote environmental sustainability is our daily work to distribute and maintain fuel-efficient products. A large part of the existing machine population in Russia consists of old machines with suboptimal fuel-efficiency. By striving to replace these old machines, we contribute to a better environment in Russia in general. During 2016, we have also improved the way we utilize machine data from Volvo's CareTrack system in order to detect inefficient machine usage and being able to make proactive offers to our customers on how they can improve their fuel efficiency (e.g. operator training, replacement of components, renewal of machines, etc.).

Compliance with legal and other applicable environmental standards is a requirement included in the Code of Conduct. No breaches of authorization conditions or national or local environmental legislation occurred in 2016 and no fines were paid.

Social impact – employees

At the end of 2016, we employed 782 people in 69 locations (compared to 685 employees in 65 locations at the end of 2015). Most of the new hires were machine operators in our contracting services operations. Our aim is to have the right number of people with the right competences in the right place at the right time, at the right cost. The average age of our employees at the end of 2016 was 38 years (compared to 37, at the end of 2015). About 17% of our employees are female (compared to 18% the year before).

Employees are encouraged to take part in the continuous improvement of our operations, including regarding business development and strategy. According to our latest survey, we have an overall employee engagement score of 87% and an overall employee satisfaction of 83% (compared to 79% and 69%, respectively, according to the last survey, made in 2013). Our employees have been crucial during the last economic downturn in Russia and will be fundamental for the continuous improvement of our operations.

We prefer internal promotion. About 95% of all vacancies are announced internally on the company's intranet. About 60% of all vacant positions are filled internally. During 2016, we made 137 internal promotions (compared to 107 during 2015). This included various management positions, such as the promotion of Vladimir Shadrin (previous Branch Manager in Surgut) to the position of Regional Director of Siberia, and the promotion of Alexander Shmakov (previous Regional Sales Director North West) to the executive management as director of our mining segment.

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

Training and education

Part of our work to build sustainable development is the significant investment we make in training and development of our employees. In 2016, we provided about 45,000 hours of training to our employees, compared to 37,000 training hours in 2015.

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

Product safety

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

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

Occupational health **and safety**

Providing a safe workplace is naturally of great importance to both ourselves and our employees. The goal is to achieve an injury free workplace. Each individual manager and employee is responsible for sustaining a safe working environment. However, we share this responsibility by promoting health and safety across the organization, providing safe workplaces, and ensuring that our employees have relevant training and education. We also employ dedicated health and safety specialists, each responsible for his/her designated geographic area, to support health and safety throughout the organization.

In 2016, no serious accidents occurred that required hospitalization (in 2015, one serious accident occurred that required hospitalization). There were no fatalities in either 2016 or 2015.

The number of reported days of sick leave during 2016 was 2,474, which was slightly less than 2,616 days of sick leave reported in 2015. However, the average days of sick leave per employee decreased from about five days per year to about three days per year.

Anti-**corruption**

Ferronordic Machines has zero tolerance for bribery and corruption. This is not only to comply with applicable law. On our market, this also makes us a more attractive employer and a reliable partner for the brands we represent. It builds long-term, sustainable relations with customers based on trust.

We take active measures to prevent, monitor and investigate potential corruption in our operations. Our anti-corruption program consists of various policies and procedures, regular compliance trainings (including an annual online training), regular risk assessment, whistleblower procedures, as well as auditing. During 2016, all employees except for some machine operators in our contracting services operations participated in the anti-corruption training.

Shares **and shareholders**

Ferronordic Machines AB has two series of shares: ordinary shares and preference shares. The number of ordinary shares amounts to 10,000,000, while the number of preference shares amounts to 500,000. Each ordinary share carries one voting right at the general meeting, while each preference share carries a one tenth (1/10) voting right. At the end of 2016, the company had 20 holders of ordinary shares and over 600 holders of preference shares.

The company's ordinary shares are not listed on any stock exchange. The company's preference shares are listed on NASDAQ OMX First North Premier under the symbol FNMA PREF.

Ferronordic Machines continues to evaluate a listing of the ordinary shares and is well prepared for that when the market conditions allow it.

Larger shareholders 31 December 2016:

	Number of Ordinary Shares	Number of Preference Shares	Share of Capital (%)	Votes (%)
Skandinavkonsult i Stockholm AB	2,964,588	3,000	28.3%	29.5%
Lars Corneliusson (through companies)	1,352,620	720	12.9%	13.5%
Erik Eberhardson (through companies)	1,310,109	-	12.5%	13.0%
Mellby Gård AB	1,216,200	-	11.6%	12.1%
Anders Blomqvist (through companies)	766,299	118	7.3%	7.6%
Creades AB	502,800	16,000	4.9%	5.0%
Fastighetsaktiebolaget Granen	490,800	8,000	4.8%	4.9%
Henrik Carlborg (through companies)	426,130	125	4.1%	4.2%
AltoCumulus S.A.	357,700	-	3.4%	3.6%
Onur Gucum (through companies)	193,554	112	1.8%	1.9%
Other shareholders	419,200	471,925	8.5%	4.6%
Total	10,000,000	500,000	100.0%	100.0%

Share **capital**

Share capital and number of shares:

Year	Action	Number of ordinary shares	Number of class A-preference shares	Change in share capital (SEK)	Share capital (SEK)
2008	New formation	11,000	-	98,211	98,211
2010	Issue of new shares	89,000	-	794,619	892,830
2013	Share split (100:1)	9,900,000	-	-	892,830
2013	Issue of new shares	-	500,000	44,641	937,471
Total number of shares outstanding 31 December 2016		10,000,000	500,000		937,471

The share capital of SEK 937,471 is divided among 10,500,000 shares of which 10,000,000 are ordinary shares and 500,000 are class A-preference shares ("preference shares").

PREFERENCE SHARES

Provided that the general meeting resolves to pay dividends, each preference share carries the right to a preferred dividend of SEK 100 per year until the last payment date before the AGM in 2016. From the first payment date after the AGM in 2016 and until and including the first payment after the AGM in 2023, the preferred dividend increases by SEK 10 per year. If the dividend is not paid, any unpaid amount ("Outstanding Amount") is added to future dividends. The Outstanding Amount is adjusted upwards by 20% p.a. from the date when payment should have been made until the dividends have been paid in full. No dividend can be paid to holders of ordinary shares before the holders of preference shares have received full payments of any Outstanding Amount.

In connection with a potential listing of the ordinary shares on NASDAQ OMX Stockholm or another regulated market, the holders of the preference shares may exchange preference shares into class B-preference shares. Each class B-preference share will then make it possible for the holder to subscribe for a number of ordinary shares in Ferronordic Machines corresponding to SEK 650 divided by 50% of the price per ordinary share offered in the listing. Based on the subscription price for the preference shares, this implies a discount to the listing price of approximately 23% (excluding compensation for accrued dividends and potential Outstanding Amounts).

There are no guarantees that the ordinary shares will be listed or that the company will, or will be able to, implement the conversion right as this requires a resolution on a directed issue of ordinary shares to those holders of the preference shares who wish to utilize the conversion right. Furthermore, a resolution to redeem shares requires that the company has sufficient unrestricted equity.

The company has the right to redeem the preference shares in cash. In such case, the redemption price is SEK 1,200 for class A-preference shares and SEK 1,300 for class B-preference shares (so far only class A-preference shares have been issued).

In the event of liquidation, holders of preference shares have priority over holders of ordinary shares to an amount of SEK 1.200 per preference share (plus accrued dividend and Outstanding Amounts, if any).

The terms of the preference shares are set out in the articles of association of Ferronordic Machines AB, available at the company's website.

TRANSLATION RESERVE

The translation reserve comprises all foreign currency differences arising out of translation of the Group's financial statements from functional currency to presentation currency.

SHARE BASED INCENTIVE PROGRAMS

In accordance with the Board's proposal, the 2016 AGM resolved to approve a new long-term incentive program for the members of the company's executive management and certain other senior employees (in total 14 participants). According to the program, the company paid to the participants a bonus of approximately SEK 2m (divided equally among the participants), which was used to purchase preference shares in Ferronordic Machines. The participants are not allowed to sell the purchased preference shares for a period of three years. If a participant resigns from his/her employment, or is dismissed because of gross misconduct, the participant must sell his/her preference shares to the other participants at a pre-agreed discounted price. In addition to providing long-term incentive to the company's management, the purpose of the program is also to further align the interests of the management and the preference share investors.

For the 2017 AGM, the Board has proposed that the program introduced in 2016 be repeated in 2017. The number of participants would be 15 and the bonus payment to be used to purchase preference shares would amount to approximately SEK 2m.

DIVIDENDS

At the EGM on 4 April 2016, it was resolved to pay dividends on preference shares in an amount of SEK 50 per preference share, corresponding to a total dividend payment of SEK 25m. The dividend was paid on 28 April 2017.

The AGM on 19 May 2016 resolved that no dividends should be paid on either preference shares or ordinary shares for the time being. If the Board later would find that dividends would be possible, the Board would instead convene separate EGMs closer to the record dates where decisions on dividends on the preference shares could be made.

At the EGM on 10 October 2016, it was decided to pay dividends on the preference shares in an amount of SEK 55 per preference share, corresponding to a total dividend payment of SEK 27.5m. The dividend was paid on 28 October 2016.

Further, at the EGM on 22 March 2017, it was resolved to pay dividends on the preference shares in an amount of SEK 55 per preference share, corresponding to a total dividend payment of SEK 27.5m. The dividend will be paid on 28 April 2017, with record date 25 April 2017.

For the AGM 2017, the Board has proposed a dividend on the preference shares in the amount of SEK 60 per preference share, corresponding to a total dividend payment of SEK 30m. The record date for the dividend would be 25 October 2017. Should the meeting approve the proposal, the dividend would be paid around 28 October 2017. As regards the potential preference share dividend in April 2018, the board is of the opinion that no decision should be made at the AGM 2017. Instead, should the Board find the dividend possible, it will convene an EGM closer to the record date in April 2018 where a resolution on the dividend can be made. No dividend shall be made on ordinary shares.


VOLVO
VOLVO


VOLVO


VOLVO

Board of Directors

MAGNUS BRÄNNSTRÖM

Member of the Board and the audit committee

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

Current positions: CEO of Oriflame Cosmetics SA.

Previous positions: Managing Director of Oriflame Russia, 1997-2005.

Independent of the company, its management and major shareholders.

Shares in Ferronordic Machines: 0.

LARS CORNELIUSSON

Member of the Board

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

Current positions: CEO of Ferronordic Machines.

Previous positions: Managing Director of ZAO Volvo Vostok and President of Volvo Trucks Russia, 1999-2011.

Dependent of the company, its management and major shareholders.

Shares in Ferronordic Machines: 1,352,620 ordinary shares (through companies) and 720 preference shares.

ERIK EBERHARDSON

Member of the board

General: Swedish citizen. Born 1970. B.Sc. in Business Administration. Studies in Applied Physics.

Current positions: CEO of ScandSib Group.

Previous positions: Head of business development of Ferronordic Machines, 2012-2016. President and CEO of Ferronordic Machines, 2010-2012. Chairman of OJSC GAZ, 2008-2009. CEO and President of OJSC GAZ, 2006-2007. President of Volvo Construction Equipment, CIS and Russia, 2002-2005.

Dependent of the company, its management and major shareholders.

Shares in Ferronordic Machines: 1,310,109 ordinary shares (through companies).

HÅKAN ERIKSSON

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

General: Swedish citizen. Born1962. M.Sc. in Business Administration.

Current positions: Board member of Skandinavkonsult Holding i Stockholm AB with subsidiaries and Nivika Intressenter AB with subsidiaries.

Previous positions: Chairman of the Board of Kapitalkredit Sverige AB, 2010-2015 and Clearcar AB, 2012-2016.

Independent of the company and management. Dependent of major shareholders.

Shares in Ferronordic Machines: 2,964,588 ordinary shares and 3,000 preference shares (through companies).

PER-OLOF ERIKSSON

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

General: Swedish citizen. Born 1938. M.Sc. in Applied Physics (T Dr hc).

Current positions: Board chairman of Odlander, Fredriksson & Co AB, OFP Partners AB, HealthCap Advisor AB and HealthCap VII Advisor AB. Board member of Kamstrup AB and Kamstrup Karlskrona AB.

Previous positions: President and CEO of Sandvik AB, 1984-1994. President and CEO of Seco Tools AB, 1976-1984. Previous board memberships include AB Volvo, Assa Abloy, Skanska and Handelsbanken.

Independent of the company, its management and major shareholders.

Shares in Ferronordic Machines: 121,600 ordinary shares (through company) and 1,155 preference shares.

KRISTIAN TERLING

Member of the Board, the remuneration committee and the audit committee

General: Swedish citizen. Born 1969. M.Sc. in Electrical and Electronic Engineering.

Current positions: Managing Director and Head of Banking, Nordic Region, at HSBC.

Previous positions: Managing Director at Houlihan Lokey, 2012-2014, Managing Director at Credit Suisse, 2006-2012, Sector Head of Corporate Finance at Handelsbanken Capital Markets, 2003-2004 and Vice President of Technologies/Nordic Investment Banking, 1992-2003.

Independent of the company, its management and major shareholders.

Shares in Ferronordic Machines: 0.

Executive Management

LARS CORNELIUSSON
Chief Executive Officer

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

Shares in Ferronordic Machines: 1,352,620 ordinary shares (through companies) and 720 preference shares.

NADEZHDA ARZUMANOVA
Human Resources Director

General: Russian citizen. Born 1979. Studies in Organizational Management.Employed since 2010.

Shares in Ferronordic Machines: 112 preference shares (through companies).

ANDERS BLOMQVIST
Chief Financial Officer

General: Swedish citizen. Born 1970. M.Sc. in Business Administration. Employed since 2010.

Shares in Ferronordic Machines: 766,299 ordinary shares (through companies) and 118 preference shares.

HENRIK CARLBORG
General counsel

General: Swedish citizen. Born 1975. LLM.Employed since 2013.

Shares in Ferronordic Machines: 426,130 ordinary shares (through companies) and 125 preference shares

ONUR GUCUM
Commercial Director

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

Shares in Ferronordic Machines: 193,554 ordinary shares and 112 preference shares (through companies).

ALEXANDER SHMAKOV
Director Mining

General: Russian citizen. Born 1978. Studies in management. Employed since 2010.

Shares in Ferronordic Machines: 112 preference shares (through companies).

ANTON ZHELYAPOV
Director Trucks

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

Shares in Ferronordic Machines: 112 preference shares (through companies).

AUDITORS
At the AGM on 19 May 2016, KPMG was appointed auditor until the next annual general meeting, with Mattias Lötborn as the main responsible auditor and without deputy.

