FERRONORDIC machines

ANNUAL REPORT 2013

CONTENT


КРИВБАСС


137


144



This is **Ferronordic Machines**

GROWTH DEVELOPMENT

	2013	2010
EMPLOYEES	731	326
REVENUE (EUR MM)	287	127[1]
OUTLETS	74	12
MARKET SIZE	~21,000	~8,000

[1] Annualized

- Authorized dealer of Volvo CE in Russia since June 2010
- Rapidly increasing presence all over Russia
- Revenue of EUR 287m and EBITDA of EUR 18.8m
- Significant market potential
- Experienced management and board of directors



Year **in brief**

All- time high revenue and units

Revenue of EUR 287m

Total number of new machines delivered > 1,500 units

Increase in gross profit margin by 1.3 percentage points

EBITDA of EUR 18.8m, excluding one-off expenses

40% increase compared to 2012

Doubling of market share for crawler excavators

New joint Volvo CE and Volvo Trucks facilities

SEK 500m successful preference share issue

Preference shares listed on NASDAQ OMX First North Premier

Over 70 outlets across Russia

77 new employees, primarily mechanics

New Volvo CE excavator factory in Kaluga

	2013	Q4 2013	Q3 2013	Q2 2013	Q1 2013	2012
New Units Sold*	1,425	398	369	397	261	1,370
Revenue	286.6	79.0	70.5	82.1	55.0	275.8
EBITDA**	18.8	4.9	5.7	5.1	3.2	13.4
Margin	*6.6%*	*6.2%*	*8.1%*	*6.2%*	*5.7%*	*4.9%*
EBITA**	11.5	3.6	3.7	3.2	1.1	7.7
Margin	*4.0%*	*4.6%*	*5.2%*	*3.9%*	*2.0%*	*2.8%*
Net Debt	6.7	6.7	56.5	40.6	44.6	63.9
Total Assets	163.9	163.9	157.1	150.6	155.8	155.0
Equity/Total Assets	37%	37%	5%	6%	8%	10%

* Excluding machines added to rental fleet.
** Excluding one-off expenses.

All-time high revenue **and margin expansion**

Lars Corneliusson, CEO.

> Our roll-out of locations and increased deal participation rate, in combination with the opening of the Volvo CE factory in Kaluga, helped us to double our market share to 11% in the important crawler excavator segment during the year.

DEAR SHAREHOLDERS, during 2013 Ferronordic Machines generated all-time high revenue of EUR 286.6m. Compared to 2012 this represents a 4% increase in reporting currency and a 10% increase in rubles. The total market for construction equipment in Russia has been fairly flat for three consecutive years. Despite this, the total number of machines delivered by Ferronordic Machines (including machines added to the rental fleet) also reached an all-time high for the 3rd year in a row, exceeding 1,500 units.

EBITDA FOR 2013 was EUR 18.8m (excluding one-off expenses), an increase of 40% compared to EUR 13.4m in 2012.

OUR ROLL-OUT OF locations and increased deal participation rate, in combination with the opening of the Volvo CE factory in Kaluga, helped us to double our market share to 11% in the important crawler excavator segment during the year. We are also very pleased with our market share increases for articulated haulers and pavers from already strong positions.

IN 2013, in addition to the continued growth of the Volvo CE network, we opened three new service stations serving both Volvo CE and Volvo Trucks in the same facilities.

During the fourth quarter we successfully raised SEK 500m in equity by issuing new preference shares. The preference shares were listed on NASDAQ OMX First North Premier on 3 December. We are very pleased with the strong demand in our preference shares, both from new investors as well as from previous bondholders. This validates our performance in Russia since the start in 2010 and signals strong interest and confidence in the future prospects of Ferronordic Machines. With the capital from the preference share issue and with new investors on board, we will continue to execute our growth strategy.

DURING THE FOURTH quarter, we also redeemed the remaining part of our bond loan, which significantly strengthened our balance sheet.

WE HAVE ALSO seen a significant depreciation of the ruble during the year. This has negatively affected our growth in the reporting currency. The euro appreciated 12% during the year and the Swedish krona 8% against the ruble. The ruble has continued to depreciate against most major currencies in the beginning of 2014. The deprecation of the ruble has however positive effects for the export industry such as oil & gas, and the mining sector, which are important customer segments for Ferronordic Machines.

THE OIL PRICE remained at high levels during most of the year, except for just a few days when the price fell below USD 100 per barrel. The average and closing price was close to USD 110 per barrel. The oil price is expected to remain above USD 100 per barrel during 2014.

WE HAVE BUILT a strong organization all over Russia with over 70 sales and/or service outlets and over 730 employees. We have an organization that is well prepared to capture the long-term growth potential which exists in the Russian market. We are looking forward to some important product launches in 2014, as well as increased production in the new Volvo excavator factory in Kaluga.

OVERALL, WE REMAIN cautiously optimistic as we look forward into 2014 and beyond, as the long-term fundamentals for the Russian construction equipment market remain strong. However short- and medium term market developments are more difficult to predict with the recent events in Ukraine creating additional uncertainties. We continue to monitor the situation closely and will adapt to possible changes in overall market development.


КРИВБАСС
VOLVO

Vision, objectives **and strategy**

Ferronordic Machines' vision is to be regarded as the leading service and sales company in the CIS markets

STRATEGIC OBJECTIVES

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

FINANCIAL OBJECTIVES

- Double-digit revenue growth in SEK *(CAGR over a five-year period)*
- EBIT margin of 6-8% *(within a five-year period)*
- Net debt to EBITDA of 0-2 times *(over a business cycle)*
- Absorption rate of 1.0x (gross profit from aftermarket shall cover 100% of fixed operating expenses) *(within a five-year period)*



STRATEGIC CORNERSTONES

CUSTOMER ORIENTATION

- Leading service and product availability
- Tailored service and repair programs
- Financial services offerings
- Developed trade-in system
- Fleet & Residual value management
- Rental fleets

BUILD ON STRONG BRAND

- Volvo CE - World's 3rd largest manufacturer of construction equipment
- Building on No. 1 brand position in Russia
- Broad range of equipment for road and general construction, oil and gas, mining and civil engineering companies
- Development through additional strong brands

SUPERIOR INFRASTRUCTURE

- High density network – many points of presence, less "show-off buildings"
- Mobile workshops and service vans/trucks
- Well equipped, purpose-built facilities in select locations
- Infrastructure to be used for other brands

OPERATIONAL EXCELLENCE

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

Market **overview**

Ferronordic Machines is active in the Russian market for imported high-quality construction equipment. Construction equipment is primarily used for infrastructure and heavy construction, but is also used in operational activities, for example in the mining, quarry and forestry sectors.

THE RUSSIAN ECONOMY

Russia is the largest country in the world measured by area. It has a population of 143 million and is rich on natural resources. Russia is the world's second largest producer of oil and holds the world's largest reserves of gas. Forestry is one of the main resources with over 800 million hectares of forest land, which is approximately 20% of the world's forest area. These natural resources are and will continue to be important for the Russian economy. Approximately 50% of the revenues of the Russian Federal Government relates to oil and gas. The average GDP growth between 2012 and 2018 is expected to be 2.5%, compared to the EU area which is expected to grow by 1.2% on average.

YEARLY GDP GROWTH IN RUSSIA AND THE EU 2000 – 2018E

Source: IMF

While the total Russian growth is expected to be around 2.5%, growth will come in different magnitude in different geographical regions and have different drivers throughout Russia. Below is a table summarizing the size and population of each district, as well as a map of the Federal Districts in Russia. Note that Russia has eight Federal Districts but since Ferronordic Machines internally reports the separate districts North Caucasus and South as one single region, the map and table have been adjusted to reflect the Company's reporting and show seven districts.

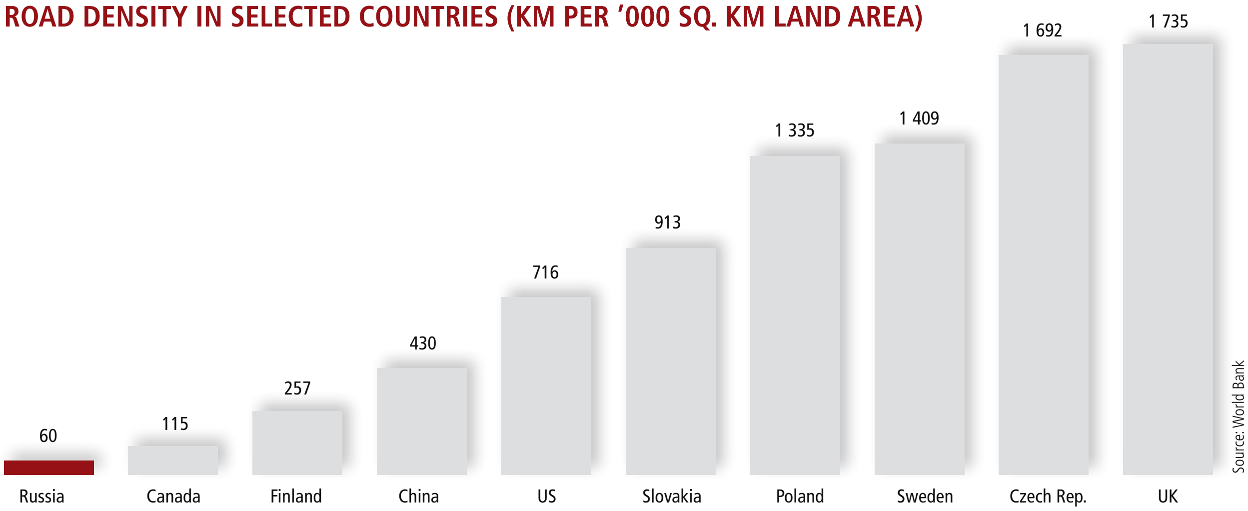
FERRONORDIC MACHINES REGIONS

Federal District	Area (000s of km2)	Population (million)
Central	~650	38.4
Northwest	~1,700	13.6
South	~650	13.4
Volga	~1,000	29.9
Urals	~1,800	12.1
Siberia	~5,100	19.3
Far East	~6,200	6.3

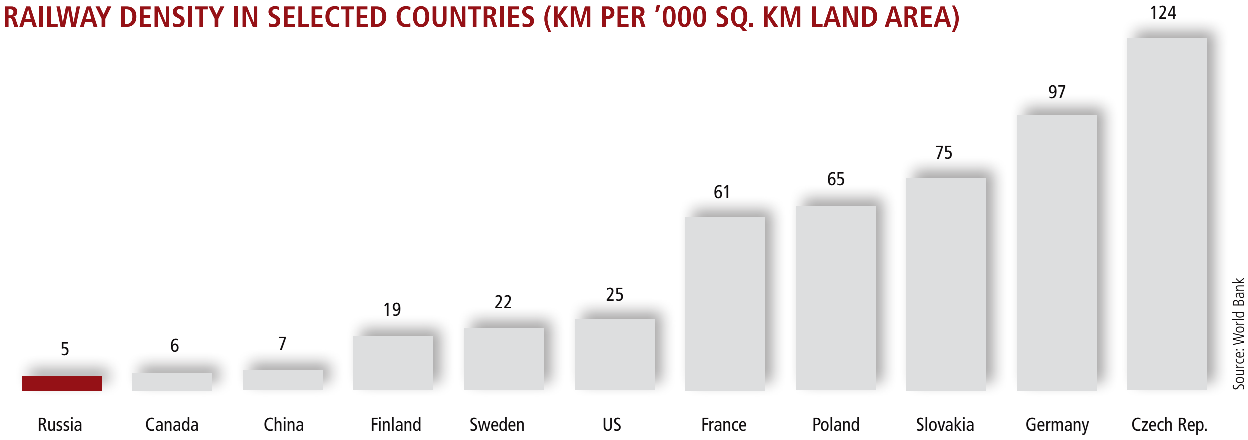
Source: Rosstat

The market for construction equipment is expected to capitalize significantly on the growth in Russia. An important driver for this will be infrastructure improvements. The bulk of the infrastructure in Russia was built during the Soviet era, and as much as 40% of the roads do not meet regulatory requirements according to Rosavtodor, the Russian Federal Road Agency. In addition to an underdeveloped road network, the railroad density in Russia is low. Upgrading and expanding the Russian road and railway networks are expected to be important parts of Russia's continued development, and several major construction projects are planned or on-going, for example the FIFA World Cup 2018.

ROAD DENSITY IN SELECTED COUNTRIES (KM PER '000 SQ. KM LAND AREA)

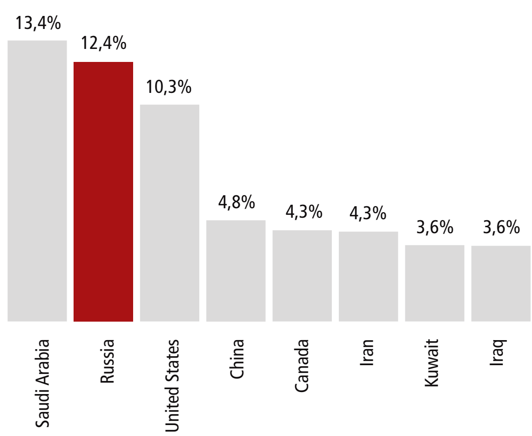


RAILWAY DENSITY IN SELECTED COUNTRIES (KM PER '000 SQ. KM LAND AREA)

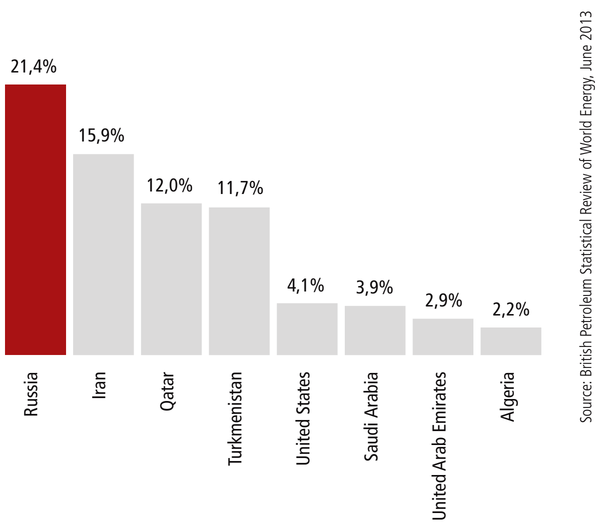


An additional driver for both GDP and construction growth will be the continued extraction and refinement of natural resources, in particular oil and gas. In the graph below, the world's largest countries in oil production and reserves of gas are presented.

OIL PRODUCTION (% OF TOTAL)



PROVED PRESERVES OF GAS (% OF TOTAL)



THE RUSSIAN CONSTRUCTION EQUIPMENT MARKET

The market for construction equipment is highly affected by the infrastructure developments described above. Construction equipment is used in a wide range of construction activities and also in certain operational activities. Areas of use include road construction and maintenance, construction of heavy industry, utilities and residential as well as construction and maintenance of oil and gas infrastructure. In the industries of mining, quarry, aggregates and forestry, construction equipment is often used for operational activities, such as extraction of raw material and harvesting. Below is a description of the main areas of use for construction equipment in different industries.

Industry	Main areas of use	Main geographical areas	Portion of Ferronordic Machines' revenue
Road construction	• Construction of new roads • Upgrading of existing roads • Maintenance and repair of roads	• Whole Russia	~24%
General construction and other	• Heavy industry • Utilities • Residential construction • Non-residential construction	• Whole Russia	~40%
Oil and gas	• Oil and gas infrastructure • Site construction (e.g. refineries) • Maintenance of infrastructure	• Volga • Urals	~7%
Mining	• Infrastructure • On-site construction and maintenance • Operational uses	• North West • Siberia • Far East • Urals	~11%
Quarries and aggregates	• Extraction and production of raw material for road and general construction	• North West • South • Siberia • Urals	~11%
Forestry	• Site construction and maintenance • Harvesting • Off-road transport	• North West • Siberia • Far East • Volga	~7%

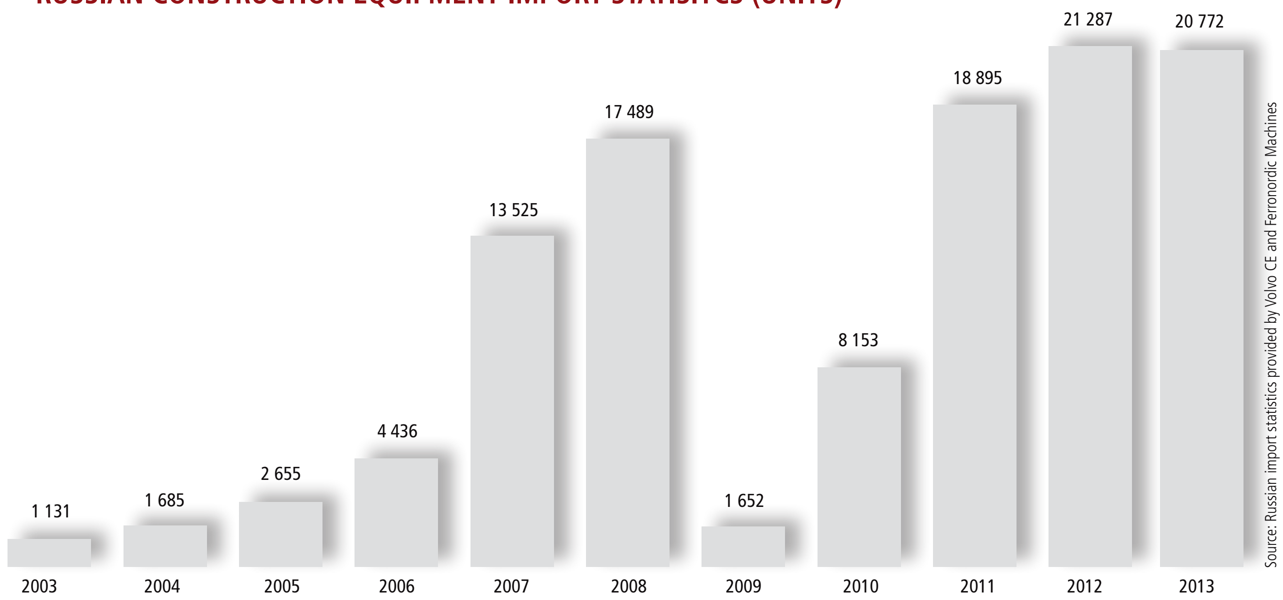
Note: General construction and other also include areas such as agriculture and landscaping, demolition, industrial material handling, recycling and waste.

In addition to capitalizing on increasing infrastructure investments, dealers of construction equipment will benefit from replacement of the existing construction equipment fleet in Russia, which is underpinned by significant investment needs, because of old and inefficient machinery. Hence, the growth drivers during the next years are expected to be two-fold; urgent need for replacing old and inefficient machines, as well as increasing the current machine population to increase its capacity.

Russian import of foreign construction equipment has grown significantly during the last 10 years. In addition to overall Russian construction growth, the replacement of the existing machine fleet is an important driver for Western manufacturers. Among the imported equipment, Ferronordic Machines sees a clear difference between Western manufacturers, offering machines of higher quality and higher prices, and Chinese manufacturers offering less expensive, standardized and often small-type machines (such as smaller wheel-loaders).

Ferronordic Machines mainly distributes Volvo CE machines, a well-known brand in Russia. The product offering ranges from large machines, such as articulated haulers with prices exceeding EUR 500,000, to small skid steer-loaders with prices below EUR 50,000. The main competitors are other high-quality manufacturers, such as Caterpillar, Komatsu, JCB and Hitachi. Ferronordic Machines estimates that Volvo CE and these four competitors have relatively similar market shares, measured by revenue. Below is a graph showing the development of the Russian import of construction equipment (in number of units), excluding Chinese manufacturers (as these are to a large extent not active in the same market segments as Volvo CE).

RUSSIAN CONSTRUCTION EQUIPMENT IMPORT STATISITCS (UNITS)



The Company

THIS IS FERRONORDIC MACHINES

Ferronordic Machines is the authorized dealer of Volvo CE in Russia. Over the last years the company has expanded rapidly across Russia and is today well established in all federal districts with over 70 outlets and over 700 employees. In addition to distributing and providing aftermarket support to Volvo CE, the Group has also been appointed aftermarket dealer for Volvo Trucks and dealer for Volvo Penta in certain parts of Russia. The Group has also signed up some other high quality brands such as Logset and several attachment manufacturers.

The Group has expanded rapidly throughout Russia since the end of 2010:

	2010	2011	2012	2013
No. of outlets	12	53	69	74
Employees	326	540	654	731
Revenue (EUR million)	74	268	276	287
EBITDA (EUR million)	-1.4	12.3	13.4	18.8 [1]

[1] Excluding one-off expenses.

