



# Third Quarter Presentation

Stockholm, 25 November 2015

## Third quarter in summary

- ◇ Weak market for sale of construction equipment
  - ◇ Unstable economic indicators
  - ◇ Limited liquidity
- ◇ Strong result and cash flow
  - ◇ Net cash position at the end of the quarter
- ◇ Cost savings showing result
- ◇ Improved market share position
- ◇ Product mix shifting towards used machines and aftermarket

# A challenging market

- ◇ 2015 has been and 2015 and 2016 will continue to be challenging ...
  - ◇ Financing remains expensive, if at all available, both for customers and suppliers
  - ◇ Ruble depreciation has resulted in significant price increases by all market players, which will contribute to reduced short-term demand
  - ◇ Q4 expected to continue to fall compared to last year
  
- ◇ ...but not all things are bad
  - ◇ Continuous increase of market share
  - ◇ Net cash position for the first time in over 4 years
  - ◇ Increased aftermarket sales

## Third quarter

- ◇ The market continues to be weak
  - ◇ Down by about 70% compared to Q3 last year
  - ◇ The falling oil price in combination with the economic sanctions against Russia continue to limit access to capital
- ◇ Change in product mix - lower sales of new machines compensated by higher sales of parts and used machines.
  - ◇ Changed product mix, cost reductions and lower finance costs have led to an after-tax margin of 4% compared to zero in the third quarter last year
- ◇ Strong cash flow during the year, especially during the third quarter.
  - ◇ Operating cash flow during the third quarter amounted to SEK 183m





## Third quarter (cont'd)

- ◇ Continued to gain market share – over 10% market share (12 month rolling)
- ◇ No signs that the market would recover in the short term and thus we expect the rest of 2015 and 2016 to continue to be challenging
- ◇ Optimistic about the long term prospects of the Russian construction equipment market



## Important events

- ◇ EGM on 2 October 2015 - the meeting resolved to pay dividends on the company's preference shares in an amount of SEK 50 per preference share, corresponding to a total dividend payment of SEK 25,000,000. The dividend was paid on 28 October 2015
- ◇ On 15 October, Russian CE Distribution Investors AB sold its entire holding of 2,284,100 ordinary shares in Ferronordic Machines AB. The purchaser of the shares was Skandinavkonsult i Stockholm AB, a company owned by the Swedish investor and entrepreneur Håkan Eriksson and his family
  - ◇ Following the transaction, Skandinavkonsult i Stockholm AB held 2,341,500 ordinary shares in Ferronordic Machines, corresponding to 22.3% of the total number of shares and 23.3% of the total number of votes