Directors' **report**

The Board of Directors of Ferronordic Machines AB, corporate registration number 556748-7953 (parent company), hereby presents its annual report and consolidated financial statements for the financial year 2016. All amounts are indicated in SEK millions (SEK m) unless otherwise stated. Amounts in brackets refer to the financial year 2015 if not otherwise stated.

THE BUSINESS

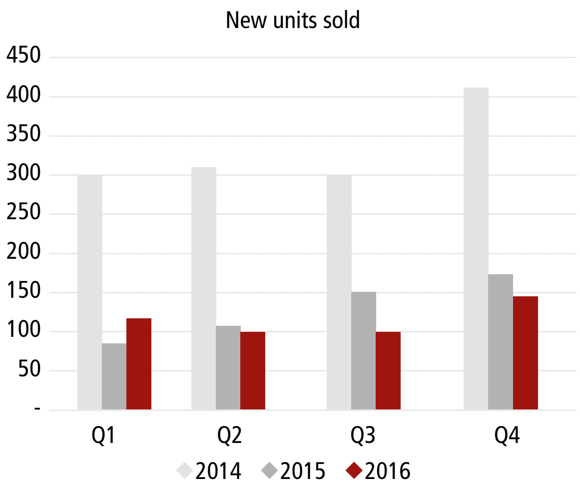
The parent company (together with its subsidiaries referred to as the "Group" or "Ferronordic Machines") is a Swedish public limited liability company with its seat in Stockholm. The parent company is the holding company of the Group and provides financing for the Group's operational companies. The parent company is also the owner of the trademark "Ferronordic Machines."

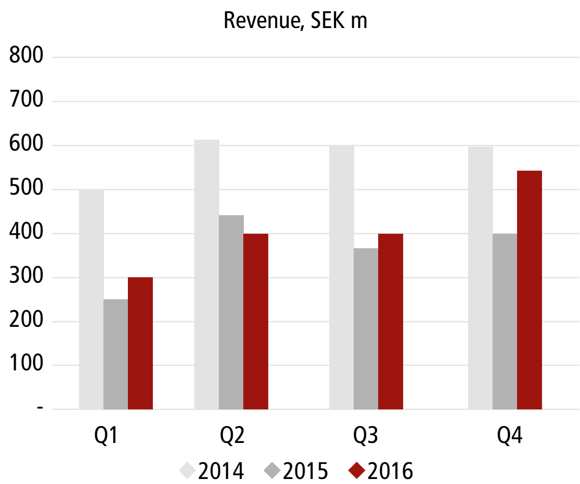
The Group was created in 2010 to acquire and operate the Volvo CE distribution business in Russia. In connection thereto, the Group was appointed the official Volvo CE dealer in Russia. Since then the Group has also been appointed distributor for several other brands. The operations primarily consist of selling new and used construction equipment, spare parts and attachments, and providing service of machines, technical support and other services.

The Group's customers are operating in Russia and are active in a variety of industries, including construction, oil & gas, mining and forestry.

OPERATIONS IN 2016 COMPARED TO 2015

In 2016, Ferronordic Machines generated revenue of SEK 1,658m, a 13% increase compared to 2015. However, in local currency the revenue increased by 21% and reached RUB 12,810m. Revenue from sales of equipment increased by 10% while revenue from the aftermarket increased by 13%. In rubles, however, the revenue from sales of equipment increased by 18% while the revenue from the aftermarket increased by 22%. As the gross margin was stable and only increased by 0.1 percentage points to 22.1%, the gross profit, similar to the revenue, increased by 13%. This together with lower general and administrative expenses, partly offset by higher selling expenses and certain one-time expenses related to write-offs, led to an increase in EBITDA margin of 0.6 percentage points. EBITDA for 2016 amounted to SEK 154m, a 20% increase compared to SEK 128m in 2015. Cash flow from operating activities was SEK 141m, which was lower than the previous year but still strong. Cash outflow from investing activities was SEK 5m. This resulted in a net cash position at the end of the year of SEK 173m[1].





[1] Interest-bearing liabilities less cash and cash equivalents.

REVENUE

The revenue during the year increased by 13% to SEK 1,658m (SEK 1,469m). In rubles the revenue increased by 21%. The revenue from equipment sales increased by 10% while the aftermarket revenue increased by 13%. In rubles the revenue from equipment sales increased by 18% while the revenue from aftermarket sales increased by 22%.

GROSS PROFIT AND RESULTS FROM OPERATING ACTIVITIES

Gross profit amounted to SEK 366m (SEK 324m), an increase of 13%. This was primarily a result of higher sales of new machines, including ten dump trucks from Terex Trucks and one bulldozer from Dressta. The increased result was somewhat reduced by a decrease in sales of used equipment. The gross margin increased minimally to 22.1%, compared to 22.0% during 2015.

The results from operating activities increased to SEK 104m (SEK 61m). The increase was primarily a result of the improved gross profit and lower general and administrative expenses. The reduction in administrative expenses was a result of reduced amortization of intangible assets related to licenses from Volvo, which expired in May 2016. The increase was partly offset by an increase in selling expenses, as well as the one-off expenses related to impairment of property, plant and equipment and intangible assets (see below). Excluding these one-off expenses, the result from operating activities amounted to SEK 123m.

RESULT BEFORE INCOME TAX

The result before tax increased to SEK 107m (SEK 37m). This was also a result of the improved result from operating activities, as well as lower financial expenses and net foreign exchange gains (instead of net foreign exchange losses during the previous year).

RESULT FOR THE YEAR

The result for the year increased to SEK 84m (SEK 29m). Excluding one-off expenses, the result for the year amounted to SEK 98m.

CASH FLOW AND INVESTMENTS

The cash flow from operating activities was lower than the year before but still strong at SEK 141m (SEK 234m). The decreased cash flow was primarily a result of increased inventories, partly offset by the improved result and higher payables. Cash flow from investing activities during 2016 amounted to SEK -5m (SEK 8m). This was primarily due to higher investments in property, plant and equipment and intangible assets.

FINANCIAL POSITION

Cash and cash equivalents at the end of 2016 amounted to SEK 199m, an increase of SEK 24m compared to the end of December 2015. Interest-bearing liabilities at the end of the year (including short- and long-term financial leases) amounted to SEK 26m, a decrease of SEK 67m compared to the end of 2015. The reduction in interest-bearing liabilities is a result of the repayment of loans to reduce financing costs.

Equity at the end of the year amounted to SEK 442m, an increase of SEK 120m compared to the end of 2015. The increase was a result of the increased result of the year, as well as positive translation differences in the amount of SEK 89m, following the strengthening of the ruble. The increase was partly offset by dividends on the company's preference shares in the amount of SEK 52.5m.

IMPAIRMENT LOSSES

The Group has previously made investments to prepare for the construction of service stations on the Group's land plots in Ekaterinburg and Petrozavodsk. The investments were included in property, plant and equipment. Due to the economic situation in Russia, the construction of the service stations have been postponed. Hence, when trying the need for impairments in December, it was decided that the carrying value of these assets should be written down by SEK 13m to correspond to the assets' assessed market value. The impairment loss is a one-off expense, recognized in other expenses.

Previously, the Group has also made investments of SEK 6m in the development of a CRM system. The investments were included in intangible assets. In December it was concluded that the project will not be finalized because the company started to use another system instead. When trying the Group's impairment need it was thus decided that the investments relating to the planned system should be written off in their entirety. The impairment loss is a one-off expense, recognized in other expenses.

NEW BRANDS AND PRODUCTS

In July, the Group was appointed the official distributor of Dressta in all of Russia. The cooperation adds to Ferronordic Machines' product offering a full range of crawler bulldozers and crawler pipelayers. In September, the parent company entered into an agreement with Rottne Industri AB under which Ferronordic Machines were to be appointed the official distributor of Rottne forestry equipment all over Russia. The product range includes a complete program of forwarders and harvesters.

The appointment became effective in December upon the termination of the Group's previous distribution agreement with Logset.

DISCOUNTINUED PRODUCTS

During 2015, Volvo CE discontinued the production of motor graders and backhoe loaders. The last grader was sold already in November 2015 and since then the Group has not been able to sell this product. Regarding backhoe loaders, the supply was sufficient during 2016, but the last machines will probably be sold out during the first half of 2017. So far, we have not found any alternative manufacturers for these products. The loss of these products is partly compensated by the addition of Terex Trucks in 2014 and Dressta and Rottne in 2016.

NEW CREDIT FACILITIES

In April, Ferronordic Machines LLC entered into a new agreement for a financial lease with RB Leasing (a subsidiary of Rosbank). The lease amounts to RUB 250m and is valid for three years. The lease was used during the year to replace cars in the Group's carpool.

In May, Ferronordic Machines LLC signed an agreement with Sberbank regarding a credit facility in the amount of RUB 1,000m. The credit facility is valid until December 2017. Further, in June, Sberbank also issued a RUB 500m bank guarantee in favor of Volvo as security for the Group's payables to Volvo.

In July, Ferronordic Machines LLC signed an agreement with SMP Bank regarding a RUB 500m credit facility. The facility is valid until July 2018.

CHANGES IN THE BOARD

Ferronordic Machines' board member, Martin Leach, passed away on 1 November 2016. Martin Leach was a member and the vice chairman of the board since the Group's foundation in 2010. During the last years, Martin Leach was also the chairman of the board's audit committee. Following the passing of Martin Leach, the board consists of six members.

On 27 January 2017 it was announced that the chairman of the Board, Per-Olof Eriksson, has declined re-election at the AGM 2017. The nomination has therefore proposed that the AGM elect Staffan Jufors as new Board member and new chairman of the Board.

EMPLOYEES

The number of employees at the end of the year, converted to full-time employees, was 782 people. This corresponds to an increase during the year of 97 people. The new employees were mainly machine operators involved in the Group's contracting services operations.

Competence development

The Group provides training to all employees, in particular mechanics and sales representatives. A large part of the training materials is provided online, and most of it is translated into Russian. In 2016 the Group provided over 45,000 training hours (37,000).

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 opportunities and personal development for the employees, the company promotes internal recruitment.

Compliance Program

The Group works actively to prevent corruption and different kinds of fraud in the operations. The Group's anti-corruption program consists of various policies and procedures, regular trainings (including an annual online training), regular risk assessments, whistle-blower procedures, and various audits. In 2016, all employees except certain machine operators in contracting services participated in anti-corruption training.

RISKS AND INCERTAINTIES

The Group is exposed to various types of operational and financial risk. To identify, assess and manage these risks is fundamental for the Group's profitability and financial position. Operational risks are associated with the Group's daily operations and relate to, *inter alia*, changes in business cycles, procurement, capacity utilization and price risks. The financial risks are associated with the amount of capital tied up and the Group's long- and short-term capital requirements. The operational risks are greater than the financial risks.

The parent company is indirectly exposed to the same risks and uncertainties as the Group.

RISK MANAGEMENT

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

OPERATIONAL RISKS

Political environment
Political conditions in Russia were highly volatile in the 1990s. Over the past decades the course of political and other reforms has in some respects been uneven and the composition of the Russian government has at times been unstable. The Russian political system continues to be vulnerable to popular dissatisfaction. During Vladimir Putin's presidency the Russian government and parliament have generally been stable, although there have been public protests in Moscow and other urban areas following the elections for the State Duma in December 2011 and the re-election of Vladimir Putin as president in March 2012.

International sanctions
The international sanctions that were imposed on Russia due to the conflict in Ukraine during 2014 and 2015 remain in force. The sanctions have not prevented the Group from continuing its business with existing customers or otherwise had any direct negative effect on the Group's operations or financial position. However, the sanctions have contributed to the economic downturn in Russia during the last years, in particular the sanctions targeted at the Russian financial sector.

Increased protectionism
In the wake of the sanctions and economic downturn, there have been signs of increased protectionism in Russia For example, in 2014 the Russian government introduced a decree that prevents state and municipal enterprises from purchasing foreign construction machines if there are Russian produced equivalents. The decree has only had limited effect on the Group's operations, but it cannot be excluded that similar and more extensive laws and regulations may be introduced in the future which may have a material negative effect on the Group's operations, financial position and result. During 2016, the political support for import substitution and increased localization has increased.

Corruption
Russian and international media continuously report on widespread corruption in Russia. These reports are confirmed by Russia's ranking in Transparency International's corruption index (Russia currently holds place 119 out of 165 countries in total). The Group has strict rules and routines to prevent corruption. Despite this, however, it cannot be excluded that different forms of corruption could affect the Group's operations, financial position and result negatively (e.g. demands from corruption civil servants, accusations that the Group or its management is involved in illegal or corrupt activities, etc.).

The Russian tax system
For information on risks associated with the Russian tax system, please see Note 25 (*Contingencies*).

Changes in economic activity
As seen during the last economic downturn, the market for new construction equipment is relatively sensitive to changes in business cycles. Many project are publicly funded and budget cuts and other political decisions have a large impact on demand. In the long-term, however, the demand for machines is driven by a country-wide pent-up need to renovate and upgrade old and outdated infrastructure and to replace a large part of the old and inefficient machines that are in Russia today.

The demand for parts and service is less sensitive to changes in business cycles than machine sales.

Capacity utilization
Except for the last years, the Group has continuously expanded its network. The Group plans to continue this expansion when the market recovers. An unforeseen decline in capacity utilization, e.g. as a result of economic downturn, discontinuation of certain products, etc., generally results in a loss of revenue which in the short term cannot be offset by a corresponding cost reduction.

Price risks
The prices that the Group is paying for the products that it purchases from Volvo and its other suppliers for resale have vital importance for the Group's profitability and competitiveness. Too high pricing may result in lost sales, lost market shares, and significantly reduced profitability. The Group manages this risk by continuously, together with Volvo and other suppliers, monitoring the development of price positioning and market shares, and continuously adjusting the prices that the Group is paying for machines and parts.

Insurance coverage
The insurance market in Russia is underdeveloped and some insurance coverage that is common in other countries is not available in Russia or not possible to obtain at reasonable cost. The Group maintains insurance against some but not all potential risk that is relevant to its operations. Hence, there is a risk that the loss of assets or claims against the Group may not be covered by the Group's insurances.

Financial risks
For information about financial risks, see Note 22 to the consolidated financial statements (*Financial instruments and risk management*).

Material disputes

During the year, the Group was involved in a dispute with a customer regarding the repayment of RUB 103m that the Group had previously received as payment for service and spare parts. After the court of first instance resolved the dispute in the Group's favour, the parties agreed on a settlement. Save for this, no material disputes took place during the year.

OUTLOOK

Because of the signs of recovery seen during the end of 2016 and the beginning of 2017, the Group is more optimistic regarding the short-term recovery of the market. Even though it does not expect a recovery similar to the one we experienced in 2010-11, the Group believes that the market will continue to grow in 2017. The Group continues to be optimistic about the future of its business as the long-term fundamentals in the Russian construction equipment market remain strong.