THE FERRONORDIC MACHINES BUSINESS CONCEPT

In the construction industry, high utilization of equipment is vital for efficiency and profitability. Machines at stand-still, either because of poor planning or because of break-down, quickly have a deteriorating effect on a project's profitability. To mitigate this risk, construction companies need to optimize the utilization of their machines and make sure repair and other services can be provided quickly. In addition to delivery of high-quality machinery, Ferronordic Machines has developed a complete offering, tailored to fit the high demands of these construction companies.

By tailoring its offering to the individual needs of its customers, Ferronordic Machines provides extensive consultancy services, such as fleet management, simulation of sites, and advice regarding optimal fleet and specification composition. These services make the Group an integrated part of its customers' operations and more than just a supplier of machinery.

The cost of construction equipment at stand-still is very high, putting high demand on dealers' service levels and availability of spare parts. For Ferronordic Machines, it has been a clear target from the start to increase its presence throughout Russia for supply of repair and maintenance services as well as spare parts. The Group has also focused on commercialization of the aftermarket, i.e. a proactive and competitive offering of customer service and spare parts supply at the right time, based on data from the machine population and output from advanced equipment services computer programs as well as in-depth knowledge and long experience from the industry. The commercialization of aftermarket services increases the added value of Ferronordic Machines' concept, and increases the Group's market share of the important, high-margin aftermarket.

In Western economies, the focus of purchasers of construction equipment has shifted from initial cost to total life-cycle cost, including cost of repair, maintenance, services and cost of machines at standstill, residual value, etc. In Russia focus often remains on the initial cost. However, Ferronordic Machines sees a trend of customers shifting focus from initial cost to total life-cycle cost, and overall increasing sophistication of Russian construction equipment customers. Ferronordic Machines believes it is a strong force in driving this trend, which will strengthen Volvo CE's and other high-quality brands' market positions in Russia further in the coming years.

HISTORY

Ferronordic Machines was founded in 2010 when it became the official authorized dealer of Volvo CE. Russia was and is a strategic market for Volvo CE and the dealer agreement with Ferronordic Machines was said to be a significant and exciting development of its activities in Russia which would give them a clear and consistent presence across the whole country[1]. The dealer agreement made Ferronordic Machines the distributor of Volvo CE branded machines, parts and aftersales services in the entire territory of Russia.

[1] Volvo CE press release, 29 April 2010.

VOLVO GROUP IN RUSSIA

VOLVO TRUCKS

The Volvo Group's history in Russia dates back approximately 40 years when the first 100 Volvo F89 trucks were delivered to the country in 1973. During the first decade of this century Volvo Trucks expanded its footprint in Russia significantly and opened a CKD-factory in Zelenograd in 2003, followed by a full scale production facility in Kaluga in 2009. With the opening of the factory in Zelenograd, Volvo became the first Western manufacturer having its own production of heavy trucks in Russia. In 2012, Volvo announced an additional investment of SEK 783 million in a new facility for cab production in Kaluga with an annual capacity of 15,000 cabs.

Volvo has a large and well-developed network of authorized workshops and is the market leader for foreign heavy trucks in Russia with approximately 20% of the total foreign truck population.

VOLVO CONSTRUCTION EQUIPMENT

Volvo CE is one of the world's largest manufacturers of construction equipment with a large product portfolio. It is perceived as a premium brand in the market of construction equipment. Although Volvo CE established a Russian market presence fairly late, in 2002, it is enjoying a strong brand image in Russia and is considered the number one brand within construction equipment[1] with competitive market shares in key premium segments. The numbers of delivered Volvo CE machines into Russia has increased steadily from approximately 150 units in 2002 to over 1,500 in 2013.

Manufacturers of construction equipment typically work with external distributors for sales and after-sales services, as they tend to focus their efforts on manufacturing and product development. Volvo CE's strategy in Russia up until 2010 was, in addition to Volvo owned operations in North-West and Central Russia, to grow and gain market share in Russia via a network of independent dealerships responsible for different regions. In 2010 however, Ferronordic Machines was appointed the authorized dealer of Volvo CE machines, parts and aftersales services throughout all of Russia.

VOLVO CE DEALER AGREEMENT

Ferronordic Machines and Volvo CE signed an initial dealer agreement in June 2010 (subsequently replaced by an amended dealer agreement in July 2012) by which Volvo CE appointed Ferronordic Machines the authorized dealer of Volvo CE machines, parts and after-sales services in the entire territory of Russia. The dealer agreement is valid for an initial term until 27 April 2016. Thereafter it will continue for an indefinite period with 180 days' notice. This is in line with the standard contract terms for Volvo CE dealers around the world and customary in the industry. Ferronordic Machines is free to extend its product offering to include products that complement Volvo CE's products. Volvo CE continues to import the machines and parts to Russia; Ferronordic Machines buys and sells all products inside Russia. It is at the core of Volvo in CE's global distribution strategy to appoint external dealers. Like Ferronordic Machines, dealers are handpicked based on Volvo CE's evaluation of management's ability to increase sales and grow Volvo CE's market share in the relevant region. In exchange for being appointed a Volvo CE dealer, Ferronordic Machines made commitments to Volvo CE to invest in, open new and develop existing dealer outlets.

VOLVO CE FACTORY IN KALUGA

In 2011, Volvo CE announced that it would invest SEK 350 million into a new, 20,660 m^2 excavator plant in Kaluga. The plant was inaugurated in 2013 and will initially manufacture five models of Volvo CE excavators. The investment is in line with Volvo CE's strategy to build machines where they are sold and validates Volvo CE's commitment to Russia and Ferronordic Machines.

OPERATIONS OVERVIEW

While Ferronordic Machines operates in a cyclical industry, it has customers in a number of different industries throughout all federal districts of Russia. This diversification makes Ferronordic Machines less exposed to trends and business cycles which impact specific regions or industries.

To be successful, dealers of construction equipment engaging in aftermarket activities need to be close to their customers. This is mainly for two reasons; construction equipment generally has a low level of mobility (machines are not easily moved to a service station so mechanics must travel to the construction sites where the machines are located), and construction equipment must not be at standstill due to its importance for operations at construction sites. Hence, proximity to customers and a large number of outlets are important differentiating factors. Another differentiating factor is availability of service and spare parts.

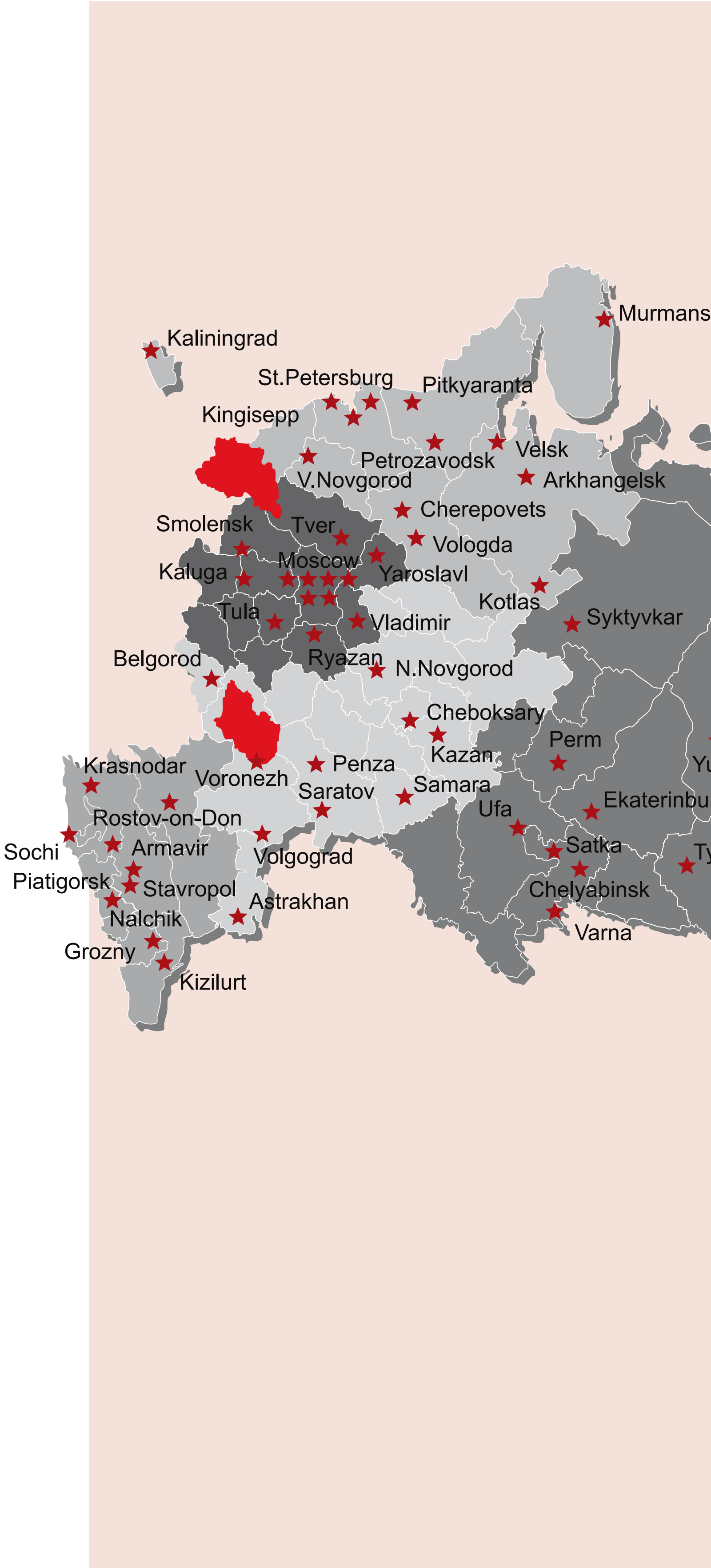
[1] Accordning to the Volvo Construction Equipment Brand Track Servey in 2011.

As of December 2013, Ferronordic Machines had 74 outlets throughout Russia. New facilities are usually established either on strategic locations or due to customer demand. Strategic locations are often well-populated areas that have a history of, or are expected to have, large investments and high level of construction output. Ferronordic Machines can also establish facilities in connection to large construction sites, potentially at remote locations. These construction sites can often be of such large size and scale, and require a service level that makes it profitable for Ferronordic Machines to set up a repair and maintenance station as well as a small parts warehouse at these sites.

GEOGRAPHIC EXPANSION

In 2010, 82% of Ferronordic Machines' units were sold in the North West and Central regions, two regions which together represent approximately 40% of the construction output in Russia. Since then Ferronordic Machines has expanded its operations continuously to other regions to capitalize on the large projects in the regions east of the Ural mountains, e.g. infrastructure development and extraction of minerals. In 2013, thanks to the company's efforts in other regions, the share of units sold by Ferronordic Machines in the North West and Central regions had decreased to approximately 51%.

FERRONORDIC MACHINES NETWORK




Norilsk
Vorkuta
Novy Urengoy
Surgut
Yakutsk
Magadan
Mar-Kuel
Neryungri
Elga
Krasnoyarsk
Novosibirsk
Kemerovo
Belovo
Bratsk
Irkutsk
Ulan-Ude
Blagoveschensk
Yuzhno-Sakhalinsk
Khabarovsk
Vladivostok

DIFFERENT TYPES OF FACILITIES

OWNED DEALER FACILITY

- Medium- to large sized, purpose built facilities which include service and repair workshop areas, warehouse, offices and machine display areas
- Ferronordic Machines currently has 2 owned facilities in operation: a 2,382 sqm facility in eastern Moscow region and a 2,620 sqm facility in Arkhangelsk
- The Group owns 2 land plots ready for construction

RENTED DEALER FACILITY

- To reduce time-to-market the company initially often rents facilities
- The standards vary from basic to purpose-built and may have a purchase option
- The Group currently has 64 rented facilities in operation

CUSTOMER-BASED SERVICE DEPOT

- To support large fleets of machines on customer sites, Ferronordic Machines is able to quickly organize modular service depots based on air-filled hangars and/or container concept
- This solution can also be used as temporary solution for the Group's construction sites
- The Group currently has 5 customer based outlets in operation

HOME-BASED MECHANIC

- Mechanics working from home in remote locations or before rented facilities have been identified
- The Group currently has 3 home based mechanics in operation

PRODUCTS AND SERVICES

EQUIPMENT SALES

The principal products distributed by Ferronordic Machines are Volvo CE road construction equipment, backhoe loaders, excavators, articulated haulers, wheel loaders and skid steer loaders. Sales, distribution and service of Volvo CE machinery is the backbone of the Ferronordic Machines' operations and contributed to more than 95% of the Group's revenue in 2013.

Since the Group's foundation, its product portfolio has expanded to also include other brands, such as Logset a Finnish manufacture of forestry machines.

Product type	Example product	Units sold 2013	Description
Backhoe loaders		553	• Small and versatile machine, a tractor fitted with a shovel or bucket on the front and a backhoe on the back • Wide range of applications, including deep trenching, heavy lifting, loading, craning, material handling and construction
Excavators		462	• Excavators consists of a boom, stick, bucket and cab on a rotating platform and is often known as "diggers" (i.e. their main function) • Excavators are used for site preparation, landscaping, trenching, excavation, demolition, truck loading, piping etc.
Articulated haulers		112	• Volvo CE developed the articulated hauler concept and is still the undisputed leader of articulated hauling in the most demanding conditions • Applications include quarrying, mining and waste handling
Wheel loaders		104	• Used in construction and side walk maintenance to move aside or load materials into or onto another type of machinery • Comes in several sizes, from mini loaders to large production machines, for load and carry operations, civil & building construction etc.
Road construction equipment		125	• Pavers are used to lay asphalt in especially road construction • Volvo CE pavers are offered both as tracked and wheeled • Compactors are used to compact e.g. asphalt or soil in construction of roads • Volvo CE offers both asphalt and soil compactors in various sizes
Skid steer loaders		59	• The Volvo CE skid steer is one of the most versatile machines on the jobsite, a small machine with lift arms which attaches a variety of tools • Volvo CE offers a wide range of productive attachments to the skid steer for hauling earth, cutting trenches, digging postholes, palletizing material or breaking concrete

Note: Excludes pipelayers (2) and foresty machines (8).

EQUIPMENT RENTAL

During 2013, approximately 2% of Ferronordic Machine's revenue came from rental agreements. The rental fleet has, partly thanks to economies of scale, potential to become a very profitable revenue stream for Ferronordic Machines as volumes increase. The rental fleet should be utilized during times of heavy customer demand or during uncertain economic conditions when customers may use rental fleets to defer capital expenditure.

PARTS

Sale of parts is Ferronordic Machines' largest revenue stream from the important aftermarket. Parts availability is a fundamental attribute for construction equipment dealers, and can be a differentiating factor. Ferronordic Machines keeps inventory of parts throughout Russia for convenient access for customers. Proximity to customers is important for fast delivery, and Ferronordic Machines' continued expansion in all districts of Russia provides for excellent customer service. Ferronordic Machines also offers customers remanufacturing of vital parts, such as engines and gearboxes, which extend the machines' operating lifecycle.


VOLVO
VOLVO

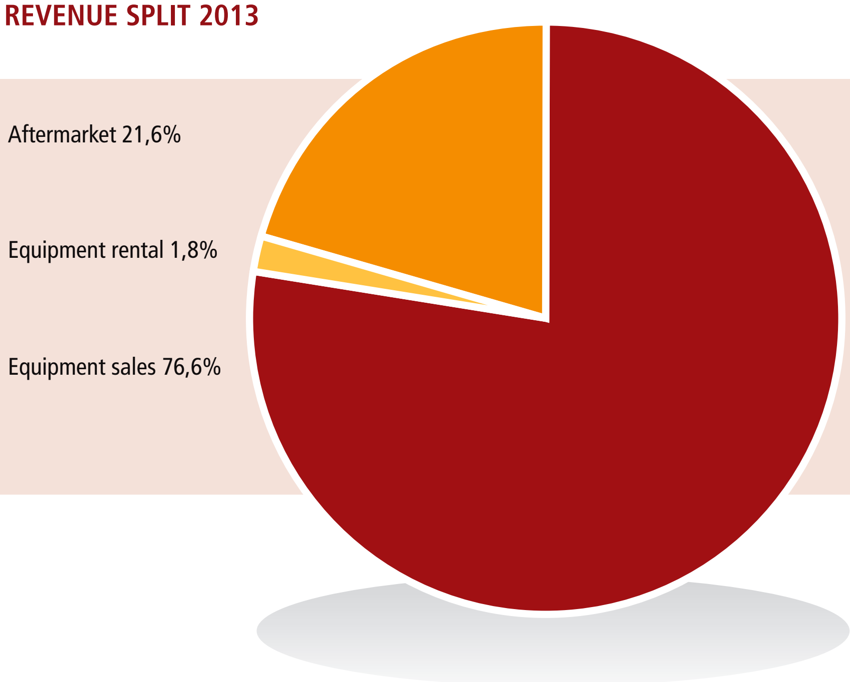
SERVICE

Service is essentially repair and maintenance work performed by Ferronordic Machines' mechanics on customers' machines during their operating life. The aftermarket services include for example planned maintenance service and machine diagnostics as well as planned and unplanned repair. To be able to tailor its offering and satisfy its customer's needs, Ferronordic Machines offers different levels of customer service through a range of different service contracts. These service contracts increase the stability of Ferronordic Machines' operations and the predictability of future revenues and cash flow.

Ferronordic Machines also offers its customers the Volvo CareTrack system. CareTrack is a state-of-the-art telematics system which gives Ferronordic Machines a wide range of information regarding its customers' machines and enables Ferronordic Machines to advice its customers on how to reduce fuel costs, optimize performance and manage the entire fleets' service plan in order to maximize uptime. The system uses the integrated GPS receiver, modem and antenna in the machines to transfer machine data via GPRS/GSM mobile network or satellite. The information received from CareTrack substantially increases the Group's ability to provide a high level of customer service, both in terms of technical service from mechanics as well as proactive commercialized offers of spare parts at appropriate times. Additional soft products provided by Ferronordic Machines include:

- Fleet management services
  – Simulation of projects
  – Consultancy on optimal fleet and specification composition
- Financial service through Volvo Finance
- Operator training
- Insurance
- Warranties
- Logistics
- Consultancy on residual value management
- Trade-in of used machines
- Sale of used machines

REVENUE SPLIT 2013



Corporate **social responsibility**

The business of Ferronordic Machines shall be conducted responsibly, taking economic, environmental and social responsibility.

COMMITMENT TO HEALTH AND SAFETY

We recognize the importance of health and safety within our operations. Our goal is to achieve an injury free workplace for our employees. While each employee is responsible for sustaining health and safety, we share this responsibility by promoting health and safety across our operations, providing safe workplaces, and providing relevant training. By selling and servicing safe machines of high quality and oustanding ergonomical features in partnership with Volvo CE we also take responsibility for promoting health and safety at large in the society where we operate.

COMMITMENT TO THE ENVIRONMENT

The business of Ferronordic Machines shall comply with environmental laws and regulations and have as limited environmental impact as possible while remaining economically viable, including as regards the process of handling, storing and recycling waste, oils and parts.

An essential part of our work to promote environmental sustainability is our daily work to promote and service energy and fuel efficient products in partnership with Volvo CE. Another important part of our work consists of training machine operators to learn more fuel efficient driving techniques, lowering the operating costs of machines while reducing their environmental impact.

COMMITMENT TO EMPLOYEES

Ferronordic Machines provides employment for over 730 employees in various communities all across Russia. Ensuring that Ferronordic Machines is an attractive and fair employer is another part of our work to build sustainable development and taking social responsibility on the market where we operate. Part of our work to build sustainable development is the significant investment we make to train our employees. In 2013, over 46,000 training hours were provided to our employees. 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 young employees.

Ferronordic Machines does not tolerate abuse and discrimination. We strive for diversity and equality. We remunerate employees fairly according to skills and performance and with reference to competitive industry and local conditions. We do not accept forced labor or child labor.

COMMITMENT TO BUSINESS ETHICS

Ferronordic Machines has zero tolerance for bribery, fraud and other forms of corruption. We take active measures to prevent, monitor and investigate potential corruption within our operations. Our anti-corruption program includes various policies implemented throughout the company. All employees are required to participate in annual trainings regarding compliance and other matters relating to ethics and integrity. Preventing corruption and promoting fair and ethical business practices form an important part of our work to build sustainable development and taking responsibility in the market where we operate.

COMMITMENT TO THE COMMUNITY

Ferronordic Machines supports the local communities where we operate. This support takes various forms. In 2013, Ferronordic Machines has, inter alia, sponsored the renovation of a gymnasium at a local school in Moscow region, contributed a Volvo CE excavator to be used in the relief work following the massive flooding in the Russian Far East during the autumn, and in partnership with Volvo CE contributed to a New Year party for the children in a local orphanage in Kaluga.