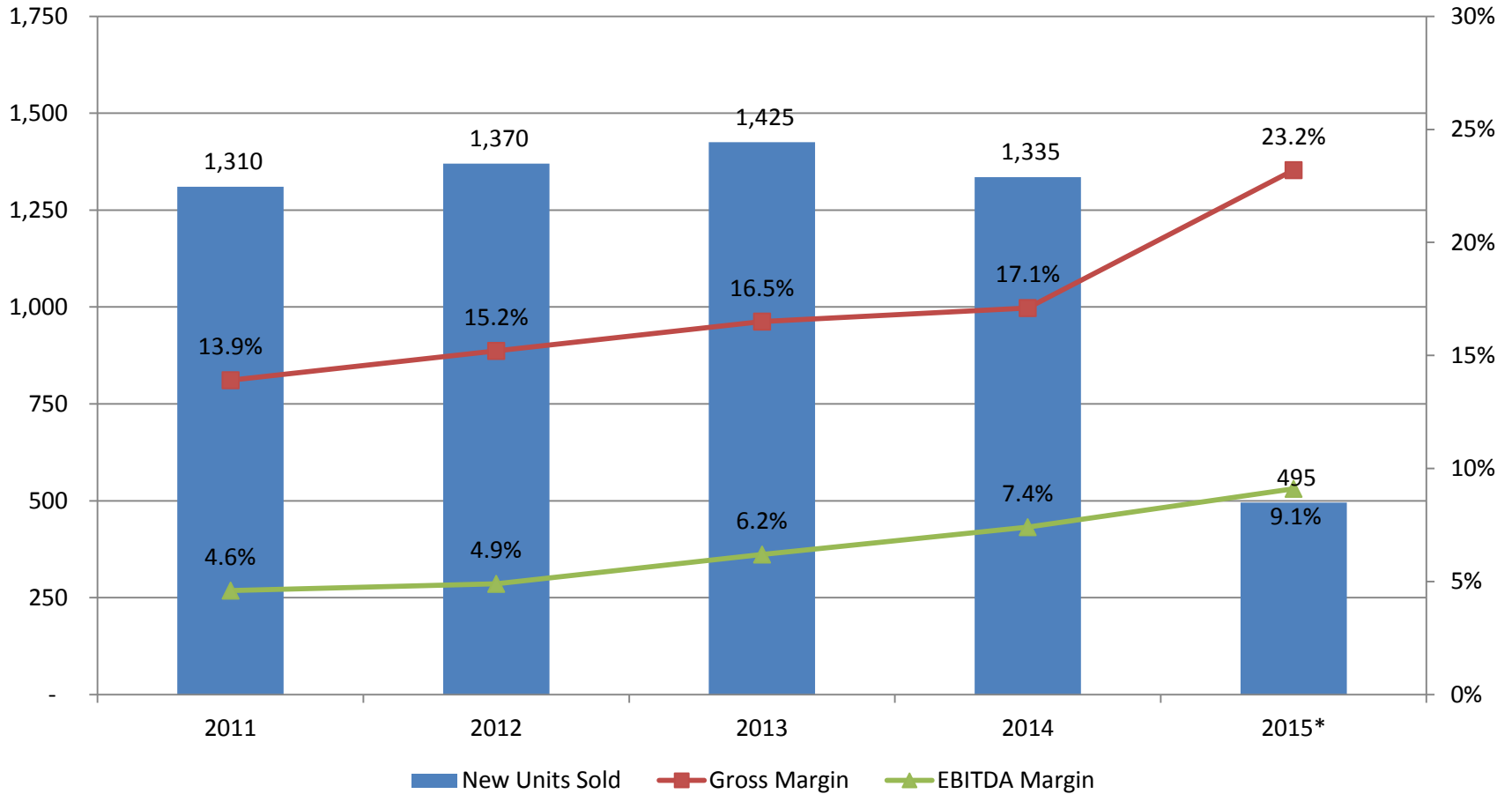
# Profit & Loss

SEK MM	Q3 2015	Q3 2014	% Change SEK	% Change RUB
Total Units	194	358	(46%)	(46%)
Revenue	373	616	(39%)	(14%)
Gross Profit	93	100	(7%)	33%
% Margin	25.0%	16.3%		
EBITDA	45	41	9%	56%
% Margin	12.1%	6.7%		
EBIT*	37	21	80%	157%
Net Income*	23	9	152%	259%
Net Debt	(41)	245	NM	NM

\* Excludes amortisation of transaction related intangibles.

- ◇ Sold units down 46%
- ◇ Revenue decreased by 39% (14% decrease in rubles)
  - ◇ Sale of equipment decreased by 26% in rubles
  - ◇ Aftermarket increased by 30% in rubles
- ◇ Improved gross margin given higher proportion of aftermarket revenue and increased used sales
- ◇ Reduction in operating expenses compared to Q4
  - ◇ 27% decrease in total opex (15% in rubles)
- ◇ SEK 5m decrease in net financial expenses
  - ◇ Partly offset by higher FX loss
- ◇ Strong increase in profitability

# Margin improvement despite weak market



\* 2015 New units sold assume the same number of units sold in Q4 as in Q3. Margins are from Jan-Sep.