SHAREHOLDERS

Please refer to section shares and shareholders on page 30.

THE WORK OF THE BOARD OF DIRECTORS

Please refer to the corporate governance report on page 41.

PARENT COMPANY

The revenue of the parent company during the year amounted to SEK 53m (SEK 12m). The increase was primarily related to intra-group sales of equipment from the parent company to its subsidiary, Ferronordic Machines LLC, which started in the third quarter. The gross profit amounted to SEK 17m (SEK 12m). Administrative expenses decreased to SEK 13m (SEK 15m). The result for the year improved to SEK 57m (SEK -5m), mainly because of positive foreign exchange gains, partly offset by lower finance income and higher finance costs.

EVENTS SUBSEQUENT TO THE REPORTING DATE

On 22 March 2017, the EGM resolved to pay dividends on the preference shares corresponding to SEK 55 per preference share, corresponding to a total dividend payment of SEK 27.5m. The dividend will be paid on 28 April 2017, with record date on 25 April 2017.

PROPOSED ALLOCATION OF PROFIT

The following amount is available for allocation by the AGM:

SEK 396,365,107

The Board proposes that this amount is allocated as follows:

SEK	
Dividend on preference shares	30,000,000
Amount carried forward	366,365,107
of which to the Share Premium Reserve	574,290,915
Total amount allocated	396,365,107

For the AGM 2017, the Board has proposed a dividend on the preference shares in the amount of SEK 60 per preference share, corresponding to a total dividend payment of SEK 30m. The record date for the dividend would be 25 October 2017. Should the meeting approve the proposal, the dividend would be paid around 28 October 2017. As regards the potential preference share dividend in April 2018, the board is of the opinion that no decision should be made at the AGM 2017. Instead, should the Board find the dividend possible, it will convene an EGM closer to the record date in April 2018 where a resolution on the dividend can be made. No dividend shall be made on ordinary shares.

For more information about the Group's results and financial position, see the following financial statements and the notes thereto.

Corporate governance report

Ferronordic Machines AB (publ) is a Swedish public company domiciled in Stockholm. The company's preference shares are listed on NASDAQ OMX First North Premier.

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

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

SUMMARY OF FERRONORDIC MACHINES' CORPORATE GOVERNANCE MODEL

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

MORE INFORMATION ON CORPORATE GOVERNANCE:

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

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

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

SHAREHOLDERS' AGREEMENT

In addition to applicable external and internal regulations, the corporate governance of Ferronordic Machines is also regulated by a shareholders' agreement between the holders of the company's ordinary shares. The shareholders' agreement stipulates that Ferronordic Machines shall apply the Code. The shareholders' agreement also includes a list of reserved matters that must be approved by the Board, and minimum requirements regarding the Group's compliance program. The shareholders' agreement terminates upon a listing of the company's ordinary shares.

SWEDISH CORPORATE GOVERNANCE CODE

Companies listed on First North Premier are not required to apply the Code. However, in accordance with the shareholders' agreement for Ferronordic Machines and as part of the company's ambition to list its shares on NASDAQ OMX Stockholm, Ferronordic Machines anyway acts as if the Code already applied to it. This report has thus been prepared to describe how Ferronordic Machines applies the Code.

During 2016, Ferronordic Machines has deviated from the following Code provisions:

1) At the extraordinary general meetings on 4 April 2016 and 10 October 2016 only shareholders who were Board members or Group employees were physically present. The minutes of these meetings were therefore not verified by shareholders who are not Board members or Group employees.

2) The chairman of the nomination committee, Håkan Eriksson, representing Skandinavkonsult i Stockholm AB, is also a member of the Board. Because of the large shareholding of Skandinavkonsult i Stockholm AB, the nomination committee has deemed it appropriate to appoint Håkan Eriksson its chairman even though he is also a Board member.

3) Until August 2016, both the company's CEO, Lars Corneliusson, and the then head of business development, Erik Eberhardson, were members of the Board. This was deemed appropriate and in the best interest of the company and the shareholders since both possessed unique experience relevant to the Board. Since August 2016, Erik Eberhardson is no longer a member of the management.

SHARE CAPITAL AND SHAREHOLDERS

At the end of 2016, the company had four shareholders controlling over 10% of the votes: Skandinavkonsult i Stockholm AB with 29.5%, Lars Corneliusson with 13.5%, Erik Eberhardson with 13.0% and Mellby Gård AB with 12.1%. Further information about Ferronordic Machines' share capital and shareholders can be found on pages 30-31.

THE GENERAL MEETING

The general meeting is the company's highest decision-making body through which the shareholders exercise their right to make decisions regarding the company's affairs. The general meeting held within six months after the end of each financial year to adopt the annual report is called the annual general meeting (AGM). In addition to adopting the annual report, the AGM makes resolutions regarding dividends, election of Board members, election of the company's auditors and other matters required by the Swedish Companies Act, the articles of association and the Code.

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

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

EGM April 2016

An extraordinary general meeting (EGM) took place on 4 April 2016 in Stockholm. 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 25m. No dividends were to be paid on ordinary shares. At the meeting, 74.3% of the shares and 77.6% of the votes were represented in person or by proxy. The company's CFO, Anders Blomqvist was appointed chairman. The minutes of the EGM were made available on the company's website.

Annual general meeting 2016

The AGM 2016 took place on 19 May 2016 in Stockholm. At the meeting, 75.7% of the shares and 78.6% of the votes were represented in person or by proxy. The chairman of the Board, Per-Olof Eriksson was elected chairman. The CEO, the auditor, the chairman of the nomination committee and all members of the board elected by the AGM were present. The minutes of the meeting were made available on the company's website.

The following resolutions were made at the AGM:

- the income statements and balance sheets were adopted
- no dividends were to be paid with regard to either preference shares or ordinary shares
- the members of the Board and the CEO were discharged of liability with regard to the financial year 2015
- the number of Board members should be seven, without deputies
- fees to the Board were established (see page 45)
- Magnus Brännström, Lars Corneliusson, Erik Eberhardson, Per-Olof Eriksson, Martin Leach and Kristian Terling were reelected as Board members,
- Håkan Eriksson was elected as new Board member instead of Marika Fredriksson
- Per-Olof Eriksson was re-elected as chairman of the Board
- KPMG AB was re-elected as the company's auditor
- principles regarding the company's nomination committee were adopted
- the guidelines regarding remuneration of senior executives were approved
- a new share-based long-term incentive program for certain senior employees were approved
- the Board was authorized to resolve on the issue of new ordinary shares and ordinary shares of series 2.

EGM October 2016

An EGM took place on 10 October 2016 in Stockholm. The meeting resolved to pay dividends on the company's preference shares in an amount of SEK 55 per preference share, corresponding to a total dividend payment of SEK 27.5m. No dividends were to be paid on ordinary shares. At the meeting, 79.3% of the shares and 82.0% of the votes were represented in person or by proxy. The company's General Counsel, Henrik Carlborg, was appointed chairman. The minutes of the EGM were made available on the company's website.

EGM March 2017
An EGM took place on 22 March 2017 in Stockholm. The meeting resolved to pay dividends on the company's preference shares in an amount of SEK 55 per preference share, corresponding to a total dividend payment of SEK 27.5m. No dividends were to be paid on ordinary shares. At the meeting, 59.3% of the shares and 61.9% of the votes were represented in person or by proxy. The company's General Counsel, Henrik Carlborg, was appointed chairman. The minutes of the EGM were made available on the company's website.

Annual General Meeting 2017
The annual general meeting in Ferronordic Machines AB will be held on 19 May 2017 at Radisson Blu Hotel, Nybrokajen 9 in Stockholm. More information is available at the company's website, www.ferronordic.com.

NOMINATION COMMITTEE

For the AGM 2016, the nomination committee consisted of Per Arwidsson, representing Fastighetsaktiebolaget Granen, Håkan Eriksson (chairman), representing Skandinavkonsult i Stockholm AB, Per-Olof Eriksson, representing shareholders who are Board members or employees of the Group, and Daniel Nyhrén, representing Creades AB. All members were independent of the company and the management. Except for Håkan Eriksson, all members were independent of the largest shareholder.

Shareholders were offered the opportunity to submit proposals to the nomination committee for the AGM 2016. No proposals were submitted. The nomination committee's proposals to the AGM 2016, together with motivated statements, were presented in the notice to the AGM on 18 April 2016. No compensation was paid to the members of the nomination committee.

Principles regarding the nomination committee
At the AGM 2016, the following principles were adopted regarding the nomination committee (in summary):

The nomination committee shall consist of four members. The chairman of the Board shall in connection with the end of the third quarter of 2016 contact each of the four largest shareholders in the company and encourage them to appoint their respective representatives for the nomination committee. Shareholders who are members of the Board and/or employed by the group shall in this regard be regarded as one shareholder. If a member of the nomination committee resigns, the shareholder appointing the resigning member shall be asked to appoint another member of the nomination committee.

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

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

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

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

Nomination committee for the AGM 2017
The nomination committee for the AGM 2017 consists of the following persons:

- Rune Andersson, representing Mellby Gård AB
- Håkan Eriksson (chairman), representing Skandinavkonsult i Stockholm AB
- Per-Olof Eriksson, representing shareholders who are members of the Board or employees of the Group
- Daniel Nyhrén, representing Creades AB.

Shareholders who wish to contact the nomination committee are invited to send an e-mail to henrik.carlborg@ferronordic.com (with "To the Nomination Committee" in the subject field) or a letter to "Ferronordic Machines' Nomination Committee, Henrik Carlborg, Ferronordic Machines AB, Hovslagargatan 5B, 111 48 Stockholm". At the time of this report, the nomination committee had received two proposals.

On 27 January 2017, the nomination committee announced that Per-Olof Eriksson had declined re-election at the AGM 2017. The nomination committee has therefore proposed to the AGM that Staffan Jufors be elected as a new board member and the new chairman of the board. Other proposals will be announced in connection with the notice to the AGM.

THE BOARD OF DIRECTORS

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

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

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

Composition

Until November 2016, the Board consisted of seven members without deputies, all elected at the AGM 2016 for the period until the AGM 2017. The AGM 2016 also re-elected Per-Olof Eriksson as the chairman of the Board until the AGM 2017.

In November, the board member Martin Leach passed away. After this, the Board has de facto consisted of six members without deputies.

Detailed information about the Board members, including their shareholdings and other positions, can be found at page 34.

According to the shareholders' agreement between the holders of ordinary shares, investors holding over 20% of the shares and votes may appoint a representative to attend, observe and speak, but not vote, at Board meetings. During 2016, Håkan Eriksson was appointed observer by Skandinavkonsult i Stockholm AB until the AGM in May 2016. No shareholder appointed such representative after the AGM.

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

Independence requirements

According to the Code, the majority of the Board shall be independent of the company and management, and at least two of the Board members who are independent of the company and management shall also be independent of major shareholders. The Board meets these requirements as four of the six Board members are independent of the company and its management, and three of these members are also independent of major shareholders. The Code also stipulates that only one Board member may be a member of management. Until August, the company deviated from this requirement as both the CEO, Lars Corneliusson, and the then head of business development, Erik Eberhardson, were members of the Board. Since August 2016, Erik Eberhardson is no longer a member of the management and thus the company now complies with this Code requirement.

Work procedures

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

Evaluation of the Board work

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

Board work in 2016
During 2016, the Board held twelve meetings (including per capsulam meetings and telephone meetings).

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

- earnings and financial position of the Group
- interim reporting
- development of the Russian economy and its effect on the market and the Group's financials
- corporate governance, risk management and internal control
- strategic issues and business development, in particular the cooperation with the Group's new suppliers, Dressta and Rottne
- financial matters
- evaluation of the work of the Board and the CEO.

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

ATTENDANCE IN BOARD MEETINGS IN 2016

	Magnus Brännström	Lars Corneliusson	Kristian Terling	Erik Eberhardson	Per-Olof Eriksson	Marika Fredriksson (until AGM 2016)	Martin Leach (until November 2016)	Håkan Eriksson (from AGM 2016)
19 February	•	•	•	•	•	•	•	
9 March	•	•	•	•	•	•	•	
28 March	•	•	•	•	•	•	•	
4 April		•	•	•	•	•	•	
15 April	•	•	•	•	•	•	•	
19 May		•	•	•	•		•	
19 May		•	•	•	•		•	•
5 July	•	•	•	•	•		•	•
22 August		•	•	•	•		•	•
16 September		•	•	•	•		•	
23 November	•	•	•	•	•			•
12 December	•	•	•	•	•			•

REMUNERATION OF THE BOARD

As resolved at the AGM 2016, the remuneration of the Board amounts to SEK 2m, of which SEK 600,000 is paid to the chairman, SEK 500,000 to the vice chairman, and SEK 300,000 to each of the other directors, except for Lars Corneliusson and Erik Eberhardson, who are employed by the Group. No additional compensation is paid for committee work.

BOARD COMMITTEES

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

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

The audit committee consists of the following four members:

- Magnus Brännström (independent and qualified member)
- Håkan Eriksson (chairman)
- Per-Olof Eriksson
- Kristian Terling

Håkan Eriksson replaced Martin Leach as the chairman of the audit committee in November.

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

In 2016, the audit committee held three meetings in connection with the meetings of the Board. The minutes of these meetings are included in the minutes of the Board meetings.

Remuneration Committee
The remuneration committee prepares matters concerning remuneration principles, remuneration and other employment terms of the CEO and other members of the executive management. The remuneration committee consists of three members:
- Per-Olof Eriksson (chairman)
- Håkan Eriksson
- Kristian Terling

Håkan Eriksson replaced Martin Leach as a member of the remuneration committee in November.

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

The remuneration committee held one formal meeting in 2016. In addition, the committee had a continuous informal discussion through the year by email and telephone, and in connection with the meetings of the Board.

AUDITORS
Ferronordic Machines' auditors are elected at the AGM. The current auditor is KPMG AB, re-elected at the AGM 2016 for the period until the AGM 2017. Mattias Lötborn is the auditor-in-charge. The compensation paid to KMPG is described in note 30.

CEO AND EXECUTIVE MANAGEMENT
The CEO, Lars Corneliusson, is appointed by the Board and is responsible for the day-to-day management of the Group.

The executive management convenes on a regular basis and deals with the Group's financial development, company-wide development projects, leadership and competence sourcing, and other strategic issues.

In addition to the CEO, in 2016, the executive management consisted of Nadezhda Arzumanova, HR Director, Anders Blomqvist, CFO (also responsible for Investor Relations), Henrik Carlborg, General Counsel, Erik Eberhardson, Head of Business Development (until August), Onur Gucum, Commercial Director, Alexander Shmakov, Director Mining (from August), and Anton Zhelyapov, Director Trucks (from August). The members of the executive management report to the CEO. Information on the CEO and the other members of executive management, including their age, main education, professional experience, shareholdings in the company, etc., can be found on page 35.