РЕШЕНИЯ VOLVO
ДЛЯ УСПЕХА
ВАШЕГО БИЗНЕСА

The Share **and Shareholders**

The number of outstanding ordinary shares amounts to 10,000,000. The number of outstanding preference shares amounts to 500,000. Each ordinary share carries one voting right and each preference share carries a one tenth (1/10) voting right at the General Meeting. As of 31 December 2013, Ferronordic Machines had 23 holders of ordinary shares and more than 500 holders of preference shares.

The Company's ordinary share are all privately held and not listed on any exchange.
The Company's preference shares, issued in October 2013, were listed on NASDAQ OMX First North Premier under the symbol FNMA PREF on 3 December 2013.

The table below sets forth information regarding the 10 largest holders of shares as of 31 December 2013:

	Number of Ordinary Shares	Number of Preference Shares	Share of Capital	Share of Votes
Erik Eberhardson (through companies)	2 661 000	-	25,3%	26,5%
Russian CE Distribution Investors AB	2 284 100	-	21,8%	22,7%
Lars Corneliusson (through companies)	2 022 800	-	19,3%	20,1%
Mellby Gård AB	647 100	-	6,2%	6,4%
Anders Blomqvist (through companies)	625 100	-	6,0%	6,2%
Creades AB	267 500	16 000	2,7%	2,7%
Fastighetsaktiebolaget Granen	261 100	8 000	2,6%	2,6%
Investment Öresund AB	264 900	-	2,5%	2,6%
Svenska Handelsbanken SA	190 300	1 000	1,8%	1,9%
JPM Chase NA	190 400	-	1,8%	1,9%
Other Shareholders	585 700	475 000	10,1%	6,3%
Total	10 000 000	500 000	100,0%	100,0%

Share **Capital**

The table below indicates the changes in Ferronordic Machines' share capital and the number of shares.

Year	Action	Number of ordinary shares	Number of class A-preference shares	Change in share capital (EUR)	Total share capital (EUR)
2008	New formation	11,000	-	11,000	11,000
2010	Issue of new shares	89,000	-	89,000	100,000
2013	Share split (100:1)	9,900,000	-	-	100,000
2013	Issue of new shares	-	500,000	5,000	105,000
Total number of shares outstanding at 31 December 2013		10,000,000	500,000		105,000

The share capital of EUR 105,000 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").

ORDINARY SHARES

On 9 October 2013 the EGM resolved to increase the number of ordinary shares in the Company from 100,000 to 10,000,000 through a share split of 100:1 (i.e. each share with a quotient value of EUR 1 was split into 100 shares, each with a quotient value of EUR 0.01). Earnings per share in the consolidated statement of comprehensive income for current and prior periods was recalculated based on this new number of shares.

PREFERENCE SHARES

On 9 October 2013 the EGM resolved to issue up to 500,000 new preference shares, each with a quotient value of EUR 0.01 (i.e. representing a maximum share capital increase of EUR 5,000). The subscription price per preference share was fixed at SEK 1,000. Following strong demand, the maximum amount of 500,000 preference shares was issued against a total subscription price of SEK 500 million. The settlement of the preference share issue took place on 25 October 2013.

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. Following the first payment date after the AGM in 2016, and until and including the first payment after the AGM in 2023, the preferred dividend shall increase by SEK 10 per year. If the dividend is not paid, any unpaid portion of the dividends will be added to other unpaid dividends ("Outstanding Amount"). The Outstanding Amount shall be adjusted upwards by 20% p.a. Adjustment shall be made from the semi-annually payment date until full dividends are received. No dividend may be made to the holders of ordinary shares before the holders of preference shares have received full payments of any outstanding Amount.

In connection with, or subsequent to, a possible listing of the Company's ordinary shares on NASDAQ OMX Stockholm or another regulated market, the holders of the preference shares have a right to exchange the preference shares into class B-preference shares. Each class B-preference share will in such case entitle its holder to subscribe for a number of ordinary shares corresponding to SEK 575 divided by 50% of the price per each ordinary shares offered in the listing, implying a discount to share price in the listing of approximately 13% (excluding compensation for accrued dividends and Outstanding Amounts, if any). After 25 October 2014, the amount used for exchange into ordinary shares will start to increase by SEK 5 per month until 25 January 2016, when the value to be used in an exchange into ordinary shares would equal SEK 650, implying a discount to the share price in the listing of approximately 23% (excluding compensation for accrued dividend and Outstanding Amounts, if any). 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 it 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 is conditional upon that the Company has sufficient unrestricted equity.

The Company has the right, at its sole discretion, to redeem the preference shares in cash. The redemption price until 25 October 2014 is SEK 1,050 for each class A-preference shares and SEK 1,150 for each class B-preference shares (class A-preference are convertible into class B-preference shares if the Company decides to list its ordinary shares on NASDAQ OMX Stockholm or another regulated market; currently only class A-preference shares have been issued). Following 25 October 2014 the redemption price is increased by SEK 10 per month up to a maximum amount of SEK 1,200 for class A-preference shares and SEK 1,300 for class B-preference shares.

In the event of liquidation of the Company, preference shares have priority over ordinary shares to an amount of SEK 1,200 per preference share (plus accrued dividend and outstanding amounts, if any).

Gross proceeds from the issue of the preference shares amounted to EUR 57,311 thousand. The consulting costs directly attributable to preference shares issue amounted to EUR 1,775 thousand or 1,397 thousand net of tax. Net proceeds from the issue of the preference shares amounted to EUR 55,914 thousand. Excess of net proceeds over par value of newly issued preference shares was recognised in additional paid in capital in the amount of EUR 55,909 thousand.

The information above regarding the Company's preference shares is only a simplified summary. For full details regarding the features of the preference shares, please refer to the Company's Articles of Association, available at the Group'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 currency of presentation.

WARRANTS

Ferronordic Machines has two outstanding warrant programs, one for selected senior executives, and another for certain non-executive members of the Board of Directors.

Management Warrant Program

In accordance with the decision at the EGM on 24 May 2013, Ferronordic Machines has offered selected executives the opportunity to acquire warrants issued by the company. The company's founders, Anders Blomqvist, Lars Corneliusson and Erik Eberhardson, do not participate in the management warrant program.

The number of outstanding warrants under this program amounts to 2,279. Each warrant entitles its holders to subscribe for 100 ordinary shares in Ferronordic Machines AB at a subscription price of EUR 6.50 per share, subject to the fulfilment of certain profitability targets. Provided that the profitability targets are met, the warrants become exercisable on the earliest of (i) 1 May 2016 or (ii) the day falling 18 months after the day when ordinary shares in the company started to trade on a European stock exchange or another regulated market. The warrants cease to be exercisable on 31 May 2016.

Board Warrant Program

In accordance with the decision of the AGM on 7 June 2011, Ferronordic Machines has offered certain non-executive members of the Board of Directors the opportunity to acquire warrants issued by the company. At the end of 2013, the number of outstanding warrants under this program amounted to 180. In total the warrants may entitle the holders to subscribe for 313,300 ordinary shares in Ferronordic Machines AB. After the reporting period, the company repurchased 30 warrants from a previous board member (these warrants entitled the previous holder to subscribe for 38,300 ordinary shares). The number of shares that the warrant holders may subscribe for depends on how well certain financial targets are met.

DIVIDENDS

On 9 October 2013 the EGM resolved to pay dividends on the Company's preference shares corresponding to an amount in EUR equivalent to SEK 50 per preference share (i.e. SEK 25 million in total), but not more than EUR 3.5 million The record date for the dividend payment is 25 April 2014. No dividend was to be paid on ordinary shares.

Dividends on preference shares in a total amount of EUR 2,795 thousand (SEK 50 per preference share) were recognised as distribution to owners in the consolidated statement of changes in equity for the year ended on 31 December 2013.

Board of **Directors**

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.

Relevant experience: Board chairman of Odlander, Fredriksson & Co AB, OFP Partners AB and Health Cap Advisor AB. Board member of Investment AB Öresund, Kamstrup AB, Kamstrup Karlskrona AB and Södersjukhuset AB.

Previous positions include President and CEO of Sandvik AB, 1984-1994. President and CEO of Seco Tools AB, 1976-1984.

Independent of the company, its management and major shareholders.

Number of shares in Ferronordic Machines: 64,700 ordinary shares (through company) and 1,020 Class A-preference shares.

MARTIN LEACH
Vice Chairman of the Board, Member of the Remuneration Committee and Chairman of the Audit Committee

General: British citizen. Born 1957. Dr.Sc.

Relevant experience: Board chairman of Magma Group. Board member of Auto XP Limited.

Previous positions include Board chairman and CEO of GAZ International Limited, 2006-2008. Board chairman of LDV Holdings Ltd 2006-2008. CEO of Maserati Spa, 2004-2005. President and COO of Ford Europe, Ford Motor Company, 2002-2003. Vice President Product Development Ford Europe, Ford Motor Company, 2000-2002. Managing Director of Mazda Motor Company, Japan, 1997-1999. Director Mazda Motor Company Japan, 1996-1997.

Independent of the company, its management and major shareholders.

Number of shares in Ferronordic Machines: 0

ERIK EBERHARDSON
Executive Vice Chairman of the Board

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

Relevant experience: Founder and Head of Business Development of Ferronordic Machines. Board member of Lindab International AB.

Previous positions include Chairman of OJSC GAZ, 2008-2009. CEO and President of OJSC GAZ, 2006-2007. Vice President of OJSC GAZ, 2005-2006. President of Volvo Construction Equipment, CIS and Russia, 2002-2005. President of Volvo Ukraine LLC, 1996-2000.

Dependent of the company, its management and major shareholders.

Number of shares in Ferronordic Machines: 2,661,000 ordinary shares (through companies).

MAGNUS BRÄNNSTRÖM
Member of the Board and the Audit Committee

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

Relevant experience: CEO and President of Oriflame Cosmetics SA.

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

Independent of the company, its management and major shareholders.

Number of shares in Ferronordic Machines: 0.

LARS CORNELIUSSON
Member of the Board

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

Relevant experience: President and CEO of Ferronordic Machines Group. Managing Director of Ferronordic Machines LLC.

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

Dependent of the company, its management and major shareholders.

Number of shares in Ferronordic Machines: 2,022,800 ordinary shares (through companies).

MARIKA FREDRIKSSON
Member of the Board and the Audit Committee

General: Swedish citizen. Born 1963. M.Sc. in Business Administration.

Relevant experience: CFO and Executive Vice President of Vestas Wind System A/S. Board member of ÅF AB.

Previous positions include CFO and Senior Vice President of Gambro AB, 2009-2012. CFO and Vice President of Autoliv Inc., 2008-2009. CFO and Senior Vice President of Volvo Construction Equipment, 2004-2008.

Independent of the company, its management and major shareholders.

Number of shares in Ferronordic Machines: 30,400 ordinary shares and 1,020 Class A-preference shares.

TOM JÖRNING
Member of the Board and the Audit Committee

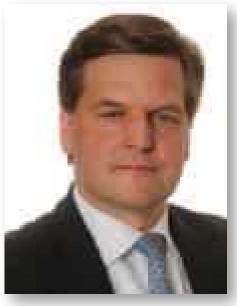
General: Swedish citizen. Born 1950.

Relevant experience: Managing Director of Volvo Group Trucks, Sales & Marketing, Market Central East.

Previous positions include Managing Director of Volvo Trucks, Region East, 1995-2004.

Independent of the company, its management and major shareholders.

Number of shares in Ferronordic Machines: 0



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.

Relevant experience: Managing Director and Head of Nordic Coverage at Houlihan Lokey. Board member of AH Automation AB.

Previous positions include 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.

Number of shares in Ferronordic Machines: 0.

Executive **Management**

LARS CORNELIUSSON
President and CEO

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

Number of shares in Ferronordic Machines: 2,022,800 ordinary shares (through companies).

NADEZHDA ARZUMANOVA
Human Resources Director

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

Number of shares in Ferronordic Machines: 0.

ANDERS BLOMQVIST
CFO

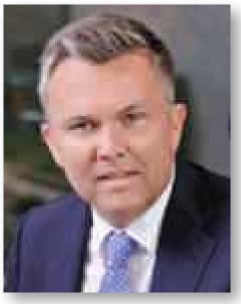
General: Swedish citizen. Born 1970. M.Sc. in Business Administration. Employed since 2010.

Number of shares in Ferronordic Machines: 625,100 ordinary shares (through companies).

HENRIK CARLBORG
General Counsel

General: Swedish citizen. Born 1975. LL.M. Employed since 2013.

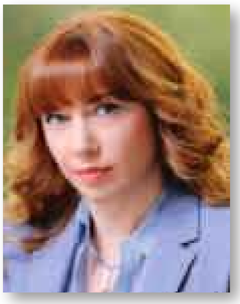
Number of shares in Ferronordic Machines: 50,000 ordinary shares (through company).



ERIK EBERHARDSON
Head of Business Development

General: Swedish citizen. Born 1970. B.Sc. in Business Administration. Studies in Applied Physics. Employed since 2010.

Number of shares in Ferronordic Machines: 2,661,000 ordinary shares (through companies).



OLGA GALASHEVSKAYA
Marketing and Corporate Communications Director

General: Russian citizen. Born 1972. Linguistic studies. Employed since 2013.

Number of shares in Ferronordic Machines: 0.

ONUR GUCUM
Commercial Director

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

Number of shares in Ferronordic Machines: 57,300 ordinary shares.

ANDREY ROMANOV
Head of Trucks Business

General: Russian citizen. Born 1958. Studies in Engineering. Employed since 2012.

Number of shares in Ferronordic Machines: 0.

ANTON VAREKHA
Financial Director

General: Russian citizen. Born 1976. M.Sc. in Business Administration. Employed since 2013.

Number of shares in Ferronordic Machines: 0.

AUDITORS

At the General Meeting of Ferronordic Machines, held on 20 May 2013, KPMG was appointed auditor, with Mattias Lötborn as the main responsible auditor and without deputy auditor, until the next annual general meeting.

Directors' **Report**

The Board of Directors of Ferronordic Machines AB, corporate registration number 556748-7953 (the "Parent Company"), hereby presents its annual report and consolidated financial statements for the financial year 2013. All amounts are indicated in EUR millions ("EUR m") unless otherwise stated. Amounts in brackets refer to the financial year 2012 if not otherwise stated.

THE BUSINESS

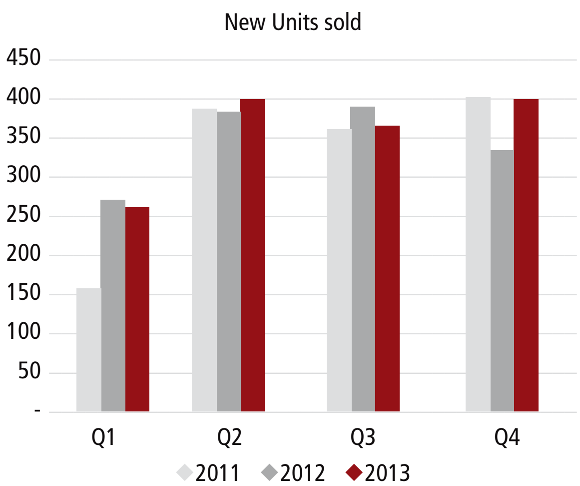
The Parent Company (together with its subsidiaries referred to as the "Group" or "Ferronordic Machines") is a public limited liability company organised under the laws of Sweden. The Parent Company's registered office is located at Hovslagargatan 5B, SE-111 48 Stockholm, Sweden. The Group has administrative offices in Stockholm and Moscow. The Parent Company is a holding company, primarily performing intragroup services related to the Russian operations. The Group's Moscow office provides support functions, including purchasing, business development, IT, communications, HR, legal affairs, compliance, and accounting and finance. In addition, the Group has sales and service locations throughout Russia.

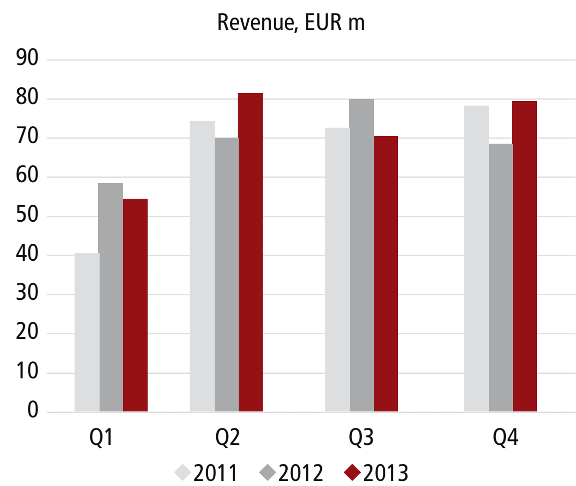
The Group was created to acquire and operate, as its principal activity, the Volvo Construction Equipment (Volvo CE) distribution business in Russia. The acquisition took place on 27 May 2010 (see Note 5 to the financial statements for the financial year 2011). Through this transaction, the Group became the authorized Volvo CE dealer in Russia. The Group's operations consist of distribution and sales of new Volvo construction equipment, sales of used equipment, rental of equipment, sales of other brands' equipment, sales of parts, sales of attachments, and providing of services and technical support to customers.

The Group's customers operate in Russia in many different industries, including oil and gas, mining, forestry, road and general construction, public utilities, municipal services and other industries.

ACTIVITIES IN 2013 COMPARED TO 2012

Ferronordic Machines generated all-time high revenue of EUR 286.6m in 2013, a 4% increase compared to 2012. Whilst the revenue from new machines remained at the same level as in 2012, the number of new machines delivered exceeded 1,500 units, which also represents an all-time high for Volvo CE in Russia. Revenue from parts and service grew by 6%. EBITDA in 2013 was EUR 18.8m (excluding one-off expenses), a 40% increase compared to EUR 13.4m in 2012. The one-off expenses are primarily related to the preference share issue, consultancy services and severance payments. The Group managed to increase its gross margin through a changed revenue mix and improved price realization. The higher gross profit was offset by increased operating expenses as the Group continued its expansion throughout Russia, albeit at a slower pace than in 2012. Net result, excluding amortization of transactions related intangibles, was EUR -0.9m, primarily due to EUR 3.3m of foreign exchange losses. Cash flow from operating activities was EUR 5.1m and cash flow from investing activities was EUR -2.5m. This together with the issuance of the preference shares resulted in an ending net debt position of EUR 6.7m[1].





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

During 2013 the Parent Company successfully raised SEK 500m in equity through a preference share issuance. At an EGM on 9 October 2013, the shareholders of the Parent Company resolved on a preference share issue to raise up to SEK 500 million. The same EGM also resolved upon a share split. The issue was successful and the Parent Company issued SEK 500 million of preference shares which were settled on 25 October 2013. The preference shares were listed on NASDAQ OMX First North Premier on 3 December 2013. During the year, the Parent Company also redeemed the remaining part of the bond loan. The bonds were redeemed at 102%.

Expansion in Russia

During 2013 the Group continued to expand its presence throughout Russia and has now established a strong platform from which to grow the revenue further. The number of sales- and/or service locations increased from 69 to 74 and the number of employees increased from 654 to 731.

NET SALES

Consolidated revenue in 2013 increased by 4% from EUR 275.8m to EUR 286.6m compared to 2012. Revenue from sales of new machines remained on the same level while revenue from spare parts and services increased by 6%.

GROSS PROFIT AND RESULTS FROM OPERATING ACTIVITIES

Gross profit in 2013 increased from EUR 42.0m to EUR 47.3m as compared to 2012. The margin increased from 15.2% to 16.5%. The improved margin was primarily related to an increased share of spare parts and services sales, as well as a more efficient pricing structure of machines and parts.

Results from operating activities in 2013 amounted to EUR 5.9m as compared to EUR 3.1m in 2012. The increase in gross profit of EUR 5.3m was offset by an increase in selling, general and administrative expenses of EUR 2.6m.

RESULT BEFORE INCOME TAX

The result before income tax in 2013 was EUR 0.2m higher than 2012. In addition to the positive impact of the results from operating activities, the result before income tax was negatively impacted by a foreign exchange loss of EUR 3.3m.

RESULT FOR THE PERIOD

The result after tax in 2013 compared to 2012 increased from EUR -5.8m to EUR -5.2m.

CASH FLOW AND INVESTMENTS

Cash flow from operating activities during 2013 amounted to EUR 5.1m compared to EUR 16.6m in 2012. This was due to higher inventory and higher receivable levels, which were partly offset by increased payables. In 2013 net cash used in investing activities was EUR -2.5m, a decrease compared to 2012 (EUR -8.9m). The decrease is mainly a result of lower spending on property, plant and equipment.

FINANCIAL POSITION

Consolidated cash and cash equivalents at 31 December 2013 and 31 December 2012 were EUR 18.4m and EUR 19.2m, respectively. At 31 December 2013 and 31 December 2012 the Group had interest-bearing liabilities of EUR 25.1m and EUR 83.1m respectively (interest bearing liabilities include debt and obligations under financial leases, both short term and long term).