# Balance sheet

SEK MM	Q3 2015	Q4 2014	Q3 2014
Cash & Cash Equivalent	148	177	41
Debt	96	246	221
Financial leases	12	40	65
<b>Net debt</b>	<b>(41)</b>	<b>109</b>	<b>245</b>
<i>Net Debt/EBITDA</i>	<i>NM</i>	<i>0.6x</i>	<i>1.5x</i>
Working capital	145	184	315
<i>% of Revenue</i>	<i>9%</i>	<i>8%</i>	<i>13%</i>
Shareholders Equity	368	372	466
Total Assets	<b>869</b>	<b>1 173</b>	<b>1 457</b>
<i>Equity/Assets</i>	<i>42%</i>	<i>32%</i>	<i>32%</i>

# Cash Flow

<b>SEK MM</b>	<b>Q3 2015</b>	<b>Q3 2014</b>
<b>Cash flow from:</b>		
Operating Activities	183	(94)
<i>of which change in working capital</i>	<i>142</i>	<i>(129)</i>
Investing Activities	(1)	(3)
Financing Activities	(53)	70
<b>Cash Flow</b>	<b>129</b>	<b>(26)</b>

## Outlook – CEO comment

“With the continuous economic uncertainty in Russia and the weak market for new machines, it is clear that 2015 and most likely also 2016 will be difficult. All in all, however, we are still optimistic about the future of our business as the long-term fundamentals in the Russian construction equipment market remain strong.”

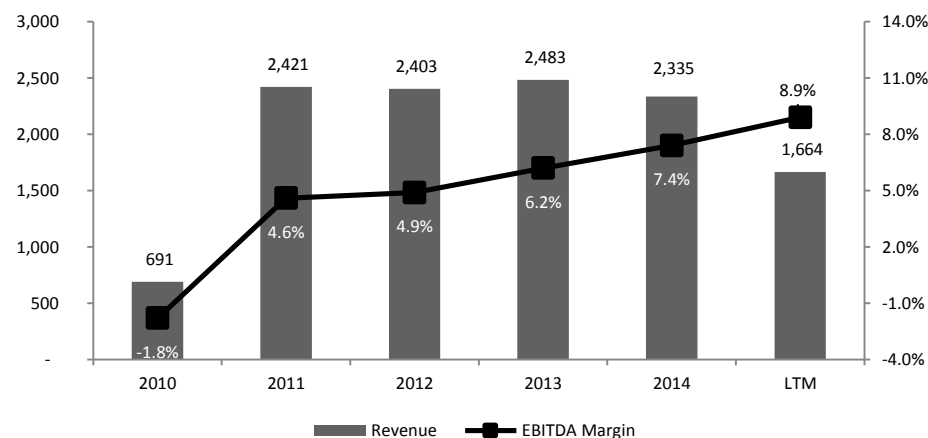


# Ferronordic Machines overview

## Overview

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

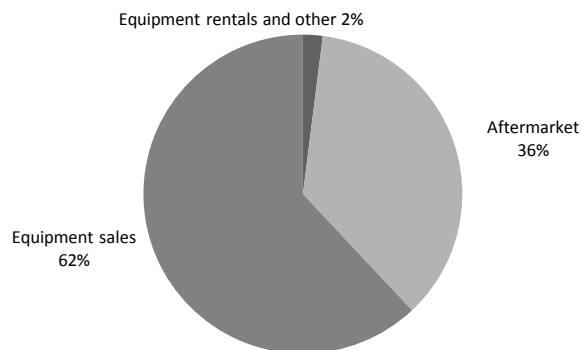
## Financial development (SEKm)