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

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

Operationally, Ferronordic Machines is divided into seven regions: Northwest (with regional hub in St. Petersburg), Central (with regional hub in Moscow), Volga (with regional hub in Kazan), South (with regional hub in Krasnodar), Ural (with regional hub in Ekaterinburg), Siberia (with regional hub in Krasnoyarsk) and Far East (with regional hub in Khabarovsk). Each region has its own regional director. The regional directors are responsible for the business, as well as the coordination and implementation of company-wide policies and processes, in their respective regions. Each region also has a regional board, comprising the relevant regional director and the executive management.

REMUNERATION OF SENIOR EXECUTIVES
For information regarding remuneration and other benefits to the executive management, please refer to note 29.

The AGM 2016 adopted the following principles regarding remuneration to the company's executives:

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

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

Variable salaries
Executives may receive variable salaries in addition to fixed salaries. Variable salaries shall be paid upon fulfilment of predetermined and measurable performance criteria, primarily based on the

development of the Group as a whole or the development of the part of the Group for which the individual in question is responsible. The variable salary may, as regards the CEO, amount to not more than 100% of the fixed salary, and, as regards other executives, not more than 50% of the fixed salary. An exception may be made regarding Erik Eberhardson, whose variable salary may to not more than 150% of the fixed salary (according to previous agreement in connection with reduction of fixed salary).

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

Pension benefits
In addition to those pension benefits that executives are entitled to according to law, executives may be offered pension benefits that are competitive in the country where the individual in question is or has been a resident or to which the individual has a relevant connection. Pension plans shall be defined contribution plans without guaranteed level of pension.
Severance pay
Severance pay shall not exceed 12 months' salary.

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

The remuneration committee prepares and the Board resolves on:
1) the remuneration and terms of employment of the CEO and the deputy CEO
2) the principles for remuneration (including pension and severance pay) for the other Executives

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

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

Information on earlier decisions on remuneration that has not become due for payment at the time of the AGM's consideration of these guidelines
Decisions on remuneration that will not have become due at the time of the AGM 2016 fall within the frames of these guidelines.

REPORT ON INTERNAL CONTROL

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

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

Risk assessment
Ferronordic Machines has established an annual process for reviewing and assessing risks relating to financial reporting. The risk assessment also include risks related to fraud and irregularities, as well as the risk of loss or misappropriation of assets. Identified risks are prioritized and actions to manage and mitigate the identified risks are established. The risk assessment also forms the basis for the Board's annual plan for the internal audit. Risks relating to financial

reporting are evaluated on an ongoing basis within the framework of the internal audit. Policies and procedures regarding financial reporting are evaluated continuously, based on the risk assessment. The board is updated continuously on material risks as well as actions planned or taken to manage and mitigate such risks.

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

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

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

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

Stockholm, April 2017

The Board of Directors

More information on Ferronordic Machines' corporate governance work can be found in the section on Corporate Governance at www.ferronordic.com.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK '000	Note	2016	2015 (reclassified)
Revenue	6	1,658,455	1,468,724
Cost of sales	3	(1,292,322)	(1,144,880)
Gross profit		366,133	323,844
Selling expenses	3, 7	(98,836)	(82,798)
General and administrative expenses	3, 7	(137,335)	(163,400)
Other income		3,575	5,218
Other expenses	8	(29,272)	(21,808)
Results from operating activities		104,265	61,056
Finance income	9	9,617	10,194
Finance costs	9	(7,891)	(26,425)
Net foreign exchange gains/(losses)		1,450	(7,848)
Result before income tax		107,441	36,977
Income tax	10	(23,800)	(8,211)
Result for the year		83,641	28,766
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation difference for foreign operations		89,198	(52,637)
Other comprehensive income for the year, net of income tax		89,198	(52,637)
Total comprehensive income for the year		172,839	(23,871)
Earnings per ordinary share			
Basic and diluted earnings per ordinary share (SEK)	31	3.03	(2.12)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK '000	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Intangible assets	12	2,077	14,629
Property, plant and equipment	11	116,368	83,355
Deferred tax assets	13	41,887	45,032
Total non-current assets		160,332	143,016
Current assets			
Inventories	14	467,172	327,235
Trade and other receivables	15	202,439	161,152
Other assets		-	315
Prepayments		3,997	642
Cash and cash equivalents	16	198,846	175,295
Total current assets		872,454	664,639
TOTAL ASSETS		1,032,786	807,655
EQUITY AND LIABILITIES			
Equity	17		
Share capital		937	937
Additional paid in capital		594,279	594,279
Translation reserve		(139,340)	(228,538)
Retained earnings		(13,466)	(44,607)
TOTAL EQUITY		442,410	322,071
Non-current liabilities			
Deferred tax liabilities	13	294	49
Long-term portion of finance lease liabilities	18	15,324	3,709
Total non-current liabilities		15,618	3,758
Current liabilities			
Borrowings	18	-	85,624
Trade and other payables	21	547,255	384,138
Deferred income	19	6,632	4,289
Provisions	20	10,156	3,622
Short-term portion of finance lease liabilities	18	10,715	4,153
Total current liabilities		574,758	481,826
TOTAL LIABILITIES		590,376	485,584
TOTAL EQUITY AND LIABILITIES		1,032,786	807,655

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company				
SEK '000	Note	Share capital	Additional paid in capital	Retained earnings	Translation reserve	Total equity
Balance 1 January 2016		937	594,279	(44,607)	(228,538)	322,071
Total comprehensive income for the year						
Result for the year		-	-	83,641	-	83,641
Other comprehensive income						
Foreign exchange differences		-	-	-	89,198	89,198
Total comprehensive income for the year		-	-	83,641	89,198	172,839
Contribution by and distribution to owners						
Dividends on preference shares	17	-	-	(52,500)	-	(52,500)
Total contributions and distributions		-	-	(52,500)	-	(52,500)
Balance 31 December 2016		937	594,279	(13,466)	(139,340)	442,410

		Attributable to equity holders of the Company				
SEK '000	Note	Share capital	Additional paid in capital	Retained earnings	Translation reserve	Total equity
Balance 1 January 2015		937	594,865	(48,373)	(175,901)	371,528
Total comprehensive income for the year						
Result for the year		-	-	28,766	-	28,766
Other comprehensive income						
Foreign exchange differences		-	-	-	(52,637)	(52,637)
Total comprehensive income for the year		-	-	28,766	(52,637)	(23,871)
Contribution by and distribution to owners						
Dividends on preference shares	17	-	-	(25,000)	-	(25,000)
Warrant cancellation		-	(586)	-	-	(586)
Total contributions and distributions		-	(586)	(25,000)	-	(25,586)
Balance 31 December 2015		937	594,279	(44,607)	(228,538)	322,071

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

CONSOLIDATED STATEMENT OF CASH FLOWS

SEK '000	Note	2016	2015
Cash flows from operating activities			
Result before income tax		107,441	36,977
Adjustments for:			
Depreciation and amortisation	11, 12	31,057	67,198
Impairment of property, plant and equipment	11	12,558	-
Impairment of intangible assets	12	5,765	-
Loss from write off of receivables	8	4,944	14,931
Profit on disposal of property, plant and equipment		(2,122)	(342)
Finance costs	9	7,891	26,425
Finance income	9	(9,617)	(10,194)
Net foreign exchange gains/(losses)		(1,450)	7,848
Cash from operating activities before changes in working capital and provisions		156,467	142,843
Change in inventories		(25,416)	129,145
Change in trade and other receivables		1,829	47,184
Change in prepayments		(2,660)	545
Change in trade and other payables		38,626	(36,938)
Change in provisions		4,608	(4,988)
Change in other assets		434	183
Change in deferred income		756	(2,485)
Cash flows from operations before interest paid and tax paid		174,644	275,489
Income tax paid		(25,052)	(13,440)
Interest paid		(8,103)	(27,940)
Cash flows from operating activities		141,489	234,109
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		4,251	4,703
Interest received		9,617	10,194
Acquisition of property, plant and equipment		(16,483)	(5,369)
Acquisition of intangible assets		(2,851)	(1,814)
Cash flows from investing activities		(5,466)	7,714
Cash flows from financing activities			
Proceeds from borrowings		-	108,522
Repayment of loans		(87,945)	(238,187)
Dividends on preference shares		(52,500)	(50,000)
Leasing financing paid		(14,540)	(30,264)
Cancellation of warrants		-	(586)
Cash flows from financing activities		(154,985)	(210,515)
Net change in cash and cash equivalents		(18,962)	31,308
Cash and cash equivalents at start of the year		175,295	177,453
Effect of exchange rate fluctuations on cash and cash equivalents		42,513	(33,466)
Cash and cash equivalents at year-end	16	198,846	175,295

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

PARENT COMPANY INCOME STATEMENT

SEK '000	Note	2016	2015
Revenue		53,265	11,568
Cost of sales		(36,625)	-
Gross profit		16,640	11,568
Administrative expenses	7	(12,482)	(15,396)
Results from operating activities		4,158	(3,828)
Interest income	9	27,962	30,323
Interest costs	9	(4,250)	(696)
Net foreign exchange gains/(losses)		45,500	(32,290)
Result before income tax		73,370	(6,491)
Income tax	10	(16,163)	1,413
Result for the year		57,207	(5,078)

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

SEK '000	Note	2016	2015
Result for the year		57,207	(5,078)
Total comprehensive income for the year		57,207	(5,078)

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

PARENT COMPANY BALANCE SHEET

SEK '000	Note	31 December 2016	31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	11	14	22
Intangible assets	12	-	1,846
Financial assets			
Holdings in group companies	28	192,949	192,949
Loans to group companies	26	216,707	165,265
Deferred tax assets	13	19,343	35,506
Total financial assets		428,999	393,720
Total non-current assets		429,013	395,588
Current assets			
Trade and other receivables	15	53,016	14,105
Prepayments		246	352
Cash and cash equivalents	16	5,831	1,477
Total current assets		59,093	15,934
TOTAL ASSETS		488,106	411,522
EQUITY AND LIABILITIES			
Equity	17		
Restricted equity			
Share capital		937	937
Unrestricted Equity			
Share Premium Reserve		604,291	604,291
Retained earnings		(265,133)	(207,555)
Result for the year		57,207	(5,078)
TOTAL EQUITY		397,302	392,595
Current liabilities			
Borrowings	18	45,509	14,042
Trade and other payables	21	45,295	4,885
Total current liabilities		90,804	18,927
TOTAL LIABILITIES		90,804	18,927
TOTAL EQUITY AND LIABILITIES		488,106	411,522

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

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

SEK '000	Note	Share capital	Share premium reserve	Retained earnings	Total equity
Balance 1 January 2016		937	604,291	(212,633)	392,595
Total comprehensive income for the year					
Result for the year		-	-	57,207	57,207
Total comprehensive income for the year		-	-	57,207	57,207
Contribution by and distribution to owners					
Dividends on preference shares	17	-	-	(52,500)	(52,500)
Total contributions and distributions		-	-	(52,500)	(52,500)
Balance 31 December 2016		937	604,291	(207,926)	397,302

SEK '000	Note	Share capital	Share premium reserve	Retained earnings	Total equity
Balance 1 January 2015		937	604,877	(182,555)	423,259
Total comprehensive income for the year					
Result for the year		-	-	(5,078)	(5,078)
Total comprehensive income for the year		-	-	(5,078)	(5,078)
Contribution by and distribution to owners					
Dividends on preference shares	17	-	-	(25,000)	(25,000)
Cancellation of warrants		-	(586)	-	(586)
Total contributions and distributions		-	(586)	(25,000)	(25,586)
Balance 31 December 2015		937	604,291	(212,633)	392,595

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

PARENT COMPANY STATEMENT OF CASH FLOWS

SEK '000	Note	2016	2015
Cash flows from operating activities			
Result before income tax		73,370	(6,491)
Adjustments for:			
Depreciation and amortisation	11,12	1,854	4,437
Interest costs	9	4,250	696
Interest income	9	(27,962)	(30,323)
Net foreign exchange gains/(losses)		(45,500)	32,290
Cash from operating activities before changes in working capital and provisions		6,012	609
Change in trade and other receivables		(39,479)	3,070
Change in prepayments		106	1
Change in trade and other payables		35,523	933
Cash flows from operations before income tax and interest paid		2,162	4,613
Interest paid		-	-
Cash flows from operating activities		2,162	4,613
Cash flows from investing activities			
Interest received		31,042	30,748
Acquisition of property, plant and equipment		-	-
Contributions to subsidiaries		-	(787)
Cash flows from investing activities		31,042	29,961
Cash flows from financing activities			
Loans received		23,650	17,119
Dividends on preference shares		(52,500)	(50,000)
Cancellation of warrants		-	(586)
Cash flows from financing activities		(28,850)	(33,467)
Net increase/(decrease) in cash and cash equivalents		4,354	1,107
Cash and cash equivalents at start of year		1,477	370
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
Cash and cash equivalents at year-end	16	5,831	1,477

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

CONTENT OF NOTES

Notes

NOTE 1 » GENERAL INFORMATION

Ferronordic Machines AB (the "parent company") and its subsidiaries comprise the "Group". The company is a Swedish public limited liability company with registered number 556748-7953. The company's address is Hovslagargatan 5B, 111 48 Stockholm.

The Group's principal activity comprises sales and service of construction equipment and other machinery in Russia. The Group is the authorized dealer for Volvo Construction Equipment, Terex Trucks, Dressta and Rottne in Russia. The Group has also been appointed aftermarket dealer for Volvo and Renault Trucks in certain parts of Russia.

The legal and fiscal framework in Russia continues to develop but remains subject to varying interpretations and frequent changes. The Group's financial statements reflect management's assessment of the impact of the Russian business environment on the Group's operations and financial position. The future business environment may differ from management's assessment.

NOTE 2 » BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Financial Standards Board (IASB) as well as the interpretations of the IFRS Interpretations Committee, as adopted by the European Union. RFR 1 on Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied. The annual accounts of the parent company are prepared in accordance with the Swedish Annual Accounts Act and RFR 2, Accounting for Legal Entities, issued by the Swedish Financial Reporting Board.

BASIS OF MEASUREMENT

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

FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the various units of the Group are valued in each Group company's functional currency. For all Group companies except the parent company, the functional currency is the Russian ruble (RUB). For the parent company, the functional currency is the Swedish krona (SEK). The Group and the parent company have selected the Swedish krona as presentation currency. All amounts have been rounded to the nearest thousand, except as otherwise noted.

ESTIMATES AND JUDGMENTS

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

Estimates and assumptions are reviewed on an ongoing basis. Changes in estimations and assumptions are recognised in the period when they occur and in future periods affected.