Equity at 31 December 2013 was EUR 60.2m (EUR 15,1m), representing an equity/assets ratio of 36.7% (9.8%). The change in equity is primarily related to the SEK 500m preference share issue in Q4 2013.

EMPLOYEES

Competence development

The Group provides training to all of its employees. Extensive training is provided to service technicians and to the sales force. A significant portion of the training materials are provided on line and most of them have been translated into Russian. A large part of the training materials are provided and updated by Volvo CE. In 2013, the Company performed 46,298 training hours (40,426 hours).

Recruitment

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

Code of Conduct, Anti-Corruption Policy and other compliance-related policies and procedures

Each employee has been provided with a copy of the Group's Code of Conduct and Anti-Corruption Policy. The Group has in place a program for compliance with international anti-corruption legislation which includes various policies and procedures (e.g. policies regarding gifts and entertainment, due diligence and contracts with agents, sub-dealers and other associated persons, M&A policy, etc.) online training, in-class training, and annual compliance certifications.

An audit is performed on a recurring basis by an independent auditing firm in order to identify potential areas of improvement in the Group's compliance program and to review various sample transactions to verify that the Group's compliance-related policies are complied with.

SIGNIFICANT RISKS AND UNCERTAINTIES

The Group is exposed to various types of risk, both operational and financial. Identifying, managing and pricing these risks are of fundamental importance to the Group's profitability. Operational risks are associated with the day-to-day operations relating to economic activity, tendering, capacity utilisation, price risks and revenue recognition.

Financial risks arise from the amount of capital tied up and the Group's capital requirements. Fulfilling demand for short term customer financing of machines, parts and services and maintaining proper stock levels might require borrowings and extended payment terms to maintain adequate working capital levels. The Group is exposed to greater operational risks than financial risks.

The risks and uncertainties related to the Parent Company are indirectly similar to those of the Group.

RISK MANAGEMENT

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

OPERATIONAL RISKS

Political and legal environment

Political conditions in Russia were highly volatile in the 1990s. Over the past two 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 and Dmitry Medvedev's tenure as presidents, the Russian government and the Russian 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. Further, the risk of political instability resulting from the global financial and economic crisis and any associated worsening of the economic situation in Russia and deteriorating standards of living should not be underestimated. Any such instability could negatively affect the economic and political environment in Russia, particularly in the short term. Shifts in governmental policy and regulation in Russia are less predictable than in many western countries and could disrupt or reverse political, economic, and regulatory reforms. Any significant change in the Russian government's program of reform in Russia could lead to the deterioration of Russia's investment climate that might limit the Group's ability to obtain financing in the international capital markets or otherwise have a material adverse effect on the Group's business, financial condition and results of operations.

In the beginning of 2014, political instability and popular unrest in Ukraine have escalated tensions between Russia and Ukraine and resulted in Russia annexing the Crimean peninsula. As a result, the relations between Russian and other members of the international community, in particular EU and the U.S. have deteriorated and concrete sanctions have been issued against certain individuals associated with Russia. In March 2014 the European Council issued sanctions (in the form of travel ban and asset freeze) targeting certain Russian individuals. Further, the U.S. government issued sanctions against certain Russian individuals and one Russian bank which were added to the SDN list, published by the Office of Foreign Asset Control. The sanctions are still recent and their effect on Russia in general and on the Group's business, financial condition and results of operations in particular is currently impossible to predict. Additionally, continued and increased tensions between Russia and other countries may have significant political consequences (such as additional sanctions, economic or otherwise, issued by the EU, the U.S., Russia or any other country, or other measures implemented by Russia, in response to sanctions or otherwise, against foreign entities and investors). Such political consequences are difficult to predict and may limit the Group's ability to conduct its business and may have an adverse effect on the Group's business, financial condition and results of operations.

Corruption
The Russian and international media have reported high levels of corruption in Russia. Press reports have also described instances in which government officials have engaged in selective investigations and prosecutions to further the interest of the government and individual officials or business groups. Although the Group adheres to a business ethics policy and strict internal compliance procedures to counteract the effects of corruption (including conducting recurring compliance audits by an external auditing firm), instances of illegal activities, demands of corrupt officials, allegations that the Group or its management have been involved in corruption or illegal activities or biased articles and negative publicity could have an adverse effect on the Group's business, financial condition and results of operations.

Russian tax system
Refer to Note 25 (Contingencies) for a description of the Group's risks related to the Russian tax system.

Economic activity
Fluctuations in the economy and government spending affect the construction equipment sector, which is sensitive to market fluctuations and political decisions that can have an impact on demand for new residential and commercial buildings and investments in industry and infrastructure. However on a longer term, demand for construction equipment is driven by a countrywide need to renew the existing machine population, most of which is old and outdated and has limited production capacity. Demand for service and parts are not as sensitive to fluctuations in the economic cycle.

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

Price risks
Volvo CE and the Group work closely together on monitoring market processes and market shares and addressing the prices the Group pays for machines and parts. Unforeseen variations in other input prices and prices charged by Volvo CE constitute a risk. The Group believes that the acquisition pricing arrangement with Volvo CE constitutes a flexible framework to share and to offset the risk of rising prices through the partnership with Volvo CE, the Group's main supplier.

Revenue recognition
The Group recognises revenue from sales of goods when the significant risks and rewards of ownership are transferred to the buyer. The revenue from rendering of services is recognized when service work is complete and accepted by the customer.

Insurances
In Sweden the Group has adequate insurance coverage for its operations.

The insurance market in Russia is under development and several types of insuranc which are customary in other countries are not yet available. The Group maintains insurance against some, but not all potential risks and losses affecting its operations. Hence, there is a risk that the Group's insurance coverage will not be adequate to cover all of its losses or liabilities. Consequently, there is a risk that the loss or destruction of certain assets or that a claim is directed against the Group can have a material adverse impact on the Group's business, financial position or results until the Group receives adequate insurance coverage.

Financial risks
The Group is exposed to financial risks, which arise partly as a result of changes in debt levels, interest rates and currency movements. For information about financial risks, including interest, currency, financing and credit risks, see Note 22 to the consolidated financial statements *(Financial instruments and risk management).*

Material disputes
There have been no material disputes during the reporting period.

OUTLOOK
Overall, we remain cautiously optimistic as we look forward into 2014 and beyond, as the long-term fundamentals for the Russian construction equipment market remain strong. However short- and medium term market developments are more difficult to predict with the recent events in Ukraine creating additional uncertainties. We continue to monitor the situation closely and will adapt to possible changes in overall market development.

SHAREHOLDERS
Please refer to section share and shareholders on page 24.

THE WORK OF THE BOARD OF DIRECTORS

Please refer to the corporate governance report on page 39.

PARENT COMPANY

The Parent Company's revenue for 2013 was EUR 3,185 thousand (EUR 545 thousand). The increase relates to royalties paid by Ferronordic Machines LLC of EUR 2.7m under an intra-group trademark license agreement.

Administrative expenses in 2013 increased by 14% compared to 2012 and amounted to EUR 1,745 thousand. The after tax result in 2013 decreased compared to 2012, from a EUR 1,757 thousand loss to a EUR 2,970 thousand loss. Cash flow for 2013 was EUR 373 thousand (EUR -652 thousand).

As of 31 December 2013, the Parent Company's net assets were EUR 58,485 thousand (EUR 8,269 thousand).

The Parent Company had two employees.

EVENTS SUBSEQUENT TO THE REPORTING DATE

In February 2014 the Group agreed on a EUR 20,013 thousand (RUB 900,000 thousand) revolving credit facility with OAO Promsvyazbank, a Russian bank. The credit facility is made for two years. As of 13 February 2014 the Group received a short term loan from Promsvyazbank under the facility in an amount of EUR 11,119 thousand (RUB 500,000 thousand).

In February 2014 the Group registered two new legal entities, LLC Ferronordic Torgovy Dom and LLC Ferronordic Kaliningrad, both wholly owned subsidiaries of the Parent Company.

The beginning of 2014 has seen a deterioration in relations between Russia and various members of the international community. Political instability and popular unrest in Ukraine have escalated tensions between Russia and Ukraine and resulted in Russia annexing the Crimean peninsula. As a result, the European Council and the U.S. government have issued sanctions against certain Russian individuals and one Russian bank. Whilst these sanctions have not yet had any material effect on the Group's operations, the sanctions are still recent and their effect on Russia in general and on the Group's business, financial condition and results of operations in particular is currently impossible to predict. Additionally, continued and increased tensions between Russia and other countries may have significant political consequences, which are difficult to predict and may limit the Group's ability to conduct its business and may have an adverse effect on the Group's business, financial condition and results of operations.

PROPOSED ALLOCATION OF PROFIT

The following amount is available for allocation by the AGM:

EUR 58,379,582

The Board proposes that this amount is allocated as follows:

EUR	
SEK 100 in dividend per preference share (maximum)	7,000,000
Amount carried forward (minimum)	51,379,582
of which to the Share Premium Reserve (minimum)	*61,318,600*
Total amount allocated	58,379,582

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. Since 3 December 20013 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 clearly specifying the allocation of roles and responsibilities among shareholders, the Board and the management team.

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

Ferronordic Machines' shareholders make the ultimate decision on the company's direction, since they at the AGM appoint the Board and the chairman of the Board. The AGM also elects the auditors and the members of the Nomination Committee. The task of the Board is to manage Ferronordic Machines' 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 Management and the Extended Management, including the 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's 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 includes provisions regarding:

- payment of dividends;
- composition of the Board;
- right of certain shareholder groups to designate a certain number of Board members;
- right of investors holding over 20% of the shares and votes to appoint Board observers; and
- reserved matters that require approval either by all Board members appointed by the investors or by at least half of the votes held by the investors at the General Meeting.

The shareholders' agreement will terminate upon a listing of the company's ordinary shares on NASDAQ OMX Stockholm or another regulated market.

SWEDISH CORPORATE GOVERNANCE CODE

Companies listed on First North Premier are not required to apply the Code. However, as part of its ambition to list its shares on a regulated market in Sweden, Ferronordic Machines anyway acts, in most regards, as if the Code already applied to it. This corporate governance report has therefore been prepared to describe how Ferronordic Machines has applied the Code.

IMPORTANT EVENTS IN 2013:

- Election of Kristian Terling as new Board member
- Henrik Carlborg joined the Executive Management as General Counsel
- Olga Galashevskaya joined the Executive Management as Marketing and Communications Director
- Anton Varekha joined the Executive Management as Financial Director of Ferronordic Machines LLC

During 2013 Ferronordic has deviated from the Code as follows:

- The AGM on 20 May 2013 and the EGM on 24 May 2013 were not conducted in Swedish but in English, and the material presented at these general meetings was not available in Swedish but in English. This was deemed appropriate since most of the shares and votes were held by individuals and entities outside of Sweden and all shareholders at the time spoke and understood English. After the EGM on 24 May General Meetings have been conducted in Swedish and material has been available in Swedish with English translations.

- The resolution of the AGM 2013 electing the members of the Nomination Committee did not specify the procedures for replacing members of the Nomination Committee who resign before the work is concluded. Such procedures were not deemed necessary at the time.

- No statement was issued by the Nomination Committee in connection with the notice for the AGM 2013 motivating the Nomination Committee's proposals regarding the composition of the Board of Directors. Such motivation was not deemed necessary at the time since the company did not have any listed shares and the number of shareholders was limited.

- At the AGM 2013 the Nomination Committee did not give any account of how it had conducted its work nor any explanation of its proposals. Such account was not deemed necessary at the time since the company did not have any listed shares and the number of shareholders was limited.

- More than one member of the Board is also a member of the Group's executive management. Currently both Lars Corneliusson (CEO) and Erik Eberhardson (Head of Business Development) are members of the Board. This has been deemed appropriate and in the best interest of the company and the shareholders since both of them possesses unique experience relevant to the Board. Their Board memberships are also motivated by the fact that they are both large shareholders in the company.

- The committees of the Board have not kept separate minutes of their meetings (minutes for the Audit Committee are included in the general minutes for the Board meetings).

- The vesting period of the company's existing warrants programs for key employees is less than three years. This has been deemed appropriate in order to recruit and retain competent key personnel, which is in the best interest of the company and the shareholders. The warrants program does not include the CEO, the CFO or the Head of Business Development.

- The company currently has a warrants program for non-executive Board members. The warrants program, which was implemented before the company had any listed shares, bonds or other securities, was deemed necessary to recruit and retain competent and dedicated Board members when the company was just recently established.

- The corporate governance report included in the 2012 Annual Report did not comply with the requirements of the Code. This was not deemed necessary given that the company did not have any listed shares and that the Code did not apply to the company.

COMPLIANCE WITH REGULATIONS

Ferronordic Machines' corporate governance is based on both external and internal regulations and internal control documents.

EXAMPLES OF EXTERNAL REGULATIONS:

- the Swedish Companies Act
- the Swedish Bookkeeping Act
- the Swedish Annual Accounts Act
- the rules of NASDAQ OMX concerning First North Premier
- the Swedish Corporate Governance Code

EXAMPLES OF INTERNAL REGULATIONS:

- the Articles of association
- the work procedures of the Board, including the instructions to the CEO and the Board's reporting instructions
- Code of Conduct
- Other internal policies such as Information Policy, Internal Control Policy, guidelines and manuals

SHARE CAPITAL AND SHAREHOLDERS

At the end of 2013, three shareholders' controlled more than ten percent of the voting rights in Ferronordic Machines; Erik Eberhardson (through companies) with 26.5%, Russian CE Distribution Investors AB with 22.7% and Lars Corneliusson (through companies) with 20.1%. Further information about Ferronordic Machines' share capital and shareholders can be found on pages 24-26.

GENERAL MEETINGS

The general meeting of shareholders (General Meeting) is Ferronordic Machines' 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 in order 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.

All shareholders are entitled to participate in the General Meeting, 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 Ferronordic Machines of their participation as specified in the notice.

All shareholders are 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 for the meeting. At the General Meetings shareholders also have the opportunity to present questions to the Board and the management.

ANNUAL GENERAL MEETING 2013

The AGM 2013 took place on 20 May 2013 in Stockholm. At the meeting, 66.48% of the shares and votes were represented in person or by proxy. The chairman of the Board, Per-Olof Eriksson, was elected chairman of the AGM.

The CEO, the auditors, one member of the Nomination Committee, and all Board members elected by the AGM were present.

The minutes of AGM have been made available on Ferronordic Machines' website. The resolutions passed included the following:

- no dividends were to be paid for the 2012 financial year;
- re-election of Magnus Brännström, Lars Corneliusson, Erik Eberhardson, Per-Olof Eriksson, Marika Fredriksson, Tom Jörning and Martin Leach as Board members;
- election of Kristian Terling as new Board member;
- re-election of Per-Olof Eriksson as chairman of the Board;
- fees to the Board and remuneration of the auditor;
- re-election of the auditor; and
- election of Rune Andersson, Mikael Brantberg and Stefan Charette as members of the Nomination Committee.

EXTRAORDINARY GENERAL MEETINGS

In addition to the AGM, three extraordinary general meetings (EGM) took place in 2013.

The first EGM took place on 24 May 2013 in Stockholm. At this EGM it was resolved to issue warrants to certain senior executives. 100% of the shares and votes were represented at the EGM, either in person or by proxy. The minutes of the EGM have been made available on Ferronordic Machines' website.

The second EGM took place on 9 October 2013 in Stockholm. 100% of the shares and votes were represented at the EGM either in person or by proxy. The minutes of the EGM have been made available on Ferronordic Machines' website. The resolutions made at the EGM included:

- adoption of new articles of association;
- approval of a share-split;
- issue of preference shares;
- payment of dividends on preference shares for the 2012 financial year in an amount in euro corresponding to SEK 50 per preference share; and
- authorization of the board to decide on the issue of preference shares.

The third EGM took place on 18 December 2013 in Stockholm. 32.43% of the shares and 33.88% of the votes were present at the EGM, either in person or by proxy. At the EGM it was resolved to adopt new articles of association to allow for a change of the company's reporting currency from euro to Swedish kronor.

ANNUAL GENERAL MEETING 2014

Ferronordic Machines's AGM 2014 will be held on Tuesday, 20 May 2014 at Radisson Blu Strand Hotel in Stockholm. More information is available at www.ferronordic.com.

NOMINATING COMMITTEE

The Nomination Committee evaluates the composition of the Board and submits proposals to the AGM concerning:

- chairman of the AGM;
- remuneration of each Board member;
- Board members;
- chairman of the Board;
- auditors; and
- remuneration of the auditors.

The Nomination Committee's proposals shall be presented to Ferronordic Machines in sufficient time to be included in the notice to attend the AGM and to be published on the company's website at the same time. In connection with the notice to attend the AGM, the Nomination Committee shall also comment on whether the persons proposed to be elected as Board members are to be regarded as independent in relation to the company, management and major shareholders, and on their material duties and holdings of shares in Ferronordic Machines. When preparing its proposals for the AGM the Nomination Committee also takes into account the provision of the Shareholders' Agreement. Shareholders are offered the opportunity to submit proposals to the Nomination Committee. No proposals were submitted within the assigned time period for the AGM 2013.

The Nomination Committee's proposals to the AGM 2013 were presented in the notice to attend the AGM on 19 April 2013.

The AGM 2013 elected the following three members of the Nomination Committee, representing the three largest shareholders excluding management: Rune Andersson, representing Mellby Gård AB; Mikael Brantberg, Chairman of the Nomination Committee, representing Russian CE Distribution Investors AB and Stefan Charette, representing Creades AB. All members of the Nomination Committee are independent of the company and the company's management. All members are also independent of the company's largest shareholder, measured by number of votes. Information on the members of the Nomination Committee and how shareholders may make proposals to the Nomination Committee is made available on the company's website not later than six months before the AGM.

No compensation is paid to the members of the Nomination Committee.

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, inter alia:

- establishing the company's objectives and strategy;
- appointing, evaluation and, when needed, dismissing the CEO;
- ensuring that there are effective systems for follow-up and control of the company's operations;
- ensuring that there is sufficient control over the company's compliance with laws and other rules applicable to the company's operations;
- ensuring that required guidelines are in place concerning the company's conduct; and
- 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 Board's work is carried out efficiently and that the Board fulfils its obligations.

Composition

During 2013 the Board has consisted of eight members without deputies. All Board members were elected at the AGM 2013 for the period until the AGM 2014. The AGM 2013 also re-elected Per-Olof Eriksson as chairman of the Board for the period until the AGM 2014. Detailed information about the Board, including their shareholdings and various appointments, can be found on page 28.

According to the shareholders' agreement, investors holding over 20% of the ordinary shares and votes may appoint a representative to attend, observe and speak, but not vote, at the meetings of the Board. Russian CE Investors AB has utilized this right and appointed Mikael Brantberg as its observer on the Board.

The CFO and General Counsel attend the meetings of the Board. The General Counsel is the secretary of the Board.

Independence requirements

The Code stipulates that the majority of the Board shall be independent of the company and the company's management, and at least two of the Board members who are independent of the company and its management shall also be independent of the company's major shareholders. The Board meets these requirements as six of the eight Board members are deemed independent of the company, its management and the major shareholders.

The Code also stipulates that only one Board member may work in the company's management. The company deviates from this requirement since the Board includes two members of the Group's management, Lars Corneliusson and Erik Eberhardson.

Work procedures
Each year the Board adopts procedures for the Board's 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 Board chairman. In addition, the work procedures contain directives concerning the tasks of the Board's committees. The Board has also issued written instructions specifying how financial information should be reported to the Board, as well as defining the distribution of duties between the Board and the CEO.

Evaluation of the Board work
To ensure that the Board meets with required standards, a systematic and structured process has been developed to evaluate the work of the Board. The evaluation is made annually and the result of the evaluation is presented to the Nomination Committee.

Board work in 2013
During 2013 the Board held 17 meetings including meetings held by telephones or per capsulam. Over the year the Board devoted particular focus to the following issues:

- the Group's earnings and financial position;
- interim reporting;
- development of the Russian construction equipment market;
- corporate governance, risk management and internal control, including development of the Group's compliance program;
- strategic issues, including investments and capital expenditure;
- the financing of the Group, including the issue of new preference shares;
- remuneration to the CEO and other executives, including a warrants program for certain executives; and
- evaluation of the work of the Board and the work of the CEO.

The work of the CEO is evaluated by the Board continuously. 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 company's management.

REMUNERATION OF THE BOARD

As resolved at the AGM 2013, the total remuneration of the Board amounts to SEK 1,150,000, of which SEK 300,000 is paid to the chairman, SEK 250,000 to the vice chairman, and SEK 150,000 to each of the other directors, except for the two directors who are employed by the Group. No additional compensation is paid for committee work.

BOARD COMMITTEES

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

Audit Committee
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, in corporation with the Nomination Committee prepare the election of the auditors, monitor the internal control of the Ferronordic Machines Group, as well as dealing with other related matters.