Information about the judgments that have the most significant effect on the amounts recognised in the Group's financial statements is included in Note 4 (*useful life and residual value of property, plant and equipment*) and Note 22 (*allowance for trade receivables*).

NOTE 3 » CHANGED ACCOUNTING POLICIES

Starting from 2016, RFR 2 IAS 21 p. 3 was withdrawn from RFR 2, which means that IAS 21 p. 32 should be applied to the parent company's financial statements. Hence, exchange differences related to the non-current intercompany loans from the parent company to its subsidiary, Ferronordic Machines LLC (which constitute net investments in foreign operations) shall be recognised in the income statement and not in other comprehensive income. Relevant items in the parent company's financial reports for the year 2015 have been adjusted to reflect the changed accounting policy. This change only applies to the parent company.

The table below shows the effect of the change in the relevant line items in the parent company's balance sheet as per 1 January 2015:

SEK '000	Before change	Change	After change
Share premium reserve	604,922	(45)	604,877
Retained earnings	(112,924)	(69,631)	(182,555)
Translation reserves	(69,676)	69,676	-
Total	422,322	-	422,322

The Group has previously recognized depreciation of its own vehicles and certain other equipment used for the performance of service and sales as administrative expenses. However, this depreciation was in fact attributable to cost of goods sold and selling expenses. A correction has therefore been made in the consolidated statement of comprehensive income so that the depreciation of the said assets, in the reclassified statements for 2015, has been recognized as cost of goods sold and selling expenses.

The table below shows the effect of the correction in the relevant line items in the Group's consolidated statement of comprehensive income for 2015:

SEK '000	Before change	Change	After change
Cost of sales	(1,135,703)	(9,177)	(1,144,880)
Selling expenses	(80,812)	(1,986)	(82,798)
Administrative expenses	(174,563)	11,163	(163,400)
Total	(1,391,078)	-	(1,391,078)

Except for the foregoing, there have been no changes in accounting policies during 2016.

NOTE 4 » SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently for all periods presented and have been applied consistently by all Group entities, except as described in Note 3 (*Changed accounting policies*).

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

ELIMINATION OF INTRA-GROUP TRANSACTIONS

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

FOREIGN CURRENCY

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to functional currency at the exchange rate on the reporting date. Foreign currency gains or losses on monetary items comprise the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items in foreign currencies are translated to the functional currency at the exchange rate at the date of the transaction.

Foreign currency differences arising in retranslation are recognised in profit or loss.

Foreign operations

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

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

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

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

FINANCIAL INSTRUMENTS

Financial assets

Loans, receivables and deposits are recognized when they originate. Other financial assets are recognised when the Group becomes bound by the provisions of the relevant instrument.

Financial assets are derecognized when the rights to the cash flows from the assets expire, or when the rights to receive the cash flows on the financial assets are transferred and substantially all risks and rewards of ownership of the financial assets are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset.

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

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments that are not quoted in any active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs, and thereafter at amortised cost using the effective interest method, less impairment losses. Loans and receivables include trade and other receivables.

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

Financial liabilities
Financial liabilities consist of borrowings, bank overdrafts, and trade and other payables. Financial liabilities are recognised when the Group becomes a party to the provisions of the instrument. Financial liabilities are derecognized when the obligations are discharged or cancelled, or when the obligations expire.

Financial liabilities are initially recognised at fair value less any directly attributable transaction costs, and thereafter at amortised cost using the effective interest method.

SHARE CAPITAL
Shares in the Parent Company (both ordinary shares and preference shares) are classified as equity since their holders have no right to demand any dividends and they do not entail any obligation on the Group to deliver cash or other financial assets. Costs that are directly attributable to the issue of shares and share options are recognised as a deduction from equity, net of any tax effects. Dividends on shares are recognised as equity distributions when they are approved by the general meeting.

PROPERTY, PLANT AND EQUIPMENT
Except for land, property, plant and equipment is recognized at cost less accumulated depreciation and impairment losses.

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

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

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

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

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

Depreciation is recognised in profit or loss on a straight-line basis over the useful life of each individual asset or group of assets. This reflects how the Group is expected to consume the future economic benefits of the asset. Leased assets are depreciated either over the lease term or the useful life of the asset, depending on which is shorter (unless it is reasonably certain that the Group will obtain ownership of the leased asset by the end of the lease term, in which case the asset is depreciated during the asset's useful life).

Land is not depreciated.

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

• buildings	2-45 years
• machinery and equipment	2-16 years
• rental fleet	3 years
• office equipment	2-10 years
• cars and service vans	3-7 years

The residual value for all property, plant and equipment is zero. An exception is made for equipment in the rental fleet, for which the residual value is set at 25% of the cost of the assets after a three years rental period.

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

INTANGIBLE ASSETS

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

Subsequent expenditures are capitalised only if they increase the economic benefits of the specific assets to which they relate. Other expenditures, including expenditures on internally generated goodwill and brands, are recognised in profit or loss when incurred.

Amortisation
Amortisation of intangible assets is based on the cost of the asset less its residual value.

Except for goodwill, amortisation of intangible assets is recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets. This most closely reflects how the Group is expected to enjoy the economic benefits of the assets

Estimated useful lives of the Group's intangible assets:

• 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 the end of each financial year and adjusted if appropriate.

LEASES

Leased assets
Leases where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets leased under financial lease are initially recognized at the lower of fair value or the present value of the minimum lease payments. Thereafter, the asset is accounted for in accordance with the accounting policy applicable to the relevant asset.

Leases where the Group does not assume substantially all the risks and rewards of ownership of the assets are classified as operating leases.

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

Minimum lease payments under finance leases are apportioned between finance expenses and a reduction of the lease obligations. The finance expense is allocated to each period during the lease term in order to produce a constant periodic rate of interest on the remaining lease obligation.

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.

Each unit of construction equipment kept in inventory has a specifically identified cost. The net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

IMPAIRMENT

Loans and receivables
Loans and receivables are tested for impairment on an individual basis at each reporting date. Indications that a receivable is impaired may include failure by a debtor to pay in time, or that a debtor has or is about to become bankrupt.

Impairment of a financial asset is calculated as the difference between the carrying amount of the asset and the present value of the asset's estimated future cash flows, discounted at the original effective interest rate. Impairment losses are included in profit or loss and reflected in an allowance account against loans and receivables. If the amount of the impairment loss subsequently decreases, the decrease is reversed through profit and loss.

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

Assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit. The recoverable amount of an asset is the higher of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the present value and the risks specific to the asset or cash-generating unit. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds the estimated recoverable amount of the asset.

Impairment losses are recognized in profit or loss.

EMPLOYEE RELATED LIABILITIES

Termination costs

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

Salaries and other short-term benefits

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

Defined contribution plans

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

WARRANTIES

The Group provides warranties on new machines (typically 12 months) and components (typically 6 months) sold by the Group. The Group's suppliers reimburse the Group for costs incurred as a result of these warranties at agreed rates and amounts. Both the gross provision amount for the warranties and the related receivable from the suppliers are recorded. Provisions for warranties are based on historical data and recognised when the machines/components that the warranties relate to are sold.

In addition to the standard warranties included in the price of sold machines and components, the Group may offer its customers extended warranties for 2-3 years for an additional charge. Revenue on such contracts is recognized evenly during the contract term. When extended warranties are sold to customers, the Group also purchases a corresponding extended warranty from the relevant supplier. These are recognized as other receivables and amortised to profit and loss evenly during the contract term.

REVENUE

Goods sold

Revenue from sales of machines, parts and other goods is measured at the fair value of the agreed consideration, net of returns and discounts. Revenue is recognised when the significant risks and rewards of ownership of the goods 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 are recognised as a reduction of revenue when the sales are recognised.

The timing of the transfers of risks and rewards can vary depending on the individual delivery terms. Customers generally do not have any right of return and transfers occur upon receipt by the customer.

Services

Revenue from sales of repairs and other services is normally recognised when the services are completed and invoiced. Revenue from services rendered on uncompleted work is recognised in proportion to the stage of completion at the reporting date. The stage of completion is assessed by reference to surveys of work performed and estimates of time to completion.

FINANCE INCOME AND COSTS

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

Finance costs consist of interest expense on borrowings and finance leases. Borrowing costs that are directly attributable to the acquisition, construction or production of property, plant and equipment are capitalized to the cost of the asset. Other borrowing costs are recognised in profit or loss using the effective interest method.

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

INCOME TAXES

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

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

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for differences arising on the initial recognition of goodwill. Deferred tax is based on the tax rates that are expected to be applied to the temporary differences when they are reversed, based on the laws that have been enacted or substantively enacted by the reporting date.

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

According to Russian law, tax losses and current tax assets of one Group company cannot be offset against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities. Tax losses and taxable profits related to different activities can therefore not be offset.

Unused tax losses, tax credits and deductible temporary differences are recognized as deferred tax assets if it is probable that there will be taxable profits available in the future 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 relevant tax benefit will be realised.

STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of accounting standards and interpretations have been published but have not yet become effective. IFRS 9 (Financial Instruments) becomes effective for reporting periods beginning on 1 January 2018 and could change the classification and measurement of the Group's financial assets. IFRS 15 (Revenue from Contracts with Customers) becomes effective for reporting periods beginning on 1 January 2018 and will result in enhanced disclosures about revenue and have an impact on the recognition of revenue. Further, IFRS 16 (Leases), which becomes effective no earlier than 2019, will eliminate the distinction between operating and finance leases for the lessee. Hence all leases will be recognised on the balance sheet. The Group has initiated the work to quantify the effect of these changes. Other new or revised standards are not expected to have a significant effect on the Group's financial statements.

INFORMATION ABOUT THE PARENT COMPANY

Parent company accounting principles

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

Differences between the accounting policies applied for the Group and the parent company

For the reports of the parent company, the terms 'income statement' and 'balance sheet' are used, while for the reports of the Group, the terms 'consolidated statement of comprehensive income' and 'consolidated statement of financial position' are used. For the parent company, the income statement and balance sheet are presented according to the structure following from the Swedish Annual Accounts Act, while for the Group, the 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.

For the parent company, holdings in subsidiaries are recognized at cost (less potential impairment losses). Expenses attributable to business combinations are included in the cost.

Changes to the provision/receivable result in an increase/decrease to the cost of acquisition. In the Group's financial statements, changes in value is reported in the statement of comprehensive income.

Because 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.

In the parent company, financial assets are measured at cost (less potential impairment), and financial current assets are measured at the lower of cost and net realizable value. The acquisition cost for fixed-income instruments is adjusted for the accrued difference between initial cost, less transaction costs, and the sum paid on the closing date (premiums and discounts).

The parent company classifies all leases as operating leases, which means that lease expenses are recorded as operating expenses in the income statement.

Shareholders´ contributions are recognized in the parent company's balance sheet as an increase of the carrying value of the shares.

NOTE 5 » DETERMINATION OF FAIR VALUE

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

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

If the fair value measurement can be categorised in different levels, then the measurement is categorised entirely in the lowest level that is relevant for the measurement.

Changes in levels are recognized at the end of the period when the changes occurred.

Fair values of borrowings and finance leases are calculated based on the present value of future cash flows from principal and interest, discounted at the market rate of interest at the reporting date (level 2). For finance leases, the market rate of interest is determined by reference to similar lease agreements.

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

NOTE 6 » SEGMENT REPORTING

The Group has one reportable segment: Equipment Distribution. This segment comprises sales and rental of new and used construction equipment and other machinery, contracting services, as well as aftermarket support (sales of parts and service). The segment is determined based on the internal reports to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the executive management team that makes strategic decisions.

Revenue from Equipment Distribution

Group

SEK '000	2016	2015
Equipment sales	1,028,714	933,702
Aftermarket	566,010	502,386
Other revenue	63,731	32,636
Total revenues	1,658,455	1,468,724

The Group operates in one geographic area: Russia. In 2016, no customer represented more than 4% of the Group's total revenue. Almost all of the Group's non-current assets are located in Russia.

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

Reconciliation of EBITDA to result for the year

SEK '000	2016	2015
EBITDA	153,645	128,254
Depreciation and amortisation	(31,057)	(67,198)
Impairment of property, plant and equipment	(12,558)	-
Impairment of intangible assets	(5,765)	-
Net foreign exchange gains/(losses)	1,450	(7,848)
Finance income	9,617	10,194
Finance costs	(7,891)	(26,425)
Profit before income tax	107,441	36,977
Income tax	(23,800)	(8,211)
Result for the year	83,641	28,766

NOTE 7 » SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses

Group

SEK '000	2016	2015 (reclassified)
Personnel expenses	91,121	77,862
Depreciation	3,457	1,986
Other selling expenses	4,258	2,950
	98,836	82,798

General and administrative expenses

Group

SEK '000	2016	2015 (reclassified)
Personnel expenses	76,154	78,804
Depreciation & amortisation	17,560	32,589
Rent	23,196	28,192
Other general and administrative expenses	20,425	23,815
	137,335	163,400

Parent Company

SEK '000	2016	2015
Personnel expenses	8,536	8,801
Depreciation & amortisation	1,854	4,437
Other general and administrative expenses	2,092	2,158
	12,482	15,396

NOTE 8 » OTHER EXPENSES

Group

SEK '000	2016	2015
Bank services	2,173	1,491
Impairment of property, plant and equipment	12,558	-
Impairment of intangible assets	5,765	-
Impairment of trade receivables	4,944	14,931
Sundry expenses	3,832	5,386
	29,272	21,808

NOTE 9 » FINANCE INCOME AND FINANCE COSTS

Group

SEK '000	2016	2015
Interest income on bank deposits	9,617	10,194
Finance income	9,617	10,194
Interest expense on finance leasing obligation	(2,785)	(3,776)
Interest expense on bank loans	(5,106)	(22,649)
Finance costs	(7,891)	(26,425)
Net finance income/(cost)	1,726	(16,231)

Parent Company

SEK '000	2016	2015
Interest income on loans to subsidiary	27,874	30,203
Interest income on bank deposits	88	120
Interest income	27,962	30,323
Interest expense on loans from subsidiary	(4,250)	(696)
Interest costs	(4,250)	(696)
Net interest income	23,712	29,627

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

NOTE 10 » INCOME TAXES

The parent company is a tax resident of Sweden. The applicable tax rate in Sweden for 2016 was 22% (same as last year). The other companies in the Group are tax residents of Russia. The applicable tax rate in Russia for 2016 was 20% (same as last year).

Income tax is calculated separately for each Group entity by multiplying the applicable tax rate with the taxable results for the period. The average tax rate of the Group in 2016 was 22.2% (same as last year).

	Group		Parent Company	
SEK '000	2016	2015	2016	2015
Current tax expense	(27,320)	(18,255)	-	-
Deferred tax benefit / (expense)	3,520	10,044	(16,163)	1,413
Total income tax expense	**(23,800)**	**(8,211)**	**(16,163)**	**1,413**

Reconciliation of effective tax rate:

Group

SEK '000	2016		2015	
Result for the year	83,641		28,766	
Total income tax expense	(23,800)		(8,211)	
Profit before income tax	107,441	100	36,977	100
Income tax at applicable tax rate	(22,038)	(20.5)	(7,464)	(20.2)
Non-deductible expenses	(1,762)	(1.6)	(747)	(2.0)
	(23,800)	**(22.2)**	**(8,211)**	**(22.2)**

Parent Company

SEK '000	2016		2015	
Result for the year	57,207		(5,078)	
Total income tax expense	(16,163)		1,413	
Profit before income tax	73,370	100	(6,491)	100
Income tax at applicable tax rate	(16,141)	(22.0)	1,428	(22.0)
Other items	(22)	-	(15)	-
	(16,163)	**(22.0)**	**1,413**	**(22.0)**

NOTE 11 » PROPERTY, PLANT AND EQUIPMENT

Group

SEK ´000	Land	Buildings	Machinery and equipment	Rental fleet	Office equipment	Cars	Under construction	Total
Cost or deemed cost								
Balance 1 January 2016	9,829	34,853	24,171	10,869	6,502	37,688	9,587	133,499
Additions	-	486	10,121	-	399	27,282	310	38,598
Transfers from inventory	-	-	-	6,422	-	-	-	6,422
Disposals	-	(574)	(318)	-	(80)	(10,381)	-	(11,353)
Transfers to inventory	-	-	-	(12,872)	-	-	-	(12,872)
Transfers	-	-	577	-	-	-	(577)	-
Translation difference	3,060	10,833	9,335	2,257	2,138	14,680	2,938	45,241
Balance 31 December 2016	12,889	45,598	43,886	6,676	8,959	69,269	12,258	199,535
Depreciation and impairment losses								
Balance 1 January 2016	-	6,641	13,794	4,431	6,065	19,213	-	50,144
Depreciation for the period	-	4,036	4,880	1,631	239	8,189	-	18,975
Impairment	3,567	1,757					7,234	12,558
Disposals	-	(499)	(141)	-	(56)	(8,641)	-	(9,337)
Transfers to inventory	-	-	-	(6,351)	-	-	-	(6,351)
Translation difference	158	2,846	5,222	590	1,970	6,072	320	17,178
Balance 31 December 2016	3,725	14,781	23,755	301	8,218	24,833	7,554	83,167
Carrying amounts								
1 January 2016	9,829	28,212	10,377	6,438	437	18,475	9,587	83,355
31 December 2016	9,164	30,817	20,131	6,375	741	44,436	4,704	116,368

SEK ´000	Land	Buildings	Machinery and equipment	Rental fleet	Office equipment	Cars	Under construction	Total
Cost or deemed cost								
Balance 1 January 2015	11,837	35,960	29,714	161,155	7,254	51,272	23,726	320,918
Additions	-	1,530	2,646	-	102	2,427	462	7,167
Transfers from inventory	-	-	-	9,489	-	-	-	9,489
Disposals	-	(3,382)	(3,290)	-	(138)	(9,664)	-	(16,474)
Transfers to inventory	-	-	-	(159,658)	-	-	-	(159,658)
Transfers	-	8,238	768	239	-	399	(9,644)	-
Translation difference	(2,008)	(7,493)	(5,667)	(356)	(716)	(6,746)	(4,957)	(27,943)
Balance 31 December 2015	9,829	34,853	24,171	10,869	6,502	37,688	9,587	133,499
Depreciation and impairment losses								
Balance 1 January 2015	-	6,348	14,143	43,358	6,510	25,871	-	96,230
Depreciation for the period	-	3,755	4,412	23,447	489	8,042	-	40,145
Disposals	-	(2,340)	(1,840)	-	(115)	(7,979)	-	(12,274)
Transfers to inventory	-	-	-	(60,878)	-	-	-	(60,878)
Translation difference	-	(1,122)	(2,921)	(1,496)	(819)	(6,721)	-	(13,079)
Balance 31 December 2015	-	6,641	13,794	4,431	6,065	19,213	-	50,144
Carrying amounts								
1 January 2015	11,837	29,612	15,571	117,797	744	25,401	23,726	224,688
31 December 2015	9,829	28,212	10,377	6,438	437	18,475	9,587	83,355

From the depreciation, SEK 10,040 thousand (SEK 32,623 thousand) was recognized in cost of sales, SEK 3,457 thousand (SEK 1,986 thousand) in selling expenses, and SEK 5,478 thousand (SEK 5,536 thousand) in general and administrative expenses.

During the year, it was concluded that the carrying value of certain investments made to build service stations on the Group's land plots in Ekaterinburg and Petrozavodsk should be written down by SEK 12,558 thousand to correspond to the assets' estimated recoverable amounts. A corresponding one-time impairment loss was recognized in other expenses in the result for the year.

Machines and cars under finance leases:

SEK '000	Rental fleet	Machinery and equipment	Cars	Total
Cost or deemed cost				
Balance 1 January 2016	10,868	-	12,644	23,512
Additions	-	4,195	24,129	28,324
Transfers to inventory	(12,134)	-	-	(12,134)
Buy-out from finance lease	-	-	(7,529)	(7,529)
Translation difference	1,266	732	6,832	8,830
Balance 31 December 2016	-	4,927	36,076	41,003

Depreciation and impairment losses	Rental fleet	Machinery and equipment	Cars	Total
Balance 1 January 2016	4,432	-	4,114	8,546
Depreciation for the year	1,403	699	3,570	5,672
Transfers to inventory	(6,351)	-	-	(6,351)
Buy-out from finance lease	-	-	(3,742)	(3,742)
Translation difference	516	122	1,251	1,889
Balance 31 December 2016	-	821	5,193	6,014
Carrying amounts				
1 January 2016	6,436	-	8,530	14,966
31 December 2016	-	4,106	30,883	34,989

	Rental fleet	Machinery and equipment	Cars	Total
Cost or deemed cost				
Balance 1 January 2015	41,154	-	30,094	71,248
Additions	-	-	2,832	2,832
Transfers to inventory	(28,420)	-	-	(28,420)
Buy-out from finance lease	-	-	(17,891)	(17,891)
Translation difference	(1,866)	-	(2,391)	(4,257)
Balance 31 December 2015	10,868	-	12,644	23,512

Depreciation and impairment losses	Rental fleet	Machinery and equipment	Cars	Total
Balance 1 January 2015	10,696	-	13,358	24,054
Depreciation for the year	6,539	-	3,313	9,852
Transfers to inventory	(12,015)	-	-	(12,015)
Buy-out from finance lease	-	-	(11,823)	(11,823)
Translation difference	(788)	-	(734)	(1,522)
Balance 31 December 2015	4,432	-	4,114	8,546
Carrying amounts				
1 January 2015	30,458	-	16,736	47,194
31 December 2015	6,436	-	8,530	14,966

Cash flows relating to purchases and sales of machines in the Group's rental fleet are classified as operating cash flows in the consolidated statement of cash flows.

Parent Company

SEK '000	Office equipment 2016
Cost or deemed cost	
Balance 1 January 2016	59
Additions	-
Disposals	-
Translation difference	-
Balance 31 December 2016	59
Depreciation and impairment losses	
Balance 1 January 2016	37
Depreciation for the period	8
Disposals	-
Translation difference	-
Balance 31 December 2016	45
Carrying amounts	
Balance 31 December 2016	14

SEK '000	Office equipment 2015
Cost or deemed cost	
Balance 1 January 2015	59
Additions	-
Disposals	-
Translation difference	-
Balance 31 December 2015	59
Depreciation and impairment losses	
Balance 1 January 2015	29
Depreciation for the period	8
Disposals	-
Translation difference	-
Balance 31 December 2015	37
Carrying amounts	
31 December 2015	22

NOTE 12 » INTANGIBLE ASSETS

Group

SEK '000	Software and software licences	Customer relationship	Franchise agreement	Total
Cost				
Balance 1 January 2016	7,568	77,290	48,863	133,721
Additions – internally developed	984	-	-	984
Acquisitions – separately acquired	1,867	-	-	1,867
Disposals	(3,285)	-	-	(3,285)
Write-off	(5,765)	-	-	(5,765)
Translation difference	2,018	24,058	15,209	40,646
Balance 31 December 2016	3,387	101,348	64,072	168,807
Amortisation				
Balance 1 January 2016	1,701	71,922	45,469	119,092
Amortisation for the year	2,302	5,992	3,788	12,082
Disposals	(3,285)	-	-	(3,285)
Translation difference	592	23,434	14,815	38,841
Balance 31 December 2016	1,310	101,348	64,072	166,730
Carrying amounts				
31 December 2016	2,077	-	-	2,077

SEK '000	Software and software licences	Customer relationship	Franchise agreement	Total
Cost				
Balance 1 January 2015	8,631	93,076	58,843	160,550
Additions – internally developed	506	-	-	506
Acquisitions – separately acquired	1,341	-	-	1,341
Disposals	(1,362)	-	-	(1,362)
Translation difference	(1,548)	(15,786)	(9,980)	(27,314)
Balance 31 December 2015	7,568	77,290	48,863	133,721
Amortisation				
Balance 1 January 2015	1,956	71,100	44,950	118,006
Amortisation for the year	1,687	15,541	9,825	27,053
Disposals	(1,405)	-	-	(1,405)
Translation difference	(537)	(14,719)	(9,306)	(24,562)
Balance 31 December 2015	1,701	71,922	45,469	119,092
Carrying amounts				
31 December 2015	5,867	5,368	3,394	14,629

Amortisation of SEK 12,082 thousand (SEK 27,053 thousand) was included in general and administrative expenses.

Franchise agreement and customer relationships refer to intangible assets arising from a license agreement with Volvo that was made in 2010 and was valid for six years until 31 May 2016. Since the Group did not have any right to prolong the agreement, the useful lives of the assets were limited to six years.

The intangible assets arising from the license agreement were fully amortized upon the expiry of the license agreement.

During 2016, it was concluded that investments of SEK 5,765 thousand in the development of a CRM system should be written off in their entirety. A corresponding one-time impairment loss was recognized in other expenses in the result for the year.

Parent Company

SEK '000	License
Balance 31 December 2016	26,577
Amortisation and impairment losses	
Balance 1 January 2016	24,731
Amortisation for the period	1,846
Balance 31 December 2016	26,577
Carrying amounts	
31 December 2016	-

SEK '000	License
Balance 31 December 2015	26,577
Amortisation and impairment losses	
Balance 1 January 2015	20,302
Amortisation for the period	4,429
Balance 31 December 2015	24,731
Carrying amounts	
31 December 2015	1,846

NOTE 13 » DEFERRED TAX ASSETS AND LIABILITIES

(a) Deferred tax assets and deferred tax liabilities

Group

	31 December 2016			31 December 2015		
SEK '000	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	1,385	-	1,385	10,139	-	10,139
Intangible assets	-	(415)	(415)	-	(2,877)	(2,877)
Inventories	3,856	-	3,856	2,979	-	2,979
Trade and other receivables	-	(1,992)	(1,992)	-	(6,358)	(6,358)
Prepayments	678	-	678	216	-	216
Provisions	2,031	-	2,031	724	-	724
Deferred income	1,326	-	1,326	858	-	858
Short-term portion of finance lease liabilities	234	-	234	385	-	385
Long-term portion of finance lease liabilities	-	(1,628)	(1,628)	-	(134)	(134)
Trade and other payables	8,680	-	8,680	3,610	(65)	3,545
Tax loss carry-forwards	27,438	-	27,438	35,506	-	35,506
Tax assets/ (liabilities)	45,628	(4,035)	41,593	54,417	(9,434)	44,983
Set off of tax	(3,741)	3,741	-	(9,385)	9,385	-
Net tax assets/(liabilities)	41,887	(294)	41,593	45,032	(49)	44,983

Parent Company

	31 December 2016			31 December 2015		
SEK '000	Assets	Liabilities	Net	Assets	Liabilities	Net
Tax loss carry-forwards	19,343	-	19,343	35,506	-	35,506
Net tax assets/(liabilities)	19,343	-	19,343	35,506	-	35,506

(b) Changes in deferred tax in temporary differences and loss carry-forwards

Group

SEK '000	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2016
Property, plant and equipment	10,139	(10,140)	-	1,386	1,385
Intangible assets	(2,877)	2,858	-	(396)	(415)
Inventories	2,979	(43)	-	920	3,856
Trade and other receivables	(6,358)	5,403	-	(1,037)	(1,992)
Prepayments	216	336	-	126	678
Trade and other payables	3,545	3,433	-	1,702	8,680
Provisions	724	921	-	386	2,031
Deferred income	858	172	-	296	1,326
Short-term portion of finance lease liabilities	385	(230)	-	79	234
Long-term portion of finance lease liabilities	(134)	(1,237)	-	(257)	(1,628)
Tax loss carry-forwards	35,506	2,047	(11,317)	1,202	27,438
Net tax assets/(liabilities)	44,983	3,520	(11,317)	4,407	41,593

Parent Company

SEK '000	1 January 2016	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2016
Tax loss carry-forwards	35,206	(16,163)	-	-	19,043
Other items	300	-	-	-	300
Net tax assets/(liabilities)	35,506	(16,163)	-	-	19,343

Group

SEK '000	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2015
Property, plant and equipment	7,862	4,355	-	(2,078)	10,139
Intangible assets	(8,427)	4,972	-	578	(2,877)
Inventories	(1,084)	4,679	-	(616)	2,979
Trade and other receivables	(14,340)	6,697	-	1,285	(6,358)
Prepayments	449	(189)	-	(44)	216
Trade and other payables	6,188	(1,923)	-	(720)	3,545
Provisions	1,824	(954)	-	(146)	724
Deferred income	1,502	(470)	-	(174)	858
Short-term portion of finance lease liabilities	1,452	(991)	-	(76)	385
Long-term portion of finance lease liabilities	(43)	(119)	-	28	(134)
Tax loss carry-forwards	34,242	(6,013)	7,426	(149)	35,506
Net tax assets/(liabilities)	29,625	10,044	7,426	(2,112)	44,983

Parent Company

SEK '000	1 January 2015	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	31 december 2015
Tax loss carry-forwards	33,793	1,413	-	-	35,206
Other items	285	15	-	-	300
Net tax assets/(liabilities)	34,078	1,428	-	-	35,506

NOTE 14 » INVENTORIES

	Group		Parent Company	
SEK '000	31 December 2016	31 December 2015	31 December 2016	31 december 2015
Raw materials and consumables	3,139	2,431	-	-
Work in progress	7,039	4,896	-	-
Goods for resale	456,994	319,908	-	-
	467,172	327,235	-	-

Inventories of SEK 1,141,380 thousand (SEK 1,073,776 thousand) were sold during the year and hence are included in cost of sales.