The Audit Committee consists of the following six members: Magnus Brännström, Per-Olof Eriksson, Marika Fredriksson (independent and qualified member), Tom Jörning, Martin Leach (chairman), and Kristian Terling.

All members of the Audit Committee are independent of the company, the company's management and the largest shareholders.

In 2013 the Audit Committee held four meetings in connection with the physical meetings of the Board.

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), Martin Leach and Kristian Terling. All members of the remuneration committee are independent of the company, the company's management and the company's larger shareholders. The members are deemed to have appropriate knowledge and experience of matters relating to executive remuneration, as required by the Code.

ATTENDANCE IN BOARD MEETINGS IN 2013

	Magnus Brännström	Lars Corneliusson	Erik Danemar*	Erik Eberhardson	Per-Olof Eriksson	Marika Fredriksson	Tom Jörning	Martin Leach	Kristian Terling**
29 Januari	•	•	•	•	•	•	•	•	
20 Februari	•	•	•	•	•	•	•	•	
15 March	-	•	•	•	•	•	•	•	
22 March	•	•	•	•	•	•	•	•	
20 May	•	•	-	•	•	•	•	•	
17 June	•	•		•	•	•	•	•	•
30 June	•	•		•	•	•	•	•	•
24 July	•	•		•	•	•	•	•	•
2 August	•	•		-	•	•	•	•	•
19 September	•	•		•	•	•	•	•	•
8 October	-	•		•	•	•	•	•	•
9 October	•	•		•	•	•	•	•	•
16 October	•	•		•	•	•	•	•	•
18 October	•	•		•	-	•	•	•	•
21 October	•	•		•	•	•	•	•	•
15 November	•	•		•	•	-	•	•	•
18 December	•	•		•	•	•	•	•	•

* Erik Danemar left the Board of Directors, 20 May 2013
** Kristian Terling was appointed to the Board of Directors, 20 May 2013

The Remuneration Committee held one formal meeting in 2013. In addition the members of the Remuneration Committee have had an informal continuous discussion throughout the year per 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, which was re-elected at the AGM 2013 for the period until the AGM 2014. Mattias Lötborn is the auditor-in-charge. The compensation paid to KMPG is indicated in Note 30 on page 86.

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 CEO is also the General Director of Ferronordic Machines LLC, the Group's main operating entity in Russia.

The Executive Management is convened on a regular basis, about once a month, 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, the Executive Management comprises Nadezhda Arzumanova, HR Director; Anders Blomqvist, CFO and Head of Investor Relations; Henrik Carlborg, General Counsel and Chief Compliance Officer (from July 2013); Erik Eberhardson, Head of Business Development; Olga Galashevskaya, Marketing and Corporate Communications Director (from June 2013); Onur Gucum, Commercial Director; Dmitry Khmelidze, Business Support Director (until November 2013); Andrey Romanov, Head of Trucks Business; Sergey Ustimenko (until August 2013) and Anton Varekha, Financial Director (since August 2013). 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 and shareholdings in the company, etc., can be found on page 29.

For certain matters, the Executive Management is supplemented by certain other Group functions, the Regional Directors, and the Key Accounts Director (Extended Management).

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

Operationally Ferronordic Machines is divided into seven regions, corresponding to the Federal Districts of the Russian Federation, i.e. North West (with regional hub in St. Petersburg), Central (with regional hub in Moscow), Volga (with regional hub in Kazan), South (including North Caucasus) (with regional hub in Krasnodar), Ural (with regional hub in Yekaterinburg), 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 Regional Director and the Executive Management.

REMUNERATION OF SENIOR EXECUTIVES

Remuneration and other benefits payable to the CEO and the other members of the Executive Management can be found on Note 29 (e) on page 85.

Remuneration to Ferronordic Machines' Executive Management shall be based on the market conditions in which Ferronordic Machines operates and the environment in which the individual executive works. In addition, remuneration shall be competitive and enable Ferronordic Machines to attract and retain competent executives. Remuneration of the executive management consists of fixed salaries, variable salaries, pensions and benefits, according to below.

Fixed salaries

Fixed salaries and benefits should be established individually based on the criteria outlined above and the executive's individual responsibilities and performance.

Variable salaries

Variable salaries are paid upon completion of predetermined and measurable performance criteria, mainly based on the performance of Group and/or the business area for which the relevant executive is responsible. For the CEO the variable salary may not exceed 100% of the annual fixed salary. For other executives the maximum variable salary varies between 10% and 50% of the annual fixed salary. The only exception is Erik Eberhardson (Head of Business Development) whose maximum variable salary can be 150% of the annual fixed salary (depending on the results of the group and the results of the key accounts business area, for which he is responsible). The increased limit was agreed in connection with a decrease of the executive's fixed salary.

Benefits

In addition to salary, executives are entitled to customary non-monetary benefits, such as company cars and medical insurance. In individual cases, housing allowances and other similar benefits may also be offered.

Pension benefits

In addition to pension benefits which executives are entitled to according to law, executives may be offered pension benefits that are competitive in the country where the executives are or have been resident or to which the executives have a material connection, preferably defined-contribution plans.

Routines for establishing remuneration

The Remuneration Committee prepares and the Board of Directors decides on the terms of employment and remuneration of Lars Corneliusson and Erik Eberhardson. As regards the other executives, the Remuneration Committee prepares and the Board of Directors decides on the principles on which the terms of employment and remuneration should be decided. Based on these principles, the CEO decides the remuneration for the other executives, after consultation with the Chairman of the Board and the Remuneration Committee.

INTERNAL CONTROL OF FINANCIAL REPORTING

Internal control regarding financial reporting is intended to provide reasonable assurance of the reliability of external financial reporting, including interim reports, press releases and annual reports. It shall also ensure that the external financial reports comply with laws and applicable accounting standards.

According to the Code, the Board has to ensure that the company has adequate internal control and formalized procedures to ensure compliance with approved principles for financial reporting and internal control. The Board also has to ensure that the company's financial reports are produced in compliance with legislation, applicable accounting standards and other requirements applicable to companies listed on NASDAQ OMX First North Premier.

Control environment

The control environment at Ferronordic Machines consists of a number of corporate policies, guidelines and supporting frameworks related to financial reporting. These include, inter alia, the financial handbook with instructions for accounting and reporting, the financial policy, the signatory policy with instructions concerning decision levels and authorization levels for various areas, the insider policy concerning insider issues, the information policy regarding external communications, and the Code of Conduct regarding ethical and integrity matters. The guidelines are monitored and updated regularly and are communicated to all employees involved in financial reporting.

Risk assessment

Ferronordic Machines implements an annual risk-assessment process and, based on this assessment, the significant risks impacting the internal control of financial reporting are identified and evaluated. This risk assessment provides the foundation for managing risks through an improved control environment and also results in prioritized areas to be improved.

The main risks related to the internal control of financial reporting are:

- Insufficient control over standardized internal procedures for compiling consolidated financial statements under IFRS;
- Insufficient control over the related closing procedures;
- Inconsistency between the methods applied by the Group internally;
- Lack of internal control over intergroup elimination entries;
- Sufficient control over review procedures of non-routine transactions is not implemented (IFRS adjustments).

To address the possible weaknesses relating to the IFRS reporting function, the Company has re-evaluated its internal regulations on IFRS accounting and improved the training of employees involved with IFRS reporting.

The internal control over the financial reporting are independently assessed by the company's auditors on a yearly basis. Although this assessment is made to enable the auditors to form an opinion on the financial statements of the Group, it is anyway used by the Group internally to assess the effectiveness of its internal control and financial reporting procedures. No material weaknesses were identified in 2013.

Control activities

The main purpose of Ferronordic Machines' control activities is to discover and prevent errors and thereby ensure the quality of financial reporting. Based on the risk assessment, control activities within the identified processes have been implemented. These processes ensure that the fundamental requirements of the external financial reporting are met. The activities are both manual and automated large-scale control activities that include the review and approval of various types of accounting transactions, analysis of key figures and ratios, reconciliation of accounts and checklists, as well as application controls for financial information in IT systems supporting financial reporting.

Information and communication

Ferronordic Machines' communication shall be correct, transparent, timely and available to all stakeholders simultaneously. All communication must be provided in accordance with the rules of NASDAQ OMX applicable to companies with shares listed on First North Premier. The Board has approved an information policy regulating the manner in which the company discloses information. Information is disclosed regularly to third parties through press releases and www.ferronordic.com. The Board regularly receives financial updates and reports. The Board reviews and approves interim reports and the annual report at regular meetings prior to publication. Financial information about the company may only be communicated by the CEO and the CFO (also Head of Investor Relations).

Monitoring

The Board and the Executive Management continuously evaluate the information supplied. The company re-assessed the risk over the internal control of financial reporting after the recommendations received from external auditors. Weaknesses caused by identified risk are mitigated and followed up in the following year.

Internal audit

In accordance with the Code, the Board assessed the need for a specific internal audit department in the Group. In previous years the Board has determined that the existing control structure does not motivate establishment of an internal auditing function.

However, as the Group's business is expanding and becoming more complex, the Board has concluded that an internal audit function should be established. The internal audit function will report to Financial Director with regard to reporting matters and to the General Counsel with regard to compliance matters.

The internal audit function will also present reports on issues relating to internal control to the Audit Committee. A person was hired for the function on 14 April 2014.

Stockholm, April 2014

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

EUR '000	Note	1 January 2013 to 31 December 2013	1 January 2012 to 31 December 2012
Revenue	6	**286,623**	**275,806**
Cost of sales		(239,314)	(233,823)
Gross profit		**47,309**	**41,983**
Selling, general and administrative expenses	7	(40,830)	(38,204)
Other income		172	208
Other expenses	8	(740)	(912)
Results from operating activities		**5,911**	**3,075**
Finance income	9	104	247
Finance costs	9	(9,370)	(9,850)
Net foreign exchange gains/(losses)		(3,318)	(383)
Resultat before income tax		**(6,673)**	**(6,911)**
Income tax benefit	10	1,445	1,105
Result for the year		**(5,228)**	**(5,806)**
Other comprehensive income			
Items that will never be reclassified to profit or loss			
Exchange differences on translating to presentation currency		(2,870)	946
Other comprehensive income/(loss) for the year, net of income tax		**(2,870)**	**946**
Total comprehensive income/(loss) for the year		**(8,098)**	**(4,860)**
Earnings per share			
Basic earnings per share (EUR)	31	(0.80)	(0,58)

The consolidated statement of comprehensiv income shall be read in conjunction with the Notes to, and forms part of, the consolidated financial statements set out on pages 53 to 88.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

EUR '000	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Intangible assets	12	10,780	16,483
Property, plant and equipment	11	28,054	27,273
Deferred tax assets	13	2,564	1,305
Total non-current assets		41,398	45,061
Current assets			
Inventories	14	66,038	58,675
Trade and other receivables	15	37,916	31,715
Other assets		79	89
Prepayments		117	221
Cash and cash equivalents	16	18,376	19,227
Total current assets		122,526	109,927
TOTAL ASSETS		163,924	154,988
EQUITY AND LIABILITIES			
Equity	17		
Share capital		100	95
Additional paid in capital		66,554	10,579
Translation reserve		(3,600)	(730)
Retained earnings		(2,818)	5,205
TOTAL EQUITY		60,236	15,149
Non-current liabilities			
Borrowings	18	-	45,628
Deferred income	19	-	396
Deferred tax liabilities	13	1,176	2,415
Long-term portion of finance lease liabilities	18	2,723	6,942
Total non-current liabilities		3,899	55,381
Current liabilities			
Borrowings	18	18,233	27,345
Trade and other payables	21	73,672	50,486
Deferred income	19	1,730	430
Provisions	20	2,023	2,997
Short-term portion of finance lease liabilities	18	4,131	3,200
Total current liabilities		99,789	84,458
TOTAL LIABILITIES		103,688	139,839
TOTAL EQUITY AND LIABILITIES		163,924	154,988
Pledged Assets and Contingent Liabilities			
Pledged Assets	18	22,076	21,066
Contingent Liabilities	25	708	762

The consolidated statement of financial position shall be read in conjunction with the Notes to,and forms part of, the consolidated financial statements set out on pages 53 to 88.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company				
EUR '000	Note	Share capital	Additional paid in capital	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2013		95	10,579	5,205	(730)	15,149
Total comprehensive income for the year						
Result for the period		-	-	(5,228)	-	(5,228)
Other comprehensive income						
Exchange differences on translating to presentation currency		-	-	-	(2,870)	(2,870)
Total comprehensive income for the year		-	-	(5,228)	(2,870)	(8,098)
Contribution by and distribution to owners						
Issue of preference shares	17	5	55,909	-	-	55,914
Preference shares dividends	17	-	-	(2,795)	-	(2,795)
Warrant issue	17	-	66	-	-	66
Total contributions and distributions		5	55,975	(2,795)	-	53,185
Balance at 31 December 2013		100	66,554	(2,818)	(3,600)	60,236

	Attributable to equity holders of the Company				
EUR '000	Share capital	Additional paid in capital	Retained earnings	Translation reserve	Total equity
Balance at 1 January 2012	95	10,579	11,011	(1,676)	20,009
Total comprehensive income for the year					
Result for the period	-	-	(5,806)	-	(5,806)
Other comprehensive income					
Exchange differences on translating to presentation currency	-	-	-	946	946
Total comprehensive income for the year	-	-	(5,806)	946	(4,860)
Balance at 31 December 2012	95	10,579	5,205	(730)	15,149

The consolidated statement of changes in equity shall be read in conjunction with the Notes to, and forms part of, the consolidated financial statements set out on pages 53 to 88.

CONSOLIDATED STATEMENT OF CASH FLOWS

EUR '000	Note	1 January 2013 to 31 December 2013	1 January 2012 to 31 December 2012
Cash flows from operating activities			
Result before income tax		(6,673)	(6,911)
Adjustments for:			
Depreciation and amortisation	11, 12	11,706	10,330
Loss from write off of receivables		249	560
Profit on disposal of rental fleet		(771)	(472)
Finance cost	9	9,370	9,850
Finance income	9	(104)	(247)
Net foreign exchange losses		3,318	383
Other non-cash movements		272	-
Cash from operating activities before changes in working capital and provisions		**17,367**	**13,493**
Change in inventories		(24,610)	1,969
Change in trade and other receivables		(9,632)	(8,326)
Change in prepayments		84	(46)
Change in trade and other payables		30,765	15,437
Change in provisions		(684)	(318)
Change in other assets		(5)	(89)
Change in deferred income		1,215	(548)
Cash flows from operations before interest paid and tax paid		**14,500**	**21,572**
Proceeds from sale of rental fleet		3,050	4,426
Income tax paid		(1,276)	(210)
Interest paid		(11,125)	(9,222)
Cash flows from operating activities		**5,149**	**16,566**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		22	29
Interest received		91	113
Acquisition of property, plant and equipment		(1,998)	(8,451)
Acquisition of intangible assets		(649)	(584)
Cash flows from investing activities		**(2,534)**	**(8,893)**
Cash flows from financing activities			
Proceeds from issue of warrants		66	-
Repayment of bonds		(31,350)	-
Proceeds from borrowings		31,967	88,713
Proceeds from preference share issue		40,899	-
Repayment of other loans		(39,146)	(86,207)
Leasing financing received		1,055	1,478
Leasing financing paid		(4,855)	(4,900)
Cash flows from financing activities		**(1,364)**	**(916)**
Net increase in cash and cash equivalents		**1,251**	**6,757**
Cash and cash equivalents at start of the year		19,227	12,403
Effect of exchange rate fluctuations on cash and cash equivalents		(2,102)	67
Cash and cash equivalents at year-end	16	**18,376**	**19,227**

The consolidated statement of cash flows shall be read in conjunction with the Notes to, and forms part of, the consolidated financial statementsset out on pages 53 to 88.

PARENT COMPANY INCOME STATEMENT

EUR '000	Note	1 January 2013 to 31 December 2013	1 January 2012 to 31 December 2012
Revenue		3,185	545
Gross profit		**3,185**	**545**
Administrative expenses	7	(1,745)	(1,528)
Other expenses		(5)	
Results from operating activities		**1,435**	**(983)**
Finance income	9	5,142	5,363
Finance costs	9	(6,583)	(5,953)
Net foreign exchange gains/(losses)		(3,767)	(498)
Result before income tax		**(3,773)**	**(2,071)**
Income tax	10	803	314
Result for the period*		**(2,970)**	**(1,757)**

*"Result for the period" corresponds to "Total comprehensive income for the period".

The income statement shall be read in conjunction with the Notes to, and forms part of, the consolidated financial statements set out on pages 53 to 88

PARENT COMPANY BALANCE SHEET

EUR '000	Note	31 December 2013	31 December 2012
ASSETS			
Non-current assets			
Property, plant and equipment	11	1	2
Intangible assets	12	1,208	1,708
Financial assets			
Holdings in group Companies	28	21,685	15,426
Loans to group companies	26	32,190	35,984
Deferred tax assets	13	2,355	1,224
Total financial assets		56,320	52,634
Total non-current assets		57,439	54,344
Current assets			
Trade and other receivables	15	4,968	2,771
Prepayments		37	66
Cash and cash equivalents	16	566	193
Total current assets		5,571	3,029
Total assets		63,010	57,374
EQUITY AND LIABILITIES			
Equity	17		
Restricted equity			
Share capital		105	100
Unrestricted Equity			
Share Premium Reserve		68,319	12,344
Retained earnings		(6,969)	(2,417)
Loss for the year		(2,970)	(1,757)
Total equity		58,485	8,269
Non-current liabilities			
Borrowings	18	-	45,628
Total non-current liabilities		-	45,628
Current liabilities			
Trade and other payables	21	4,525	3,476
Total current liabilities		4,525	3,476
Total liabilities		4,525	49,104
Total equity and liabilities		63,010	57,374

There were no pledged assets and contingent liabilities as of 31 December 2013 and 31 December 2012.

The balance sheet shall be read in conjunction with the Notes to, and forms part of, the consolidated financial statements set out on pages 53 to 88.

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

EUR '000	Note	Share capital	Share premium reserve	Retained earnings	Total equity
Balance at 1 January 2013		100	12,344	(4,174)	8,270
Total comprehensive income for the year					
Result for the period		-	-	(2,970)	(2,970)
Total comprehensive income for the year		-	-	(2,970)	(2,970)
Contribution by and distribution to owners					
Issue of preference shares	17	5	55,909	-	55,914
Preference shares dividends		-	-	(2,795)	(2,795)
Warrant issue	17	-	66	-	66
Total contributions and distributions		5	55,975	(2,795)	53,185
Balance at 31 December 2013		105	68,319	(9,939)	58,485

EUR '000	Share capital	Share premium reserve	Retained earnings	Total equity
Balance at 1 January 2012	100	12,344	(2,417)	10,027
Total comprehensive income for the period				
Result for the period	-	-	(1,757)	(1,757)
Total comprehensive income for the period	-	-	(1,757)	(1,757)
Balance at 31 December 2012	100	12,344	(4,174)	8,270

The statement of changes in equity shall be read in conjunction with the Notes to, and forms part of, the consolidated financial statements set out on pages 53 to 88

PARENT COMPANY STATEMENT OF CASH FLOWS

EUR '000	Note	1 January 2013 to 31 December 2013	1 January 2012 to 31 December 2012
Cash flows from operating activities			
Result for the year before income tax		(3,773)	(2,071)
Adjustments for:			
Depreciation and amortisation	11,12	501	501
Finance costs	9	6,583	5,953
Finance income	9	(5,142)	(5,363)
Net foreign exchange losses		3,767	187
Cash from operating activities before changes in working capital and provisions		1,936	(793)
Change in trade and other receivables		(3,526)	11
Change in prepayments		30	(13)
Change in trade and other payables		328	(131)
Cash flows from operations before income tax and interest paid		(1,232)	(926)
Interest paid		(8,147)	(5,349)
Cash flows from operating activities		(9,379)	(6,275)
Cash flows from investing activities			
Interest received		6,396	5,623
Contributions to subsidiaries		(6,259)	-
Cash flows from investing activities		137	5,623
Cash flows from financing activities			
Repayment of bonds		(31,350)	-
Proceeds from issue of preference shares		40,899	-
Proceeds from warrant issue		66	-
Cash flows from financing activities		9,615	-
Net increase/(decrease) in cash and cash equivalents		373	(652)
Cash and cash equivalents at beginning of year		193	845
Cash and cash equivalents at year-end	16	566	193

The statement of cash flows shall be read in conjunction with the Notes to, and forms part of, the consolidated financial statements set out on pages 53 to 88.

CONTENT OF NOTES

Notes

NOTE 1 » GENERAL INFORMATION

Ferronordic Machines AB (the "Parent Company" or "the Company") and its subsidiaries comprise the "Group". The Company is organised under the laws of Sweden with registered number 556748-7953. The Company's registered office is located at Hovslagargatan 5B, 111 48 Stockholm. The Group has administrative offices in Stockholm and Moscow.

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

NOTE 2 » BASIS OF PREPARATION

STATEMENT OF COMPLIANCE

The consolidated financial statements 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. Recommendation RFR 1 on Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied in the preparation of the report. The annual accounts of the Parent Company are prepared in accordance with the Swedish Annual Accounts Act and the recommendation RFR 2, Accounting for Legal Entities, issued by the Swedish Financial Reporting Board. In cases where the Parent Company applies other accounting policies than the rest of the Group this is stated at the end of this Note.

BASIS OF MEASUREMENT

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

The Parent Company's functional currency, for Swedish reporting purposes, is EUR.

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

USE OF ESTIMATES AND JUDGMENTS

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

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

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

- **Note 4** – useful life and residual value of property, plant and equipment;
- **Note 12** – useful life of intangible assets acquired in business combination;
- **Note 14** – inventory obsolescence provisions;
- **Note 20** – warranty provision;
- **Note 22** – allowances for trade receivables.

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

- **Note 25** – contingencies.

NOTE 3 » CHANGES IN ACCOUNTING POLICIES

Except for the changes set out below, the Group has consistently applied the accounting policies set out in Note 4 (Significant accounting policies) during all periods presented in these consolidated financial statements.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

a. Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
b. Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
c. IFRS 13 Fair Value Measurement

The nature and effects of these changes are explained below.

(a) Offsetting of financial assets and financial liabilities
As a result of the amendments to IFRS 7, the Group has expanded its disclosures regarding offsetting of financial assets and financial liabilities (see Note 22 (e), *Financial instruments and risk management*).

(b) Presentation of items of other comprehensive income
As a result of the amendments to IAS 1, the Group has modified the presentation of items of other comprehensive income in its statement of comprehensive income to present separately items that would be reclassified to profit or loss from those that would never be reclassified to profit and loss. Comparative information has been represented accordingly.

(c) Fair value measurement
IFRS 13 establishes a single framework for measuring and disclosing fair value measurements when such measurements and disclosures are required or permitted by other IFRSs. It unifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7. As a result, the Group has included additional disclosures in this regard (see Note 5).

The change had no significant impact on the measurements of the Group's assets and liabilities.

NOTE 4 » SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently during all periods presented in these consolidated financial statements, and have been applied consistently by the Group entities, except as described in Note 3 (Changes in accounting policies). Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date when the Group obtains control over the subsidiary until the date when control ceases.

TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated the same way as unrealized gains, but only to the extent there is no need for impairment.

FOREIGN CURRENCY

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

Non-monetary items in a foreign currency that are measured in terms of historical cost are translated to the functional currency using the exchange rate at the date of the transaction.

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

Translation to presentation currency
The assets and liabilities related to foreign operations are translated to EUR at exchange rates on the reporting date. The income and expenses of foreign operations are translated to EUR at average exchange rates for the year. Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity.

FINANCIAL INSTRUMENTS

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, borrowings, and trade and other payables.

Non-derivative financial assets
The Group initially recognises loans, receivables and deposits on the date when they are originated. All other financial assets are recognised initially on the date when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises financial assets when the contractual rights to the cash flows from the assets expire, or when the Group transfers the rights to receive the contractual cash flows on the financial assets in a transaction in which substantially all the 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 or liability.

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

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

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

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

Non-derivative financial liabilities
Financial liabilities are recognised initially on the date when the Group becomes a party to the contractual provisions of the instrument.

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

Financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. The Group classifies non-derivative financial liabilities into the category other financial liabilities.

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

SHARE CAPITAL

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

Preference shares
Preference shares are classified as equity since they bear discretionary dividends, do not contain any obligations to deliver cash or other financial assets and do not require settlement in a variable number of the Group's equity instruments. Discretionary dividends thereon are recognised as equity distributions on approval by the Company's shareholders at the general meeting.

PROPERTY, PLANT AND EQUIPMENT

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, other costs directly attributable to bringing the asset to a working condition for its intended use, 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.

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

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

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

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

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

The estimated useful life of significant items of property, plant and equipment for the current and comparative periods are as follows, except for change of useful life of transportation described in Note 11:

• buildings and constructions	2-45 years
• machinery and equipment	2-16 years
• machines and equipment for rent	3 years
• office equipment	2-10 years
• transportation	3-7 years

Residual value established for all groups of property, plant and equipment as nil except for machines and equipment for rent where the residual value is accepted at 25% of the cost of assets after a three years rental period.

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

INTANGIBLE ASSETS

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

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

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

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

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

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

LEASES

Determining whether an arrangement contains a lease
At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease.

An asset constitutes a lease if the fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

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

Leased assets
Leases for which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Leases for which the Group does not assume substantially all the risks and rewards of ownership are classified as operating leases and the leased assets are not recognised on the Group's statement of financial position.

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

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

INVENTORIES

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

The cost of construction equipment items is assigned by using specific identification of their individual costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

IMPAIRMENT

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

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor will become bankrupt, adverse changes in the payment status of borrowers in the Group, economic conditions that correlate with defaults.

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

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

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

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

For the purpose of impairment testing, 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 CGU. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

Impairment losses are recognized in profit or loss.

EMPLOYEE BENEFITS

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

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

Defined contribution plans
A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into defined contribution pension plans, including the Russian State Pension fund, without any legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which related services are rendered by employees.

WARRANTIES

In accordance with the dealer agreement signed between Ferronordic Machines LLC and CJSC Volvo Vostok, the Group shall provide a one year warranty on all new machines. Volvo CE reimburses the Group for the costs incurred at rates and amounts as provided in the agreement. The Group records both the gross provision amount and a receivable from Volvo CE. The provisions for warranties are recognised when the underlying products are sold. The provision is based on historical warranty data.

REVENUE

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

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

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

FINANCE INCOME AND COSTS

Finance income comprises interest income.

Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings and finance leases.

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

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

INCOME TAXES

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

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

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 taxable temporary differences arising on the initial recognition of goodwill.

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

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

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of one company in the Group may not be set off 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 and, therefore, tax losses and taxable profits related to different activities cannot be offset.

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

NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. Except for IFRS 9 Financial Instruments, which becomes mandatory for the Group's consolidated financial statements no earlier than 2018, and could change the classification and measurement of financial assets, the new Standards are not expected to have a significant effect on the consolidated financial statements of the Group.

INFORMATION ABOUT THE PARENT COMPANY

Parent Company accounting principles

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

Differences between the accounting policies applied for the Group and the Parent Company

Differences between accounting policies applied for the Group and for the Parent Company are described in the following.

Classification and presentation
The Parent Company uses the terms 'Income Statement' and 'Balance sheet' for the reports whereas the Group uses 'Consolidated statement of comprehensive income' and 'Consolidated statement of financial position'. Income statement and balance sheet for the Parent Company are presented according to the Swedish Annual Accounts Act structure, while 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

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

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

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

Leases
The Parent Company classifies all leases as operating leases, which means that the lease expense is recorded as an operating expense in the income statement.

Shareholder's contributions
Shareholder´s 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 VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

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

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Fair value of loans payable and finance lease liabilities approximates their carrying amounts. Fair value was calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date (Level 2 in the fair value hierarchy).

For finance leases the market rate of interest is determined by reference to similar lease agreements.

The Group has not disclosed the fair values of short-term trade receivables and other receivables and payables, because the carrying amounts are a reasonable approximation of fair values.

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

NOTE 6 » OPERATING SEGMENT

Management has determined the operating segment-based on reports reviewed by the chief operating decision maker. The Group has one reportable segment, Equipment Distribution. This segment sells and rents new and used equipment and provides after-sale product support (parts and service) to customers that operate in infrastructure, construction, mining, oil and gas exploration, forestry and industrial markets.

A breakdown of revenue from the Equipment Distribution segment is as follows:

Group

EUR ´000	1 jan 2013 to 31 dec 2013	1 jan 2012 to 31 dec 2012
Equipment Sales	219,622	211,115
Equipment Rentals	5,169	6,325
Aftermarket	61,832	58,366
Total revenues	286,623	275,806

The Group operates in one geographic area, the Russian Federation. In 2013 no customer represented more than 4% of the Group's total revenue.

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

A reconciliation of EBITDA to profit for the year is as follows:

EUR ´000	2013	2012
EBITDA	17,617	13,405
Depreciation and amortisation	(11,706)	(10,330)
Net foreign exchange losses	(3,318)	(383)
Finance income	104	247
Finance costs	(9,370)	(9,850)
Profit before income tax	(6,673)	(6,911)
Income tax benefit	1,445	1,105
Result for the period	(5,228)	(5,806)

Total assets, equity and liabilities, and capital expenditure, provided to the chief operating decision maker, are measured in a manner consistent with that in the consolidated financial statements for 2013 and for the comparative period in 2012.

NOTE 7 » SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Group

EUR ´000	1 Jan 2013 to 31 Dec 2013	1 Jan 2012 to 31 Dec 2012
Personnel related expenses	22,394	20,571
Depreciation & amortisation	8,781	7,354
Rent	3,850	4,458
Other operating expenses	5,805	5,821
	40,830	38,204

Parent Compay

EUR ´000	1 Jan 2013 to 31 Dec 2013	1 Jan 2012 to 31 Dec 2012
Personnel related expenses	775	768
Depreciation & amortisation	501	501
Other operating expenses	469	259
	1,745	1,528

NOTE 8 » OTHER EXPENSES

Group

EUR ´000	1 Jan 2013 to 31 Dec 2013	1Jan 2012 to 31 Dec 2012
Bank services	134	256
Impairment loss on trade receivables	249	560
Sundry	357	96
	740	912

NOTE 9 » FINANCE INCOME AND FINANCE COSTS

Group

EUR ´000	1 Jan 2013 to 31 Dec 2013	1 Jan 2012 to 31 Dec 2012
Interest income on bank deposits	104	247
Finance income	104	247
Interest expense on finance leasing obligation	(1,816)	(1,728)
Interest expenses on bonds	(6,561)	(5,953)
Interest expense on bank loans	(993)	(2,169)
Finance costs	(9,370)	(9,850)
Net finance costs	(9,266)	9,603

Parent Company

EUR ´000	1 Jan 2013 to 31 Dec 2013	1 Jan 2012 to 31 Dec 2012
Interest income on loan to subsidiary	5,142	5,363
Finance income	5,142	5,363
Interest expenses on bonds	(6,583)	(5,953)
Finance costs	(6,583)	(5,953)
Net finance costs	**(1,441)**	**(590)**

All interest income and interest expenses are related to financial instruments that are not fair value through profit or loss.

NOTE 10 » INCOME TAXES

The Parent Company is a tax resident of Sweden where the tax rate for 2013 was 22% (2012: 26.3%). The other Group companies are tax residents of Russia where the applicable tax rate is 20%. Income tax is calculated separately for each subsidiary, multiplying the applicable tax rate to the taxable results for the period.
The applicable tax rate was 23.0% in 2013 (2012: 23.6%), determined by using the average statutory tax rate applicable to the Group, calculated on a weighted-average basis.

	Group		Parent Company	
EUR ´000	1 Jan 2013 to 31 Dec 2013	1 Jan 2012 to 31 Dec 2012	1 January 2013 to 31 December 2013	1 Jan 2012 to 31 Dec 2012
Current tax expense	(549)	(416)	-	-
Deferred tax benefit	1,994	1,521	803	314
Total income tax benefit/(expense)	1,445	**1,105**	803	**314**

Reconciliation of effective tax rate:

Group

EUR ’000	1 January 2013 to 31 December 2013		1 January 2012 to 31 December 2012	
Result for the year	(5,228)		(5,806)	
Total income tax benefit	1,445		1,105	
Loss excluding income tax	(6,673)	100	(6,911)	100
Income tax at applicable tax rate	1,538	(23.0)	1,630	(23.6)
Changes in tax rate	-	-	(231)	3.3
Adjustments to current income tax for previous periods	205	(3.1)		
Non-deductible expenses	(298)	4.5	(294)	4.3
	1,445	**21.6**	**1,105**	**(16.0)**

Parent Company

EUR ’000	1 January 2013 to 31 December 2013		1 January 2012 to 31 December 2012	
Result for the year	(2,970)		(1,757)	
Total income tax benefit	803		314	
Loss excluding income tax	(3,773)	100	(2,071)	100
Changes at income tax rate	-	-	(231)	11.2
Income tax at applicable tax rate	803	(21.3)	545	(26.3)
	803	(21.3)	**314**	**(15.2)**

NOTE 11 » PROPERTY, PLANT AND EQUIPMENT

Group

EUR '000	Land	Buildings and constructions	Machinery and equipment	Machinery and equipment for rent	Office equipment	Transport-ation	Under construction	Total
Cost or deemed cost								
Balance at 1 Jan 2013	2,064	2,189	2,566	13,012	1,328	6,171	6,399	33,729
Additions	50	839	1,578	-	82	1,576	605	4,730
Transfers from inventory	-	-	-	9,632	-	-	-	9,632
Disposals	-	(332)	(141)	-	-	(54)	(357)	(884)
Transfers to inventory	-	-	-	(4,052)	-	-	-	(4,052)
Transfers	-	3,107	-	-	-	-	(3,107)	-
Translation difference	(221)	(443)	(355)	(1,702)	(145)	(740)	(505)	(4,111)
Balance at 31 Dec 2013	1,893	5,360	3,648	16,890	1,265	6,953	3,035	39,044
Depreciation and impairment losses								
Balance at 1 Jan 2013	-	263	508	3,512	808	1,365	-	6,456
Depreciation for the period	-	331	919	2,925	218	2,440	-	6,833
Disposals	-	(9)	(18)	-	-	(25)	-	(52)
Transfers to inventory	-	-	-	(1,239)	-	-	-	(1,239)
Translation difference	-	(47)	(107)	(470)	(98)	(286)	-	(1,008)
Balance at 31 Dec 2013	-	538	1,302	4,728	928	3,494	-	10,990
Carrying amounts								
At 1 Jan 2013	2,064	1,926	2,058	9,500	520	4,806	6,399	27,273
At 31 Dec 2013	1,893	4,822	2,346	12,162	337	3,459	3,035	28,054

EUR '000	Land	Buildings and constructions	Machinery and equipment	Machinery and equipment for rent	Office equipment	Transport-ation	Under construction	Total
Cost or deemed cost								
Balance at 1 Jan 2012	-	688	1,156	13,134	997	652	3,188	19,815
Additions	2,081	1,489	1,342	-	155	5,583	3,563	14,213
Transfers from inventory	-	-	-	4,663	-	-	-	4,663
Disposals	-	-	-	-	(18)	(43)	(240)	(301)
Transfers to inventory	-	-	-	(5,261)	-	-	-	(5,261)
Transfers	-	-	37	-	164	-	(201)	-
Translation difference	(17)	12	31	476	30	(21)	89	600
Balance at 31 Dec 2012	2,064	2,189	2,566	13,012	1,328	6,171	6,399	33,729
Depreciation and impairment losses								
Balance at 1 Jan 2012	-	73	174	1,071	406	86	-	1,810
Depreciation for the period	-	189	331	2,976	408	1,306	-	5,210
Disposals	-	-	-	-	(18)	(19)	-	(37)
Transfers to inventory	-	-	-	(554)	-	-	-	(554)
Translation difference	-	1	3	19	12	(8)	-	27
Balance at 31 Dec2012	-	263	508	3,512	808	1,365	-	6,456
Carrying amounts								
At 1 January 2012	-	615	982	12,063	591	566	3,188	18,005
At 31 December 2012	2,064	1,926	2,058	9,500	520	4,806	6,399	27,273

Depreciation expenses of EUR 2,925 thousand (EUR 2,976 thousand) have been charged to cost of goods sold, and EUR 3,908 thousand (EUR 2,234 thousand) have been charged to selling, general and administrative expenses.

CHANGE IN USEFUL LIVES

During 2013, the Group reconsidered the expected useful life of certain items of property, plant and equipment. The transportation equipment under finance lease arrangement, which management previously intended to sell after 3 years of use, is now expected to be used for 7 years from the date of purchase. As a result, the expected useful lives of these assets increased. The effect of these changes on depreciation, recognised in selling, general and administrative expenses, in current and future periods is as follows:

EUR '000	2013	2014	2015	2016	Later
(Decrease)/increase in depreciation expense	(594)	(1,217)	(346)	325	1,832

The Group leases machinery and transportation under a finance lease agreement:

EUR '000	Machines end equipment for rent	Transportation	Total
Cost or deemed cost			
Balance at 1 January 2013	8,844	5,717	14,561
Additions	-	1,401	1,401
Transfers from inventory	1,104	-	1,104
Transfers to inventory	(3,167)	-	(3,167)
Translation difference	(811)	(686)	(1,497)
Balance at 31 December 2013	5,970	6,432	12,402
Depreciation and impairment losses	Machines end equipment for rent	Transportation	Total
Balance at 1 January 2013	2,414	1,224	3,638
Depreciation for the year	1,401	2,276	3,677
Transfers to inventory	(1,039)	-	(1,039)
Translation difference	(302)	(263)	(565)
Balance at 31 December 2013	2,474	(3,237)	5,711
Carrying amounts			
At 1 January 2013	6,430	4,493	10,923
At 31 December 2013	3,496	3,195	6,691

EUR '000	Machines end equipment for rent	Transportation	Total
Cost or deemed cost			
Balance at 1 January 2012	8,126	335	8,461
Additions	-	5,414	5,414
Transfers from inventory	1,467	-	1,467
Transfers to inventory	(1,037)	-	(1,037)
Translation difference	288	(32)	256
Balance at 31 December 2012	8,844	5,717	14,561
Depreciation and impairment losses	Machines end equipment for rent	Transportation	Total
Balance at 1 January 2012	587	30	617
Depreciation for the year	2,205	1,203	3,408
Transfers to inventory	(384)	-	(384)
Translation difference	6	(9)	(3)
Balance at 31 December 2012	2,414	1,224	3,638
Carrying amounts			
At 1 January 2012	7,539	305	7,844
At 31 December 2012	6,430	4,493	10,923

Cash flows relating to acquisition and sale of machines and equipment for rent are classified as operating cash flows in the Consolidated Statement of Cash Flows.

Parent Company

EUR '000	Office equipment 2013
Cost or deemed cost	
Balance at 1 January 2013	4
Additions	-
Disposals	-
Balance at 31 December 2013	4
Depreciation and impairment losses	
Balance at 1 January 2013	2
Depreciation for the period	1
Disposals	
Balance at 31 December 2013	3
Carrying amounts	
Balance at 31 December 2013	1

EUR '000	Office equipment 2012
Cost or deemed cost	
Balance at 1 January 2012	4
Additions	-
Disposals	-
Balance at 31 December 2012	4
Depreciation and impairment losses	
Balance at 1 January 2012	1
Depreciation for the period	1
Disposals	-
Balance at 31 December 2012	2
Carrying amounts	
At 31 December 2012	2

NOTE 12 » INTANGIBLE ASSETS

Group

EUR '000	Software and software licences	Customer relationship	Franchise agreement	Total
Cost				
Balance at 1 January 2013	1,481	16,829	10,639	28,949
Acquisitions – internally developed	309	-	-	309
Acquisitions – separately acquired	362	-	-	362
Disposals	(497)	-	-	(497)
Translation difference	(166)	(1,774)	(1,122)	(3,062)
Balance at 31 December 2013	1,489	15,055	9,517	26,061

Amortisation	Software and software licences	Customer relationship	Franchise agreement	Total
Balance at 1 January 2013	640	7,246	4,580	12,466
Amortisation for the year	520	2,667	1,686	4,873
Disposals	(497)	-	-	(497)
Translation difference	(57)	(922)	(582)	(1,561)
Balance at 31 December 2013	606	8,991	5,684	15,281
Carrying amounts				
At 31 December 2013	883	6,064	3,833	10,780

EUR '000	Software and software licences	Customer relationship	Franchise agreement	Total
Cost				
Balance at 1 January 2012	936	16,246	10,271	27,453
Other acquisitions – separately acquired	603	-	-	603
Disposals	(87)	-	-	(87)
Translation difference	29	583	368	980
Balance at 31 December 2012	1,481	16,829	10,639	28,949

Amortisation	Software and software licences	Customer relationship	Franchise agreement	Total
Balance at 1 January 2012	199	4,287	2,711	7,197
Amortisation for the year	505	2,828	1,787	5,120
Disposals	(87)	-	-	(87)
Translation difference	23	131	82	236
Balance at 31 December 2012	640	7,246	4,580	12,466
Carrying amounts				
At 31 December 2012	841	9,583	6,059	16,483

a) Amortization

In 2013 amortization expenses of EUR 4,873 thousand (2012: EUR 5,120 thousand) have been charged to selling, general and administrative expenses.

Franchise agreement and customer relationships arise from license agreements with CJSC Volvo Vostok. The duration of the licenses is six years, ending on 2016, and the Group does not have an unconditional right to prolong the license. Hence, the useful life of the licenses was limited to six years. The remaining amortization period for the licenses is 2 years 5 months.