Impairment of inventories to net realisable value of SEK -168 thousand (SEK 7,770 thousand) was included in cost of sales.

NOTE 15 » TRADE AND OTHER RECEIVABLES

	Group		Parent Company	
SEK '000	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Trade receivables	153,808	136,160	-	-
Trade receivables due from subsidiaries	-	-	50,781	12,034
VAT receivable	-	-	78	116
Warranty claims	8,095	3,485	-	-
Prepaid income tax	3,473	1,107	-	-
Other receivables	37,063	20,400	2,157	1,955
	202,439	161,152	53,016	14,105

The Group's exposure to credit and currency risks and losses related to trade and other receivables is disclosed in Note 22 (*Financial instruments and risk management*).

NOTE 16 » CASH AND CASH EQUIVALENTS

	Group		Parent Company	
SEK '000	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Bank balances	74,261	23,651	5,797	1,443
Call deposits	124,585	151,644	34	34
Cash and cash equivalents	198,846	175,295	5,831	1,477

The Group's exposure to interest rate and currency risks and a sensitivity analysis for financial assets and liabilities is disclosed in Note 22 (*Financial instruments and risk management*).

NOTE 17 » CAPITAL AND RESERVES

(a) Share capital and additional paid-in capital

	Ordinary shares		Preference shares	
Number of shares	2016	2015	2016	2015
In issue 1 January	10,000,000	10,000,000	500,000	500,000
In issue 31 December, fully paid	10,000,000	10,000,000	500,000	500,000
Par value per share	SEK 0.089	SEK 0.089	SEK 0.089	SEK 0.089

Each ordinary share carries one voting right at the general meeting. Each preference share carries one tenth voting right at the general meeting.

Preference shares
Provided that the general meeting resolves to pay dividends, each preference share carries the right to a preferred dividend of SEK 100 per year until the last payment date before the AGM in 2016. From the first payment date after the AGM in 2016 and until and including the first payment after the AGM in 2023, the preferred dividend increases by SEK 10 per year. If the dividend is not paid, any unpaid amount ("Outstanding Amount") is added to future dividends. The Outstanding Amount is adjusted upwards by 20% p.a. from the date when payment should have been made until the dividends have been paid in full. No dividend can be paid to holders of ordinary shares before the holders of preference shares have received full payments of any Outstanding Amount.

In connection with a potential listing of the ordinary shares on NASDAQ OMX Stockholm or another regulated market, the holders of the preference shares may exchange preference shares into class B-preference shares. Each class B-preference share will then make it possible for the holder to subscribe for a number of ordinary shares in Ferronordic Machines corresponding to SEK 650 divided by 50% of the price per ordinary share offered in the listing. Based on the subscription price for the preference shares, this implies a discount to the listing price of approximately 23% (excluding compensation for accrued dividends and potential Outstanding Amounts).

There are no guarantees that the ordinary shares will be listed or that the company will, or will be able to, implement the conversion right as this requires a resolution on a directed issue of ordinary shares to those holders of the preference shares who wish to utilize the conversion right. Furthermore, a resolution to redeem shares requires that the company has sufficient unrestricted equity.

The company has the right to redeem the preference shares in cash. In such case, the redemption price is SEK 1,200 for class A-preference shares and SEK 1,300 for class B-preference shares (so far only class A-preference shares have been issued).

In the event of liquidation, holders of preference shares have priority over holders of ordinary shares to an amount of SEK 1.200 per preference share (plus accrued dividend and Outstanding Amounts, if any).

The terms of the preference shares are set out in the articles of association of Ferronordic Machines AB, available at the company's website.

(b) Translation reserve
The translation reserve comprises all foreign currency differences arising out of translation of financial information of foreign operations from functional currency to presentation currency.

(c) Dividends
The extraordinary general meetings in the parent company on April and October 2016 resolved to pay dividends on its preference shares in an amount of SEK 52,500 thousand (SEK 50,000 thousand). No dividends were paid on ordinary shares.

SEK '000	2016	2015
Dividends paid	52,500	50,000

Proposed allocation of profit
The following amount is available for allocation by the AGM:

SEK 396,365,107

The Board proposes that this amount is allocated as follows:

SEK	
Dividend on preference shares	30,000,000
Amount carried forward	366,365,107
of which to the Share Premium Reserve	574,290,915
Total amount allocated	396,365,107

For the AGM 2017, the Board has proposed that the meeting resolve on a dividend on the preference shares of SEK 60 per preference share, corresponding to a total dividend of SEK 30m. The register date for the payment would be 25 October 2017. Should the meeting approve the proposal, the dividend would be paid around 28 October 2017. Regarding the potential dividend payment in April 2018, should the Board find the dividend payment possible, it will convene a separate extraordinary general meeting closer to the register date to resolve upon the potential dividend payment. The Board further proposes that no dividends be paid on ordinary shares.

NOTE 18 » BORROWINGS

a) *Short-term borrowings*

Group

	31 December 2016		31 December 2015	
SEK '000	Outstanding balance	Credit facility limit	Outstanding balance	Credit facility limit
Current liabilities				
Secured short term borrowings	-	224,551	85,624	114,165
Unsecured short term borrowings	-	-	-	-
	-	224,551	85,624	114,165

In May 2016, Ferronordic Machines LLC signed an agreement with Sberbank regarding a new credit in the amount of RUB 1,000m. The credit is valid until December 2017. In June 2016, Sberbank also issued a new RUB 500m bank guarantee to Volvo as security for the group's payables. The credit facility and bank guarantee from Sberbank are secured by sureties from the parent company.

In 2016, Ferronordic Machines LLC also signed an agreement with SMP Bank regarding a RUB 500m credit. The credit facility is valid until July 2018.

The Group had no outstanding loans as at 31 December 2016. The nominal interest rate on the Group's loans and borrowings on 31 December 2015 varied between 14% and 15%.

b) Finance lease liabilities

Future minimum lease payments for machines in the Group's rental fleet and for cars in the Group's carpool at 31 December 2016 and 31 December 2015:

Group

SEK '000	2016 Future minimum lease payments	2016 Interest	2016 Present value of minimum lease payments	2015 Future minimum lease payments	2015 Interest	2015 Present value of minimum lease payments
Less than one year	13,680	(2,965)	10,715	6,390	(2,237)	4,153
Between one and five years	16,993	(1,669)	15,324	3,902	(193)	3,709
	30,673	(4,634)	26,039	10,292	(2,430)	7,862

At 31 December 2016, the future minimum lease payments for car leasing, payable within one year, amounted to SEK 12,059 thousand (SEK 2,791 thousand), while the corresponding minimum lease payments payable within one to three years amounted to SEK 14,831 thousand (SEK 1,419 thousand).

NOTE 19 » DEFERRED INCOME

SEK '000	Group 31 December 2016	Group 31 December 2015	Parent Company 31 December 2016	Parent Company 31 December 2015
Deferred income short-term due to lease back transaction	-	228	-	-
Deferred income short-term relating to service contracts	6,632	4,061	-	-
Total	6,632	4,289	-	-

NOTE 20 » PROVISIONS

Group

SEK '000	Warranties	Other	Total
Balance 1 January 2016	3,485	137	3,622
Provisions made during the year	9,187	1,755	10,942
Provisions used during the year	(6,185)	(153)	(6,338)
Translation difference	1,608	322	1,930
Balance 31 December 2016	**8,095**	**2,061**	**10,156**
Non-current	-	-	-
Current	8,095	2,061	10,156
	8,095	2,061	10,156

Group

SEK '000	Warranties	Other	Total
Balance 1 January 2015	8,848	273	9,121
Provisions made during the year	7,689	-	7,689
Provisions used during the year	(12,349)	(108)	(12,457)
Translation difference	(703)	(28)	(731)
Balance 31 December 2015	**3,485**	**137**	**3,622**
Non-current	-	-	-
Current	3,485	137	3,622
	3,485	137	3,622

Warranties on new machines and components
The Group's suppliers provide warranties on new machines (typically for 12 months) and new components (typically for six months) sold to the Group. The Group provides equivalent warranties on new machines and new components sold to its customers. The suppliers of the Group also offer extended warranties for an additional charge, which the Group offers to its customers, also for an additional charge. The costs incurred in respect of provided warranties are reimbursed to the Group at rates and amounts agreed with the suppliers. The Group records both the gross provision amount of the standard warranties and a receivable from the supplier. Provisions for standard warranties are recognised when the products that the warranties relate to are sold. Warranty provisions are based on historical data. Amounts of expected reimbursement as of 31 December 2016 and 31 December 2015, respectively, are disclosed in Note 15 (*Trade and other receivables*).

NOTE 21 » TRADE AND OTHER PAYABLES

	Group		Parent Company	
SEK '000	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Trade payables	435,764	314,932	36,491	289
Advances from customers	39,123	27,230	-	-
Other payables and accrued expenses	36,129	23,427	8,752	4,450
Income tax payable	2,090	-	-	-
Other taxes payable	34,149	18,549	52	146
	547,255	384,138	45,295	4,885

During 2016, the parent company started to purchase machines and parts from the Group's new suppliers, Dressta and Rottne, which the parent company sells to its subsidiaries for resale in Russia. As a result, the trade payables of the parent company has increased substantially compared to 2015.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 22 (*Financial instruments and risk management*).

NOTE 22 » FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group is exposed to various types of credit risk, liquidity risk and market risk, such as currency risk and interest rate risk. The Group has established policies to identify and analyse these risks, to set appropriate limits and controls, and to monitor risks and adherence to limits. Policies and systems for risk management are reviewed regularly to reflect changes in market conditions and the Group's activities. Through its policies and procedures, and continuous training, the Group aims to develop a control environment where employees understand their roles and obligations. The Board also oversees how management monitors compliance with the Group's policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group has established an internal audit function. The function currently consists of one person, accountable to the audit committee of the Board. The internal auditor is responsible for developing and implementing control procedures in the Group, thereby reducing different operational risks. The implementation of an internal audit function has led to a general improvement in the Group's risk and control management.

CREDIT RISK

The Group sells machines, parts and service to customers on credit and is therefore exposed to credit risk. The credit risk is influenced mainly by the characteristics of the individual customers. However, management also considers the demographics of the Group's customer base, including the general default risk in the industries where the customers operate.

At 31 December 2016, the top 20 trade receivable balances comprised 67% of the total trade receivable balance.

To minimize credit risk, the Group strives to sell as much as possible without credit. For sales of machines, customers are usually financed by leasing companies that purchase the machines from the Group in cash. For sales of parts and service, the Group typically require payments in advance. However, there are cases where the Group itself offers credits to its customers, both for machine sales and sales of parts and services.

For machines, the Group can sometimes provide credits up to 12 months, but typically with a relatively large down-payment and always with retention right to the sold machines (in some cases, additional collateral can be requested, usually in the form of sureties from the customers' owners). To satisfy the customers' financing needs, the Group can also offer short-term rental agreements, also up to 12 months, where the Group retains ownership in the machine. Often the customer then purchases the machines from the Group at the expiry of the rental agreement. For parts and service, the Group typically does not require any collateral, but in individual cases, personal sureties are required.

Following the review of the internal audit, the Group's credit policy was updated during 2016 to implement a more structured and robust process for approving credits and setting credit limits. New customers are analysed individually for creditworthiness by the Group's finance and security departments before any credit is offered. The review includes external ratings, when available, searches in various databases, and in some cases bank references. New credits and/or new credit limits are then referred to the regional management and/or to the Group's credit committee for approval, depending on the size of the credit and the recommendation of the finance and security departments.

(i) Exposure to credit risk

Group

SEK '000	Note	2016 Carrying amount	2015 Carrying amount
Trade receivables	15	153,808	136,160
Cash and cash equivalents	16	198,846	175,295
		352,654	311,455

The risk for trade receivables is entirely related to operations in Russia. Cash and cash equivalents are mainly held by banks who are rated Ba2 (Moody's) and BBB- (Fitch).

(ii) Impairment of receivables

Aging of trade receivables:

Group

	31 December 2016		31 December 2015	
SEK '000	Gross	Impairment	Gross	Impairment
Not past due	112,615	-	106,037	-
Past due 0-30 days	20,170	-	16,625	-
Past due 31-120 days	19,193	(1,420)	11,824	(1,244)
Overdue above 120 days	30,884	(27,634)	21,213	(18,295)
	182,862	(29,054)	155,699	(19,539)

Movement in the allowance for impairment in respect of trade receivables during the year:

Group

	Individual impairments	
SEK '000	2016	2015
Balance 1 January	(19,539)	(12,648)
Increase during the year	(9,622)	(15,091)
Amounts written off against trade receivables	1,847	3,204
Decrease due to reversal	4,678	160
Translation differences	(6,418)	4,836
Balance 31 December	(29,054)	(19,539)

LIQUIDITY RISK

The Group strives to maintain sufficient cash and cash equivalents to meet its operational needs and financial commitments. The Group's treasury department continuously monitor cash deficit risks and that the financial liabilities of the Group are discharged on time, using a payment calendar tool.

The treasury department of the Group performs annual, monthly and daily planning to control cash flow.

It is not expected that the cash flows included in the maturity analysis below could occur significantly earlier, or at significantly different amounts.

Maturities of financial liabilities (including estimated interest payments):

31 December 2016

SEK '000	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs
Finance lease liabilities	26,039	30,673	7,057	6,623	11,932	5,061
Borrowings	-	-	-	-	-	-
Trade and other payables	471,893	471,893	471,893	-	-	-
	497,932	502,566	478,950	6,623	11,932	5,061

31 December 2015

SEK '000	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs
Finance lease liabilities	7,862	10,292	3,498	2,892	3,902	-
Borrowings	85,624	91,099	60,945	30,154	-	-
Trade and other payables	338,359	338,359	338,359	-	-	-
	431,845	439,750	402,802	33,046	3,902	

CURRENCY RISK

While most of the Group's sales and purchases are made in Russian rubles, the Group is exposed to currency risk on purchases and borrowings that are denominated in other currencies. These transactions primarily occur in euro, US-dollar, British pound or Swedish krona.

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

Exposure to currency risk:

Group

	USD	USD	EUR	EUR	SEK	SEK	GBP	GBP
SEK '000	2016	2015	2016	2015	2016	2015	2016	2015
Cash and cash equivalents	7,001	-	13,383	5	7,075	322	20,374	-
Trade and other payables	(1,322)	(36,367)	(27,629)	(6,853)	(13,672)	(2,396)	(46,489)	-
Net exposure	5,679	(36,367)	(14,246)	(6,848)	(6,597)	(2,074)	(26,115)	-

Foreign exchange rates applied during the period:

IN RUB	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
	2016	2016	2015	2015
USD	67.1170	60.7685	61.1853	73.1608
GBP	90.8732	74.6735	-	-
EUR	74.2489	63.9067	67.9144	80.0158
SEK	7.8455	6.6800	7.2603	8.7593

Sensitivity analysis

A strengthening (weakening) of the ruble against other currencies would at 31 December 2016 have increased (decreased) profit or loss before taxes by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis was performed on the same basis for 2015.