Parent Company

EUR '000	License 2013	EUR '000	License 2012
Balance at 1 January 2013	3,000	Balance at 31 December 2012	3,000
Amortization and impairment losses		Amortization and impairment losses	
Balance at 1 January 2013	1,292	Balance at 1 January 2012	792
Amortisation for the period	500	Amortisation for the period	500
Balance at 31 December 2013	1,792	Balance at 31 December 2012	1,292
Carrying amounts		Carrying amounts	
At 31 December 2013	1,208	At 31 December 2012	1,708

NOTE 13 » DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Group 31 December 2013

EUR '000	Assets	Liabilities	Net
Property, plant and equipment	370	-	370
Intangible assets	-	(2,130)	(2,130)
Inventories	-	(140)	(140)
Trade and other receivables	-	(1,391)	(1,391)
Provisions	405	-	405
Deferred income	346	-	346
Short-term portion of finance lease liabilities	391	-	391
Long-term portion of finance lease liabilities	280	-	280
Trade and other payables	902	-	902
Tax loss carry-forward	2,355	-	2,355
Tax assets/ (liabilities)	5,049	(3,661)	1,388
Set off of tax	(2,485)	2,485	-
Net tax assets/(liabilities)	2,564	(1,176)	1,388

Parent Company 31 December 2013

EUR '000	Assets	Liabilities	Net
Tax loss carry-forward	2,355	-	2,355
Net tax assets/(liabilities)	2,355	-	2,355

Group 31 December 2012

EUR '000	Assets	Liabilities	Net
Property, plant and equipment	-	(280)	(280)
Intangible assets	-	(3,239)	(3,239)
Inventories	-	(124)	(124)
Trade and other receivables	-	(1,138)	(1,138)
Provisions	599	-	599
Deferred income	165	-	165
Short-term portion of finance lease liabilities	113	-	113
Long-term portion of finance lease liabilities	817	-	817
Trade and other payables	753	-	753
Tax loss carry-forward	1,224	-	1,224
Tax assets/(liabilities)	3,671	(4,781)	(1,110)
Set off of tax	(2,366)	2,366	
Net tax assets/(liabilities)	1,305	(2,415)	(1,110)

Parent Company 31 December 2012

EUR '000	Assets	Liabilities	Net
Tax loss carry-forward	1,224	-	1,224
Net tax assets/(liabilities)	1,224	-	1,224

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

Group

EUR '000	1 January 2013	Recognised in profit or loss	Recognised directly in equity	Effect of movement in exchange rates	31 December 2013
Property, plant and equipment	(280)	659	-	(9)	370
Intangible assets	(3,239)	816	-	293	(2,130)
Inventories	(124)	(32)	-	16	(140)
Trade and other receivables	(1,138)	(394)	-	141	(1,391)
Trade and other payables	753	242	-	(93)	902
Provisions	599	(140)	-	(54)	405
Deferred income	165	211	-	(30)	346
Short-term portion of finance lease liabilities	113	308	-	(30)	391
Long-term portion of finance lease liabilities	817	(479)	-	(58)	280
Tax loss carry-forward	1,224	803	378	(50)	2,355
Net tax assets/(liabilities)	(1,110)	1,994	378	126	1,388

Parent Company

EUR '000	1 January 2013	Recognised in income statement	Recognised directly in equity	31 December 2013
Tax loss carry-forwards	1,183	803	378	2,364
Changes in exchange rates	41	(50)	-	(9)
Net tax assets/(liabilities)	1,224	753	378	2,355

Group

EUR '000	1 January 2012	Recognised in profit or loss	Effect of movement in exchange rates	31 December 2012
Property, plant and equipment	(65)	(214)	(1)	(280)
Intangible assets	(3,978)	888	(149)	(3,239)
Inventories	(277)	164	(11)	(124)
Trade and other receivables	(538)	(588)	(12)	(1,138)
Trade and other payables	626	105	22	753
Provisions	639	(63)	23	599
Deferred income	231	(74)	8	165
Short-term portion of finance lease liabilities	24	89	-	113
Long-term portion of finance lease liabilities	(73)	900	(10)	817
Tax loss carry-forward	871	314	39	1,224
Net tax assets/(liabilities)	(2,540)	1,521	(91)	(1,110)

Parent Company

EUR '000	1 January 2012	Recognised in income statement	31 December 2012
Tax loss carry-forwards	869	314	1,183
Changes in exchange rates	-	41	41
Net tax assets	869	355	1,224

NOTE 14 » INVENTORIES

	Group		Parent Company	
EUR '000	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Raw materials and consumables	428	595	-	-
Work in progress	1,079	1,466	-	-
Goods for resale	64,531	56,614	-	-
	66,038	58,675	-	-

In 2013 inventories recognised as cost of sales amounted to EUR 230,234 thousand (2012: EUR 223,538 thousand). In 2013 the write-down of inventories to net realisable value amounted to EUR 296 thousand (2012: EUR 540 thousand). The write-down is included in cost of sales.

NOTE 15 » TRADE AND OTHER RECEIVABLES

	Group		Parent	
EUR '000	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Trade receivables	30,522	23,284	-	10
Trade receivables due from subsidiaries	-	-	4,887	2,700
VAT receivable	658	677	74	1
Warranty claims	1,641	2,980	-	-
Other receivables	5,095	4,774	7	60
	37,916	31,715	4,968	2,771

Other receivables include prepaid income tax in the amount of EUR 995 thousand as at 31 December 2013 (2012: EUR 300 thousand).

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

NOTE 16 » CASH AND CASH EQUIVALENTS

	Group		Parent Company	
EUR '000	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Bank balances	6,247	4,809	562	193
Call deposits	12,129	14,418	4	-
Cash and cash equivalents in the statement of cash flows	18,376	19,227	566	193

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

NOTE 17 » CAPITAL AND RESERVES

(a) Share capital and additional paid-in capital

The table below indicates changes in Ferronordic Machines' share capital and number of shares in 2012 and 2013.

Group

	Ordinary shares		Preference shares	
Number of shares unless otherwise stated	2013	2012	2013	2012
In issue at 1 January	100,000	100,000	-	-
Issued for cash	-	-	377,600	-
Settled against bonds payable (Note 18)			122,400	
Share split	9,900,000	-	-	-
In issue at 31 December, fully paid	10,000,000	100,000	500,000	-
Authorised shares - par value	EUR 0.01	EUR 1.00	EUR 0.01	-

On 9 October 2013 the share capital of the Parent Company was restructured in the form of a share split in proportion of 100/1 (from 100,000 shares with par value of EUR 1.00 each to 10,000,000 shares with par value of EUR 0.01 each). Earnings per share in the consolidated statement of comprehensive income for current and prior periods was recalculated based on this new number of shares.

ORDINARY SHARES

Each ordinary share carries one voting right at the General Meeting.

PREFERENCE SHARES

At the EGM on 9 October 2013, the shareholders of the Parent Company resolved to issue up to 500,000 new preference shares, each with a quotient value of EUR 0.01 (i.e. representing a maximum share capital increase of EUR 5,000). The subscription price per preference share was fixed at SEK 1,000. Following strong demand, the maximum amount of 500,000 preference shares was issued against a total subscription price of SEK 500 million (EUR 57,311 million). The settlement of the preference share issue took place on 25 October 2013. Gross proceeds from issue of preference shares amounted to EUR 57,311 thousand. The consulting costs directly attributable to the issue amounted to EUR 1,397 thousand net of tax of EUR 378 thousand. Net proceeds from the issue amounted to EUR 55,914 thousand. Excess of net proceeds over par value of the newly issued preference shares was recognised in additional paid in capital in the amount of EUR 55,909 thousand.

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. Following the first payment date after the AGM in 2016, and until and including the first payment after the AGM in 2023, the preferred dividend shall increase by SEK 10 per year. If the dividend is not paid, any unpaid portion of the dividends will be added to other unpaid dividends ("Outstanding Amount"). The Outstanding Amount shall be adjusted upwards by 20% p.a. Adjustment shall be made from the semi-annually payment date until full dividends are received by the holders of preference shares. No dividend may be made to the holders of ordinary shares before the holders of preference shares have received full payments of any Outstanding Amount.

In connection with, or subsequent to, a possible listing of the Company's ordinary shares on NASDAQ OMX Stockholm or another regulated market, the holders of the preference shares have a right to exchange the preference shares into class B-preference shares. Each class B-preference share will in such case entitle its holder to subscribe for a number of ordinary shares corresponding to SEK 575 divided by 50% of the price per each ordinary shares offered in the listing, implying a discount to share price in the listing of approximately 13% (excluding compensation for accrued dividends and Outstanding Amounts, if any). After 25 October 2014, the amount used for exchange into ordinary shares will start to increase by SEK 5 per month until 25 January 2016, when the value to be used in an exchange into ordinary shares would equal SEK 650, implying a discount to the share price in the listing of approximately 23% (excluding compensation for accrued dividend and Outstanding Amounts, if any). 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 it 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 is conditional upon that the Company has sufficient unrestricted equity.

The Company has the right, at its sole discretion, to redeem the preference shares in cash. The redemption price until 25 October 2014 is SEK 1,050 for each class A-preference shares and SEK 1,150 for each class B-preference shares (class A-preference are convertible into class B-preference shares if the Company decides to list its ordinary shares on NASDAQ OMX Stockholm or another regulated market; currently only class A-preference shares have been issued). Following 25 October 2014 the redemption price is increased by SEK 10 per month up to a maximum amount of SEK 1,200 for class A-preference shares and SEK 1,300 for class B-preference shares. Each preference share carries a one tenth (1/10) voting right.

In the event of liquidation holders of preference shares have priority over ordinary shareholders to an amount per preference share of SEK 1,200 plus any Outstanding Amount.

The Parent Company's preference shares are listed on NASDAQ OMX First North since 3 December 2013.

The information above regarding the Parent Company's preference shares is only a simplified summary. For full details regarding the features of the preference shares, please refer to the Company's Articles of Association, available at the Group's website.

(b) Translation reserve

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

(c) Warrants
Ferronordic Machines has two outstanding warrant programs, one for selected senior executives, and another for certain non-executive members of the Board of Directors.

Management Warrant Program
In accordance with the decision at the EGM on 24 May 2013, Ferronordic Machines has offered selected executives the opportunity to acquire warrants issued by the company. The company's founders, Anders Blomqvist, Lars Corneliusson and Erik Eberhardson, do not participate in the management warrant program. The number of outstanding warrants under this program amount to 2,279. The warrants were purchased at market value. Each warrant entitles its holders to subscribe for 100 ordinary shares in Ferronordic Machines AB at a subscription price of EUR 6.50 per share, subject to the fulfilment of certain profitability targets. Provided that the profitability targets are met, the warrants become exercisable on the earliest of (i) 1 May 2016 or (ii) the day falling 18 months after the day when ordinary shares in the company started to trade on a European stock exchange or another regulated market. The warrants cease to be exercisable on 31 May 2016.

Board Warrant Program
In accordance with the decision of the AGM on 7 June 2011, Ferronordic Machines has offered certain non-executive members of the Board of Directors the opportunity to acquire warrants issued by the company. The number of outstanding warrants under this program currently amount to 150. The warrants were purchased at market value. In total the warrants may entitle the holders to subscribe for 275,000 ordinary shares in Ferronordic Machines AB. The number of shares that the warrant holders may subscribe for depends on how well certain financial targets are met. If the minimum financial targets are not met, the warrant holders may not subscribe for any shares at all.

(d) Dividends
The first dividend payment on the preference shares was approved by the Extraordinary General Meeting on 9 October 2013. The dividend per preference shares is the euro equivalent of SEK 50 (i.e. SEK 25,000 thousands in total), but not more than EUR 3,500 thousands. The record date is 25 April 2014. No dividends were to be paid on ordinary shares.

Dividends on preference shares in total amount of EUR 2,795 thousand (SEK 50 per preference share) were recognised as distribution to owners in the consolidated statement of changes in equity for the year ended 31 December 2013.

For the AGM 2014, the Board has proposed that dividends be paid on preference shares in an amount of SEK 100 per preference share, amounting to a total dividend payment of SEK 50 million, but not more than EUR 7 million. No dividends are proposed to be paid on ordinary shares.

NOTE 18 » BORROWINGS

This Note provides information about the terms of the Group's interest-bearing borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 22 (Financial instruments and risk management).

a) Short-term borrowings

Group

	31 December 2013		31 December 2012	
EUR'000	Outstanding balance	Credit facility limit	Outstanding balance	Credit facility limit
Current liabilities				
Secured short term borrowings	18,233	20,013	17,402	17,402
Unsecured short term borrowings	-	6,672	9,943	12,429

During the last quarter of 2013, the Group increased the limit of one of its credit facilities to EUR 24,461 thousand. A part of this credit facility, up to EUR 20,013 thousand, is secured by a pledge of circulating inventory, having a net book value of EUR 24,229 thousand. The part of the credit facility exceeding

EUR 20,013 thousand is unsecured. The outstanding amount of the secured part of facility as of 31 December 2013 amounted to EUR 18,233 and was secured by pledged inventory with a carrying value of EUR 22,076 thousand (2012: EUR 21,066). The average interest rate of the loans under this credit facility was 11.45% p.a. The maturity dates for these loans under this credit facility vary between 48 and 70 days after the reporting date. The availability period of the facility equals 3 months after the reporting date.

In addition the Group has arranged a bank guarantee in the amount of EUR 11,119, issued in favour of CJSC Volvo Vostok. The bank guarantee is secured by a secondary pledge of the same circulating inventory, having a net book value of EUR 13,466 thousand.

In addition to an unsecured short term loan facility the Group has an unused, unsecured overdraft facility in the amount of EUR 2,224 thousand.

b) Long-term borrowings

	Group		Parent Company	
EUR '000	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Non-current liabilities				
Bonds	-	45,628	-	45,628
	-	45,628	-	45,628

On 28 June 2011, the Parent Company issued bonds with gross proceeds of SEK 400 million (equivalent to EUR 43,730 thousand at the time of issue). The coupon rate for the bonds was set at 12% p.a., payable on an annual basis. The redemption date of the bonds was 28 June 2014.

On 9 October 2013, the bondholders were offered to use their bonds as payment for preference shares (see Note 17 (Capital and reserves)). Bondholders who wished to accept the offer could redeem their bonds early for a premium of 2% to be used as payment for newly issued preference shares (i.e. one bond would be exchangeable into 1,020 newly issued preference shares). As a result of the offer, bonds with a nominal value of SEK 120,000 thousand (EUR 13,755 thousand) were redeemed and used as payment for newly issued preference shares. The company also paid accrued interest in amount of SEK 4,680 thousand (EUR 536 thousand).

On 22 October 2013 the Company notified the remaining bond holders that all outstanding bonds would be redeemed early by the Company in accordance with the terms and conditions of the bond. The redemption date was set at 22 November 2013. The company paid off the remaining bonds, including interest accrued in an amount of SEK 13,440 thousand (EUR 1,503 thousand), on 22 November 2013.The bonds were paid with a premium of 2% to the nominal amount.

c) Finance lease liabilities

During 2013, the Group entered into a sale and leaseback arrangement which resulted in a finance lease: machines with carrying value of EUR 1,040 thousand (2012: 1,207 thousand) were sold to the lessor for EUR 1,040 thousand (2012: 1,455 thousand) and immediately leased back. The leased equipment is Volvo CE machines. There was no excess of sales proceeds over the carrying amount (2012: 248 thousand, which was deferred over the lease term *(see Note 19 Deferred income)*.

Future minimum lease payments were as follows as at 31 December 2013 and 2012:

Group

	2013			2012		
EUR '000	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	5,227	(1,096)	4,131	5,054	(1,854)	3,200
Between one and five years	3,017	(294)	2,723	7,919	(977)	6,942
	8,244	(1,390)	6,854	12,973	(2,831)	10,142

Finance lease liabilities consist of lease liabilities due to sales and lease back transactions of Volvo CE machines and lease of cars. Future minimum lease payments for car leasing, payable within one year after the reporting date, amount to EUR 2,917 thousand as at 31 December 2013 (31 December 2012: EUR 2,867 thousand), and payable between one and three years after the reporting date - EUR 1,621 thousand as at 31 December 2013 (31 December 2012: EUR 3,763 thousand).

NOTE 19 » DEFERRED INCOME

	Group		Parent Company	
EUR '000	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Deferred income short-term due to lease back transaction	207	430	-	-
Deferred income short-term relating to service contracts	1,523			
Deferred income long-term due to lease back transaction	-	396	-	-
Total	1,730	826	-	-

NOTE 20 » PROVISIONS

Group

EUR '000	Warranties	Other	Total
Balance at 1 January 2013	2,975	22	2,997
Provisions made during the period	2,071	360	2,431
Provisions used during the period	(3,090)	-	(3,090)
Translation difference	(315)	-	(315)
Balance at 31 December 2013	1,641	382	2,023
Non-current	-	-	-
Current	1,641	382	2,023
	1,641	382	2,023

Group

EUR '000	Warranties	Other	Total
Balance at 1 January 2012	3,198	-	3,198
Provisions made during the period	3,437	22	3,459
Provisions used during the period	(3,777)	-	(3,777)
Translation difference	117	-	117
Balance at 31 December 2012	2,975	22	2,997
Non-current	-	-	-
Current	2,975	22	2,997
	2,975	22	2,997

(a) Warranties

In accordance with the dealer agreement between Ferronordic Machines LLC and CSJC Volvo Vostok, the Group provides a one year warranty on all new machines sold. Volvo also offers extended warranties which the Group offers to its customers. Volvo reimburses the Group for the costs incurred at rates and amounts as provided in the relevant agreements. The Group records both the gross provision amount and a receivable from Volvo. The provision for warranties is recognised when the underlying products are sold. The provision is based on historical warranty data.

Amounts of expected reimbursement from Volvo as of 31 December 2013 and 31 December 2012, respectively, are disclosed in the Note 15 *(Trade and other receivables)*.

NOTE 21 » TRADE AND OTHER PAYABLES

	Group		Parent Company	
EUR '000	31 December 2013	31 December 2012	31 December 2013	31 December 2012
Trade payables	63,949	39,128	37	206
Advances from customers	3,355	4,314	-	-
Other payables and accrued expenses	5,129	1,971	4,461	448
Other taxes payable	1,239	2,288	27	37
Interest payable for bonds	-	2,785	-	2,785
Total	73,672	50,486	4,525	3,476

Other payables are primarily advances from customers. As at 31 December 2013 other payables also included dividends payable on preference shares in the amount of EUR 2,795 thousand.

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

(a) Financial risk management

OVERVIEW

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

- credit risk
- liquidity risk
- market risk

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

RISK MANAGEMENT FRAMEWORK

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

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

The Board also oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. In the Russian Federation, a significant area of risk is associated with the environment of corruption. The Board is assisted, here, in its monitoring role by an additional compliance audit. This audit is made on a recurrent basis for the purpose of identifying potential areas for improvement in the Group's compliance program and reviewing certain sample transactions in order to verify that the Group's compliance-related policies have been complied with.

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

(i) Trade and other receivables
The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Group's customer base, including the default risk of the industry and country, in which customers operate, as these factors may have an influence on credit risk. As at 31 December 2013, the top 22 trade receivable balances comprised 61% of the total trade receivable balance.

The Group's standard payment terms require payment in advance of delivery. The Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. In addition, the Group also offers limited (less than 150 days) credit to some customers for sales and services. The Group's review includes external ratings, when available, and in some cases bank references. Purchase limits are established for each customer, and represent the maximum open amount; these limits are reviewed quarterly. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

About 27% of the Group's customers have been transacting with the Group or Volvo CE for over four years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Customers that are graded as "high risk" are placed on a restricted customer list and monitored by the Risk Management Committee, and future sales are made on a prepayment basis with approval of the Risk Management Committee.

Machines sold are subject to a lien until fully paid, so that in the event of non-payment the Group may have a secured claim. Usually the Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The components of this allowance are a specific loss component that relates to individually significant exposures.