	Strengthening	Weakening
31 December 2016		
USD (20% movement)	(1,136)	1,136
EUR (20% movement)	2,849	(2,849)
GBP (20% movement)	5,223	(5,223)
31 December 2015		
USD (20% movement)	7,274	(7,274)

INTEREST RATE RISK

The Group seeks to borrow funds at fixed interest rates and is therefore normally exposed to limited interest rate risk during the term of its credit facilities. However, as is common in Russia, most of the Group's credit agreements allow the banks to increase interest rates in case of exceptional changes in the key rate of the Russian Central Bank or other force majeure events.

During the last years, the Group has also limited the interest rate risk through strict working capital management in order to minimize the need for external debt financing.

Profile of interest-bearing financial instruments at the reporting date:

Group

SEK '000	31 December 2016	31 December 2015
Fixed rate instruments		
Bank deposits	124,585	151,644
Borrowings	-	(85,624)
Finance lease liabilities	(26,039)	(7,862)
	98,546	58,158

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. A change in interest rates at the reporting date would therefore not affect profit and loss or equity.

CARRYING VALUES AND FAIR VALUES

The carrying amounts of the Group's financial assets and liabilities as at 31 December 2016 approximate their fair values.

CAPITAL MANAGEMENT

The Group's debt to capital ratio:

SEK '000	31 December 2016	31 December 2015
Total liabilities	590,376	485,584
Cash and cash equivalents	(198,846)	(175,295)
Net debt	391,530	310,289
Total equity	442,410	322,071
Debt to capital ratio	0.88	0.96

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

Offsetting financial assets and liabilities

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amounts receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events.

Under Russian law, an obligation can only be offset against a similar claim if it is due, has no maturity or is payable on demand.

Financial instruments subject to the above agreements:

SEK '000	Trade and other receivables	Trade and other payables
31 December 2016		
Gross amounts	63,272	389,532
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	63,272	389,532
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(4,643)	(4,643)
Net amount	58,629	384,889

SEK '000	Trade and other receivables	Trade and other payables
31 December 2015		
Gross amounts	33,119	272,299
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	33,119	272,299
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(4,583)	(4,583)
Net amount	28,536	267,716

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

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

NOTE 23 » OPERATING LEASES

The Group rents premises and facilities used for workshops, warehouses and offices. The Group also rents machines and vehicles used to provide services to customers. These rental arrangements are classified as operational leases since the risk and rewards associated with the ownership of the relevant assets have not passed to the Group.

Operating lease expenses recognised in profit or loss:

SEK '000	2016	2015
Lease of premises and facilities	27,124	24,883
Lease of equipment	19,888	6,018
	47,012	30,901

In the table below future minimum lease payments on the Group's non-cancellable operating lease are presented. The payments relate to the lease of premises and facilities.

SEK '000	2016	2015
Less than one year	3,350	-
Between one and five years	5,304	-
	8,654	-

According to the lease agreement for one of its service stations, the Group has an option to purchase the leased asset for an amount of RUB 200 million. The purchase option becomes exercisable not earlier than September 2017.

NOTE 24 » CAPITAL COMMITMENTS

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

NOTE 25 » CONTINGENCIES

Taxation contingencies
Significant changes have been made to the Russian taxation system in recent years as earlier legislation regulating major taxes (such as corporate income tax, withholding tax, transfer-pricing, VAT, corporate property tax and other taxes) gradually have been replaced. The application of the legislation is in large parts still unclear.

Russian tax authorities have historically been aggressive in their interpretation of tax laws, as well as enforcement and collection of tax. In practice, the tax authorities often interpret laws to the detriment of the taxpayers, who often have to resort to court to defend their positions. The Group's tax liability may therefore become greater than the amount that has been expensed to date and paid or accrued in the consolidated statement of financial position.

Any additional tax liability, as well as any unforeseen changes in Russian tax laws, could have an adverse impact on the Group's business, financial position and results.

Litigation
During the year, the Group was involved in one material dispute regarding a customer claim of RUB 103m (SEK 13.6m). The claim was rejected by the court of first instance and the counterpart has accepted the decision. Other than that, there have been no material disputes during the year.

NOTE 26 » RELATED PARTY TRANSACTIONS

Control relationships
The Group's consolidated annual and quarterly financial statements are made publicly available.

At the end of the year, the members of the management and the Board controlled 40% of the shares and 41% of the voting rights in the parent company (41% and 43% in 2015).

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

Remuneration to executive management is included in personnel costs and presented in Note 29 (*Employees, board and executive management*).

Transactions with other related parties

Parent Company

Revenue

	2016		2015	
SEK '000	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Services provided:				
Subsidiaries	14,321	9,254	11,568	5,716
Interest accrued:				
Subsidiaries	27,875	2,888	30,203	5,120
Equipment sold				
Subsidiaries	38,944	38,614		
	81,140	50,756	41,771	10,836

Expenses

	2016		2015	
SEK '000	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Interest payable:				
Subsidiaries	(4,250)	(4,887)	(696)	(624)

Other balances

SEK '000	31 December 2016	31 December 2015
Contributions to subsidiaries	192,949	192,949
Loans to subsidiaries	216,707	165,265
Loans from subsidiaries	(45,509)	(14,042)
	364,147	344,172

Services provided consitute compensation from subsidiaries to the parent company for usage of intangible assets related to the Volvo CE dealership business, usage of the Ferronordic trademark, as well as compensation for sureties provided by the parent company to secure the subsidiaries' obligations. The outstanding balance as of 31 December 2016 represents accrued royalties under an intra-group trademark license agreement.

Interest accrued relates to loans from the parent company to the subsidiaries in Russia. The loans are unsecured and bear interest rates of 15% p.a. The loans are in rubles in order to minimize the Group's currency risks.

Equipment sold relates to machines and parts from Dressta and Rottne that the parent company sells to the subsidiaries for resale in Russia.

NOTE 27 » EVENTS SUBSEQUENT TO THE REPORTING DATE

On 27 January 2017, it was announced that the chairman of the board, Per-Olof Eriksson, has declined re-election at the AGM 2017. The nomination committee has therefore proposed that the AGM elect Staffan Jufors as a new board member and the new chairman of the board.

On 22 March 2017, the EGM resolved to pay dividends on the parent company's preference shares of SEK 55 per preference share, corresponding to a total dividend payment of SEK 27,500 thousand. The dividend will be paid on 28 April 2017, with record date on 25 April 2017.

Except as described elsewhere in this report, no events requiring disclosure in the financial statements have occurred after the reporting date.

NOTE 28 » INTERESTS IN GROUP COMPANIES

As of 31 December 2016, the Group consisted of the following legal entities:

			2016		2015	
Subsidiary	Corporate Identity Number	Country of incorporation	Ownership/ voting	Carrying amount	Ownership/ voting	Carrying amount
Ferronordic Machines AB	556748-7953	Sweden	Parent Company	-	Parent Company	-
Ferronordic Machines LLC		Russia	100%	192,105	100%	192,105
Ferronordic Machines Arkhangelsk LLC		Russia	100%	12,566	100%	12,566
Ferronordic Machines Kaliningrad LLC		Russia	100%	2	100%	2
Ferronordic Torgoviy Dom LLC		Russia	100%	842	100%	842
				205,515		205,515

NOTE 29 » EMPLOYEES, BOARD AND EXECUTIVE MANAGEMENT

(a) Average number of employees

	2016	of which women	2015	of which women
Parent Company – Citizenship				
Sweden	1	0%	2	0%
Total in Parent Company	1	0%	2	0%
Subsidiaries – Citizenship				
Russia	726	15%	697	17%
Sweden	3	0%	3	0%
Ukraine	1	0%	1	0%
Germany	-	0%	1	0%
Turkey	1	0%	1	0%
Total in subsidiaries	731	15%	703	17%
Total Group	732	15%	705	16%

(b) Breakdown between men and women in management

	Group		Parent Company	
	Female representation		Female representation	
	2016	2015	2016	2015
Board	6%	14%	6%	14%
CEO and executive management	16%	17%	0%	0%

(c) Personnel costs

	2016		2015	
SEK ’000	Salaries and other remuneration	Social security expenses	Salaries and other remuneration	Social security expenses
Parent Company	5,703	2,710	5,489	3,079
(of which pension costs)		1,228		1,709
Subsidiaries	155,175	34,120	143,580	30,780
(of which pension costs)		21,984		20,288
Total	160,878	36,830	149,069	33,859
of which pension costs		23,212		21,997

The personnel costs of the parent company also include remuneration to the Board members.

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

The members of the Board and executive management in the parent company, the subsidiaries and the Group in 2016 amounted to nine (nine), eight (seven) and 15 (14), respectively.

	2016		2015	
SEK '000	Board and executive management	Other employees	Board and executive management	Other employees
Parent Company	5,703	-	5,432	57
(of which bonuses)	1,288	-	1,140	-
Subsidiaries	16,722	138,453	16,932	126,648
(of which bonuses)	6,097	52,367	3,953	35,769
Total	22,425	138,453	22,364	126,705
(of which bonuses)	7,385	52,367	5,093	35,769

(d) Remuneration to the Board

Total remuneration paid to the Board in 2016 amounted to SEK 2,000,000 (same as last year).

At the annual general meeting on 19 May 2016 it was resolved that the remuneration to the Board members should be paid in an amount of SEK 2,000,000. Of this amount, SEK 600,000 should be paid to the chairman, SEK 500,000 to the vice chairman, and SEK 300,000 to each of the other Board members, except for Lars Corneliusson and Erik Eberhardson who are employed by the Group. No additional remuneration should be paid for work on the board committees.

Remuneration to the Board (SEK '000):

Name	2016	2015
Per-Olof Eriksson (chairman)	600	600
Magnus Brännström	300	300
Lars Corneliusson	-	-
Erik Eberhardson	-	-
Håkan Eriksson (appointed May 2016)	175	-
Marika Fredriksson (resigned May 2016)	125	300
Martin Leach (deceased November 2016)	500	500
Kristian Terling	300	300
Total	2,000	2,000

(e) Remuneration to executive management

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

Lars Corneliusson's total remuneration during 2016 amounted to SEK 8,414,000. The right to pension contributions amounts to 14% of the fixed gross salary.

Name	2016	2015
Nadezhda Arzumanova	full year	full year
Anders Blomqvist	full year	full year
Henrik Carlborg	full year	full year
Lars Corneliusson	full year	full year
Erik Eberhardson	until August	full year
Onur Gucum	full year	full year
Alexander Shmakov	from August	-
Anton Varekha	-	until June
Anton Zhelyapov	from August	-

Remuneration to the CEO, Lars Corneliusson, and other members of executive management:

	2016			2015		
SEK '000	Lars Corneliusson	Other executive management	Total	Lars Corneliusson	Other executive management	Total
Fixed salary	4,810	8,201	13,011	3,593	8,934	12,527
Variable salary	2,951	4,434	7,385	1,939	3,154	5,093
Pension costs	653	575	1,228	647	1,245	1,892
Other benefits	-	71	71	944	1,786	2,730
Total	8,414	13,281	21,695	7,123	15,119	22,242

NOTE 30 » AUDITORS' FEES AND EXPENSES

	Group		Parent Company	
SEK '000	2016	2015	2016	2015
KPMG				
Audit assignments	1,433	1,494	766	768
Other assignments	115	100		-
Other				
Other assignments	193	208	30	-
	1,741	1,802	796	768

NOTE 31 » EARNINGS PER ORDINARY SHARE

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

The parent company has no dilutive effect on its ordinary shares.

a) Result attributable to holders of ordinary shares

SEK '000	2016	2015
Result for the year	83,641	28,766
Dividends on preference shares required for the year	(53,333)	(50,000)
Result attributable to holders of ordinary shares	30,308	(21,234)

b) Average number of ordinary shares

Number of ordinary shares	2016	2015
Ordinary shares outstanding 1 January	10,000,000	10,000,000
Average number of ordinary shares during the year	10,000,000	10,000,000

Board signatures

The Board of Directors and the Managing Director warrant that the annual accounts have been prepared in accordance with generally accepted accounting principles in Sweden and that the consolidated financial statements have been prepared in accordance with the international financial reporting standards referred to in regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards. The annual accounts and consolidated financial statements give a true and fair view of the parent company's and Group's financial positions and results. The audit report for the parent company and Group gives a true and fair overview of the development of the parent company's and Group's activities, their financial positions and results, and describes significant risks and uncertainties faced by the parent company and the companies included in the Group.

The annual accounts and consolidated financial statements were approved for release by the Board of Directors on 19 April 2017. The consolidated statement of comprehensive income and the consolidated statement of financial position and the parent company income statement and parent company balance sheet will be submitted for adoption at the Annual General Meeting on 19 May 2017.

Stockholm, 19 april 2017

Per-Olof Eriksson
Chairman

Magnus Brännström
Director

Lars Corneliusson
Director

Erik Eberhardson
Director

Håkan Eriksson
Director

Kristian Terling
Director

Lars Corneliusson
Managing Director

Our audit report was submitted on 19 April 2017

KPMG AB

Mattias Lötborn
Authorised Public Accountant

Auditor’s report

To the general meeting of the shareholders of Ferronordic Machines AB , corp. id 556748-7953

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Ferronordic Machines AB for the year 2016, except for the corporate governance statement on pages 41-48. The annual accounts and consolidated accounts of the company are included on pages 36-89 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act, and present fairly, in all material respects, the financial position of the parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 41-48. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor’s Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-35. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

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

Auditor’s responsibility

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

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

— Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Ferronordic Machines AB for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor’s Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors is responsible for the proposal for appropriations of the company’s profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group’s equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company’s organization and the administration of the company’s affairs. This includes among other things continuous assessment of the company’s and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company’s financial affairs otherwise are controlled in a reassuring manner.

The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor’s responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company’s profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company’s profit or loss are not in accordance with the Companies Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgment and maintain professional scepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined the Board of Directors' reasoned statement and a selection of supporting evidence in order to be able to assess whether the proposal is in accordance with the Companies Act.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 41-48 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR´s auditing standard RevU 16 The auditor´s examination of the corporate governance statement. This means that our examination of the corporate governance statement is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2-6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts are in accordance with the Annual Accounts Act.

Stockholm 19 April 2017

KPMG AB

Mattias Lötborn

Authorized Public Accountant

Produktion: Nimbus Communication AB
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