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

Group

		2013	2012
EUR '000	Note	Carrying amount	Carrying amount
Trade receivables	15	30,522	23,284
Cash and cash equivalents	16	18,376	19,227
Total		48,898	42,511

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

Group

	2013	2012
EUR '000	Carrying amount	Carrying amount
Russia	30,522	23,284
Total	30,522	23,284

IMPAIRMENT OF RECEIVABLES

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

Group

EUR'000	31 December 2013		31 December 2012	
	Gross	Impairment	Gross	Impairment
Not past due	24,172	-	19,222	-
Past due 0-30 days	3,636	-	2,760	-
Past due 31-120 days	2,025	(200)	2,341	(1,039)
Overdue above 120 days	1,842	(953)	-	-
	31,675	(1,153)	24,323	(1,039)

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

Group

	Individual impairments	
EUR'000	2013	2012
Balance at beginning of the year	(1,039)	(477)
Increase during the year	(272)	(698)
Decrease due to reversal	36	133
Translation differences	122	3
Balance at end of the year	(1,153)	(1,039)

(c) Liquidity risk

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

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

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

31 December 2013

EUR '000	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Finance lease liabilities	6,854	8,244	2,550	2,677	2,391	626	-	-	-
Borrowings	18,233	18,578	18,578	-	-	-	-	-	-
Trade and other payables	69,078	69,078	69,078	-	-	-	-	-	-
	94,165	95,900	90,206	2,677	2,391	626	-	-	-

31 December 2012

EUR '000	Carrying amount	Contractual cash flows	0-6 mths	6-12 mths	1-2 yrs	2-3 yrs	3-4 yrs	4-5 yrs	Over 5 yrs
Non-derivative financial liabilities									
Bond loan	48,414[1]	57,563	5,571	-	51,992	-	-	-	-
Finance lease liabilities	10,142	12,973	2,354	2,700	5,984	1,935	-	-	-
Borrowings	27,345	28,478	28,478	-	-	-	-	-	-
Trade and other payables	41,099	41,099	41,099	-	-	-	-	-	-
	127,000	140,113	77,502	2,700	57,976	1,935	-	-	-

[1]The carrying amount of the bond loan includes interest payable in an amount of EUR 2,785 thousand.

(d) Market risk

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

(i) Currency risk

Whilst most sales and purchases are primarily in RUB, the Group is exposed to currency risk on purchases and borrowings that are denominated in other currencies. The other currencies in which these transactions primarily occur are denominated in EUR and SEK.

Interest on borrowings is denominated in the currency of the borrowing.

At the end of 2013 the Parent Company redeemed its bond loan, thereby repaying the Group's main financial liability denominated in SEK. For further information regarding the redemption of the bond, please see Note 18 *(Borrowings)*. In respect of other financial assets and liabilities denominated in foreign currencies, the Group's policy is to ensure that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

EXPOSURE TO CURRENCY RISK

Group

	EUR-denominated	EUR-denominated	SEK-denominated	SEK-denominated
EUR '000	2013	2012	2013	2012
Cash and cash equivalents	112	126	361	66
Borrowings	-	-	-	(45,628)
Trade and other payables	(945)	(1,847)	(2,968)	(2,955)
Net exposure	(833)	(1,721)	(2,607)	(48,517)

The following exchange rates were applied during the period:

In RUB	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
	2013	2013	2012	2012
EUR	42.3129	44.9699	39.9041	40.2286
SEK	4.8880	5.0145	4.5889	4.6688

SENSITIVITY ANALYSIS

A strengthening (weakening) of the RUB against the EUR will most likely have a limited impact on profit or loss.

A strengthening (weakening) of the RUB, as indicated below, against the SEK at 31 December 2013 would have increased (decreased) profit or loss before taxes by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

	Strengthening	Weakening
31 December 2013		
SEK (10% movement)	261	(261)
31 December 2012		
SEK (10% movement)	4,852	(4,852)

(i) Interest rate risk

Under normal circumstances and during the term of the credit facilities, the the Group is not exposed to interest rate risk since the Group borrowed funds at fixed interest rate (see Note 18 *Borrowings*).

PROFILE

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

Group

EUR '000	Carrying amount 2013	Carrying amount 2012
Fixed rate instruments		
Borrowings	18,233	27,344
Finance lease liabilities	6,854	10,142
Unsecured bond	-	45,628
	25,087	83,114

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

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

CARRYING VALUES AND FAIR VALUES

(i) Fair values versus carrying values

The basis for determining fair value is disclosed in Note 5 (Determination of fair values). Management believes that the fair value of the Group's financial assets and liabilities approximates their respective carrying values.

CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital, which the Group defines as result from operating activities divided by total shareholders' equity.

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

EUR '000	2013	2012
Total liabilities	**103,688**	**139,839**
Less: cash and cash equivalents	(18,376)	(19,227)
Net debt	(85,312)	120,612
Total equity	60,236	15,149
Debt to capital ratio at 31 December	1.4	8.0

The Group has no formal policy for capital management but management seeks to maintain a sufficient capital base for meeting the Group's 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. With these measures the Group aims for steady profits growth.

(e) Master netting and similar agreements

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable does 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. In particular, in accordance with the Russian civil law, an obligation can only be offset against a similar claim if it is due, has no maturity or is payable on demand.

The following table sets out the carrying amounts of recognised financial instruments that are subject to the above agreements.

EUR '000	Trade and other receivables	Trade and other payables
31 December 2013		
Gross amounts	6,437	63,113
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	6,437	63,113
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,510)	(1,510)
Net amount	**4,927**	**61,603**

EUR '000	Trade and other receivables	Trade and other payables
31 December 2012		
Gross amounts	2,338	38,492
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	2,338	38,492
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(1,351)	(1,351)
Net amount	**987**	**37,141**

The net amounts presented in the statement of financial position disclosed above 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 leases a number of premises and facilities under operating leases. During the year ended 31 December 2013 an amount of EUR 3,326 thousand was recognised as an operating expense in profit or loss in respect of rented premises (2012: EUR 3,335 thousand).

The leases for rented premises typically run for 12 months, with an option to renew the lease after the expiry date. The Group has no contingent rent arrangements or subleases. The Group had no significant non-cancellable leases as of 31 December 2013.

NOTE 24 » CAPITAL COMMITMENTS

During 2013 the Group entered into a number of design, development and construction contracts relating to new sales and service centers in Ekaterinburg, Moscow East, Archangelsk and Krasnodar.

As of 31 December 2013, the Group had capital commitments for purchases of equipment for a new service station in Krasnodar amounting to EUR 453 thousand.

NOTE 25 » CONTINGENCIES

(a) Taxation contingencies

There have been significant changes to the Russian taxation system in recent years as the authorities have gradually replaced legislation regulating the application of major taxes such as corporate income tax, VAT, corporate property tax and other taxes with new chapters of the Russian tax code. Russian tax authorities have also been aggressive in their interpretation of tax laws and their many ambiguities, as well as in their enforcement and collection activities. Technical violations of contradictory laws and regulations, many of which are relatively new and have not been subject to extensive application or interpretation, can lead to penalties. In practice, the Russian tax authorities generally interpret the tax laws in ways that do not favour taxpayers, who often have to resort to court proceedings against the tax authorities to defend their positions. The Group's tax liability may become greater than the estimated amount that have been expensed to date and paid or accrued on the balance sheets. In addition, Ferronordic Machines LLC has not yet undergone a field tax audit in Russia and the years 2010-2013 remain open for audit. It is therefore likely that a field tax audit might be initiated during 2014. 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.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012, provides for major modifications to make local transfer pricing rules more similar to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances. The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest if prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules, applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code.

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

During 2010, the Group incurred certain expenses which management believed were deductible for income tax purposes. However, based on the uncertainty of legislation, the tax authorities could take a different position and attempt to assess additional tax. The potential amount of such assessment as at 31 December 2013 is EUR 708 thousand (31 December 2012: EUR 762 thousand). Management has not made any provision for this because it currently does not believe that an outflow of funds relating to any such assessment will take place.

(b) Litigation
There have been no material disputes during the reporting period.

NOTE 26 » RELATED PARTY TRANSACTIONS

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

Members of management and the Board control 52.64% of the shares and 55.00% of the voting rights in the Parent Company.

Management remuneration
Unsecured loans to employees, with an interest rate of 12%, issued during the year amounted to EUR 24 thousand (2012: Nil). Interest is payable by the employees, and the loans are repayable in cash in full 12 months after the issue date. At 31 December 2013, the balance outstanding was EUR 24 thousand (31 December 2012: Nil) and is included in trade and other receivables (see Note 15 Trade and other receivables).

Key management received remuneration during the years 2013 and 2012, which is included in personnel costs and presented in Note 29 (Employees, board and executive managemen).

(b) Transactions with other related parties

Group

Revenue

	1 January 2013 to 31 December 2013		1 January 2012 to 31 December 2012	
EUR '000	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Services provided:				
Other related parties (i)	-	-	1	-

(i) The Group received revenue from an entity controlled by a shareholder for rent of premises

Parent Company

Revenue

	1 January 2013 to 31 December 2013		1 January 2012 to 31 December 2012	
EUR '000	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Services provided:				
Subsidiary (i)	3,185	2,685	500	-
Interest accrued:				
Subsidiary (ii)	5,142	2,414	5,363	2,700
	8,327	5,099	5,863	2,700

(i) License fee received from Ferronordic Machines LLC as compensation for the Volvo business sub-licence liabilities and royalties received from Ferronordic Machines LLC as compensation under an intra-group trade-mark license agreement. The outstanding balance as of 31 December 2013 represents accrued royalties under the intra-group trademark license;
(ii) For terms of interest accrued from Ferronordic Machines LLC see (iii).

Other balances

EUR '000	31 December 2013	31 December 2012
Contributions to subsidiaries	21,685	15,426
Loans to subsidiaries (iii)	32,190	35,984
	53,875	51,410

Loans granted by the Parent Company to Ferronordic Machines LLC are unsecured and bear interest rates of 15% per annum. The loans are nominated in RUB in order to minimize the Group's currency risks. One loan, amounting to EUR 19,381 thousand, is payable on 1 January 2015. The second loan, amounting to EUR 12,809 thousand, is payable on 8 June 2014.

NOTE 27 » EVENTS SUBSEQUENT TO THE REPORTING DATE

In February 2014, the Group has agreed on a EUR 20,013 thousand (RUB 900,000 thousand) revolving credit facility with OAO Promsvyazbank, a Russian bank. The credit facility is made for two years. As of 13 February 2014 the Group received a short term loan from Promsvyazbank under the facility in an amount of EUR 11,119 thousand (RUB 500,000 thousand).

In February 2014 the Group registered two new legal entities, LLC Ferronordic Torgovy Dom and LLC Ferronordic Kaliningrad, both wholly owned subsidiaries of the Parent Company.

The beginning of 2014 has seen a deterioration in relations between Russia and various members of the international community. Political instability and popular unrest in Ukraine have escalated tensions between Russia and Ukraine and resulted in Russia annexing the Crimean peninsula. As a result, the European Council and the U.S. government have issued sanctions against certain Russian individuals and one Russian bank. Whilst these sanctions have not yet had any material effect on the Group's operations, the sanctions are still recent and their effect on Russia in general and on the Group's business, financial condition and results of operations in particular is currently impossible to predict. Additionally, continued and increased tensions between Russia and other countries may have significant political consequences, which are difficult to predict and may limit the Group's ability to conduct its business and may have an adverse effect on the Group's business, financial condition and results of operations.

Since the starting of the year 2014, the Russian ruble has weakened against EUR by 10.7% and against SEK by 10.8%.

NOTE 28 » INTERESTS IN GROUP COMPANIES

As of 31 December 2013 the Group consisted of the following legal entities:

			2013		2012	
Subsidiary	Corporate Identity Number	Country of incorporation	Ownership/voting	Carrying amount	Ownership/voting	Carrying amount
Ferronordic Machines AB	556748-7953	Sweden	Holding	-	Holding	-
Ferronordic Machines Ltd		Cyprus	-	-	100%	5
Ferronordic Machines LLC		Russia	100%	21,685	100%	15,421
Ferronordic Machines –Archangelsk LLC		Russia	100%	2,056	-	-
				23,741		15,426

As follows from the Parent Company's statement of cash flows, the Parent Company has made contributions to its subsidiaries during 2013 in an amount of EUR 6,259 thousand.

On 30 January 2013 the Group closed purchase of 100% share of the company LLC "Ferronordic Machines Archangelsk". This company owns a real estate used by the Group as a dealership centres. The purchase price was EUR 2,056 thousand. The acquisition of the subsidiary was classified as acquisition of assets, because acquired entity does not constitute a business.

On 2 July 2013, the Group disposed of its shares in Ferronordic Machines Ltd, a company registered in Cyprus. The subsidiary had a net loss in an amount of EUR 15 thousand for the year, including the loss on disposal of EUR 8 thousand. There were no material transactions in Ferronordic Machines Ltd since its formation.

NOTE 29 » EMPLOYEES, BOARD AND EXECUTIVE MANAGEMENT

(a) Average number of employees

	2013	of which women	2012	of which women
Parent Company – Citizenship				
Sweden	2	50%	2	50%
Total in Parent Company	2	50%	2	50%
Subsidiaries – Citizenship				
Russia	677	21%	580	20%
Sweden	3	0%	2	0%
Belgium	1	0%	1	0%
USA	0	0%	1	0%
UK	0	0%	1	0%
Italy	1	0%	0	0%
Ukraine	4	0%	4	0%
Finland	1	0%	1	0%
Germany	1	0%	-	0%
Turkey	1	0%	1	0%
Total in subsidiaries	689	21%	591	20%
Total Group	691	21%	593	20%

(b) Breakdown between men and women in management

	Group		Parent Company	
	Female representation		Female representation	
	2013	2012	2013	2012
The Board	13%	13%	13%	13%
CEO and Executive Management	14%	8%	0%	0%

(c) Personnel coststs

The table below includes salaries, other remuneration and social security expenses for the Parent Company and its subsidiaries. The information for the Parent Company includes remuneration to the Board members.

	2013		2012	
EUR '000	Salaries and other remuneration	Social security expenses	Salaries and other remuneration	Social security expenses
Parent Company	430	309	471	354
(of which pension costs)		199		256
Subsidiaries	20,063	3,991	18,796	3,532
(of which pension costs)		2,973		2,777
Total	20,493	4,300	19,267	3,886
(of which pension costs)		3,172		3,033

The table below includes salaries and other remuneration distributed between the Parent Company and its subsidiaries and between senior executives and other employees. The Board and Executive Management in the Parent Company included 10 people in 2013 (2012: 9), in the Subsidiaries 14 people in 2013, including Board members Lars Corneliusson and Erik Eberhardson (2012: 12) and for the Group 24 people (2012: 21).

	2013		2012	
EUR '000	Board and Executive Management	Other employees	Board and Executive Management	Other employees
Parent Company	384	46	427	44
(of which bonuses)	17	-	-	-
Subsidiaries	2,016	18,047	2,660	16,137
(of which bonuses)	-	4,673	174	3,987
Total	**2,400**	**18,093**	**3,087**	16,181
(of which bonuses)	17	4,673	174	3,987

(d) Remuneration to the Board
In 2013, total remuneration paid to the Board amounted to EUR 132 thousand.

At the annual general meeting on 20 May 2013 it was decided that the fees for the Board members would amount to SEK 1,150,000. Of this amount, SEK 300,000 should be paid to the chairman of the Board, SEK 250,000 should be paid to the vice chairman of the Board, and SEK 150,000 should be paid to each other Board member, except for the two Board members who are employed by the Group, who do not receive separate remuneration for Board work. No additional remuneration should be paid for work on the Remuneration Committee or the Audit Committee.

The Board received the following board fees in 2013 and 2012:

Name	2013	2012
Per-Olof Eriksson (chairman)	35	50
Magnus Brännström	17	25
Lars Corneliusson	-	-
Erik Danemar (resigned May 2013)	7	25
Erik Eberhardson	-	-
Marika Fredrikson	17	25
Tom Jörning	17	25
Martin Leach	29	41
Kristian Terling (elected May 2013)	10	-
Total	**132**	**191**

(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. The principles for remuneration to Executive Management are described in the corporate governance report on page 41. For information regarding long-term incentive programs, please refer to the information regarding the Group's warrant programs in Note 17 *(Capital and reserves)*.

Lars Corneliusson's fixed salary for 2013 amounted to EUR 472 thousand, including compensation for housing and schooling. The potential variable salary is up to 100% of the fixed salary. The right to pension contributions amounts to 14% of the fixed gross salary. What Lars Corneliusson received in 2013 and 2012 is shown in a separate table.

For the full year 2013, the Executive Management included Nadezhda Arzumanova, Anders Blomqvist, Henrik Carlborg (from July 2013), Lars Corneliusson, Erik Eberhardson, Olga Galashevskaya (from June 2013), Onur Gucum, Dmitry Khmelidze (until November 2013), Andrey Romanov, Dmitry Bugoslavsky (until January 2013), Francesco Mascherpa (until January 2013), Jukka Huuhtanen (until January 2013), Sergey Ustimenko (until August 2013) and Anton Varekha (from August 2013).

In 2012, the Executive Management included Nadezhda Arzumanova, Anders Blomqvist, Lars Corneliusson, Erik Eberhardson, Onur Gucum (from July 2012), Dmitry Khmelidze, Andrey Romanov (from November 2012), Dmitry Bugoslavsky, Sergey Ustimenko, Francesco Mascherpa, Karel Geirnaert (until July 2012) and Jukka Huuhtanen (from April 2012).

Remuneration for 2013 and 2012 to Lars Corneliusson, President and CEO, and the other members of Executive Management is shown in the table below.

	2013			2012		
EUR '000	Lars Corneliusson	Other Executive Management	Total	Lars Corneliusson	Other Executive Management	Total
Fixed salary	472	1,784	2,256	520	1,862	2,382
Variable salary	-	-	-	-	174	174
Pension costs	65	164	229	69	161	230
Other benefits	-	13	13	-	341	341
Total	537	1,961	2,498	589	2,538	3,127

NOTE 30 » AUDITORS' FEES AND EXPENSES

	1 January 2013 to 31 December 2013	1 January 2012 to 31 December 2012	1 January 2013 to 31 December 2013	1 January 2012 to 31 December 2012
EUR '000	Group	Group	Parent Company	Parent Company
KPMG				
Audit assignments	198	148	46	67
Other assignments	20	93	2	70
OTHER				
Other assignments	96	18	-	
	314	259	48	137

NOTE 31 » EARNINGS PER SHARE

The calculation of earnings per share is based on the result attributable to holders of ordinary shares calculated as Result for the period less dividends declared on preference shares during the period divided by the weighted average number of ordinary shares outstanding.

On 9 October 2013 the share capital of Ferronordic Machines AB was restructured in the form of a share split in proportion of 100/1 (from 100,000 shares with par value of EUR 1.00 each to 10,000,000 shares with par value of EUR 0.01 each). Earnings per share presented in the Consolidated Statement of Comprehensive Income for current and prior periods were recalculated based on this new number of shares.

The Company has no dilution effect on its ordinary shares.

a) Result attributable to ordinary shareholders

EUR '000	1 January 2013 to 31 December 2013	1 January 2012 to 31 December 2012
Result for the year	(5,228)	(5,806)
Dividends on preference shares	(2,795)	-
Result attributable to ordinary shareholders	(8,023)	(5,806)

b) Weighted average number of shares

Number of shares	1 January 2013 to 31 December 2013	1 January 2012 to 31 December 2012
Shares outstanding as at 1 January	100 000	100 000
Effect of share split in October 2013	9 900 000	9 900 000
Weighted average number of shares for the year	10 000 000	10 000 000

As at 31 December 2013 2,459 warrants (2012: 180 warrants) were excluded from calculation of diluted earnings per share, because their effect would have been anti-dilutive.

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 16 April 2014. 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 20 May 2014.

Stockholm, 16 April 2014

Per-Olof Eriksson
Chairman

Martin Leach
Vice Chairman

Erik Eberhardson
Vice Chairman

Magnus Brännström
Director

Lars Corneliusson
Director

Marika Fredriksson
Director

Tom Jörning
Director

Kristian Terling
Director

Lars Corneliusson
Managing Director

Our audit report was submitted on 16 April 2014
KPMG AB

Signed on the original document

Mattias Lötborn
Authorised Public Accountant

Auditor's report

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

Report on the annual accounts and consolidated accounts

We have audited the annual accounts and consolidated accounts of Ferronordic Machines AB for the year 2013, except for the corporate governance statement on pages 35 - 43. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 30 - 88.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts

The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts in accordance with the Annual Accounts Act and of the consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director 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.

Auditor's responsibility

Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions

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 2013 and of its financial performance and its cash flows 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 2013 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the corporate governance statement on pages 35 - 43. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts. We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the statement of comprehensive income and statement of financial position for the group.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Ferronordic Machines AB for the year 2013. We have also conducted a statutory examination of the corporate governance statement.

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, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act, and that the corporate governance statement on pages 35 - 43 has been prepared in accordance with the Annual Accounts Act.

Auditor's responsibility

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden. As 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.

As basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

We believe that the audit evidence we have obtained as above is sufficient and appropriate to provide a basis for our opinions. Furthermore, we have read the corporate governance statement and based on that reading and our knowledge of the company and the group we believe that we have sufficient basis for our opinions. This means that our statutory 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 audit standards in Sweden.

Opinions

We recommend to the annual 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.

A corporate governance statement has been prepared, and its statutory content is consistent with the other parts of the annual accounts and consolidated accounts.

Stockholm 16 April 2014

KPMG AB

Mattias Lötborn
Authorized Public Accountant

Production and print: EO
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