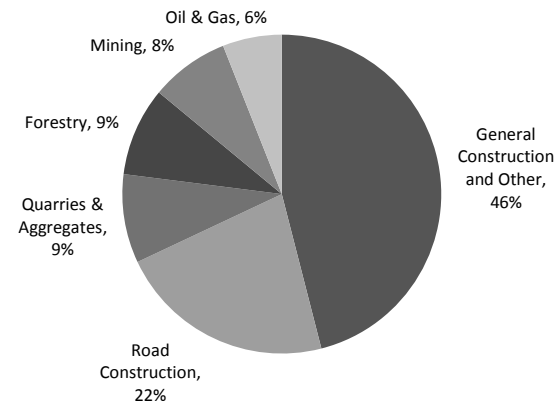
## Development

	2010	Q3 2015
Employees	326	672
Revenue (SEK M)	1 184 <sup>(1)</sup>	2 086
Outlets	12	67

## Revenue per segment 2015 YTD



## Revenue per customer type (2014)



(1) Annualized

# Strong long-term fundamentals

## Key facts

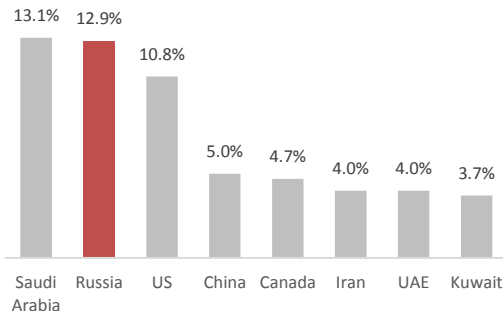
- Capital: Moscow
- Population: ~144 million
- Area:
  - ~2x the size of Canada
  - ~5x the size of India
  - ~38x the size of Sweden
- Rich on forest, oil and minerals
  - World's largest forest land
  - Approx. 50% of revenues for Federal Government relates to oil and gas
- Approx. USD 300 billion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



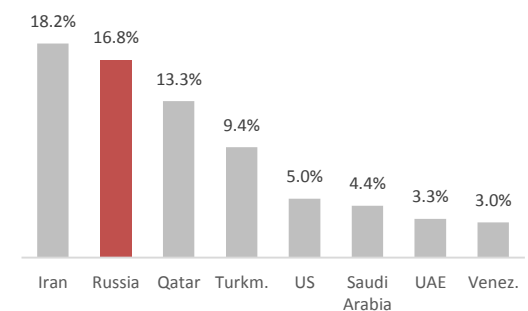
## Major geographic regions

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

## Oil production (% of total)



## Proved reserves of gas (% of total)





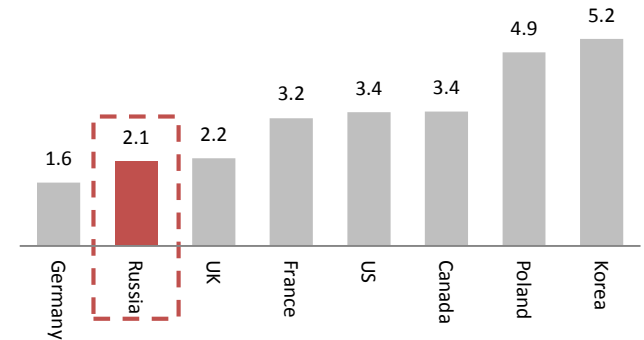
# Infrastructure improvements

## The general quality of infrastructure in Russia is poor

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

## Relatively low infrastructure investments historically

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

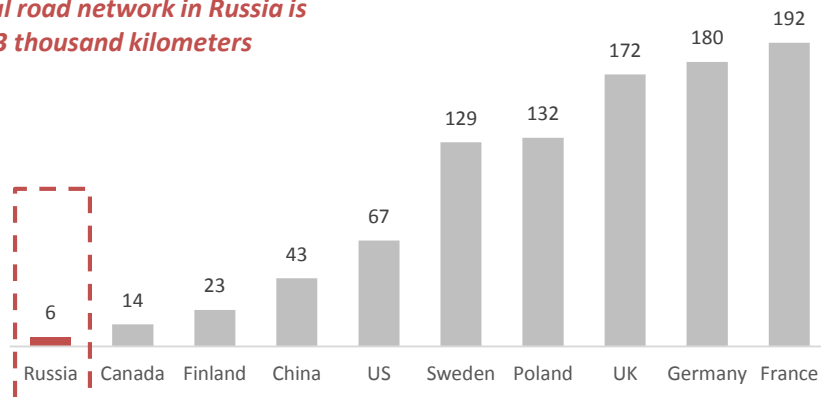


Source: OECD

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

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

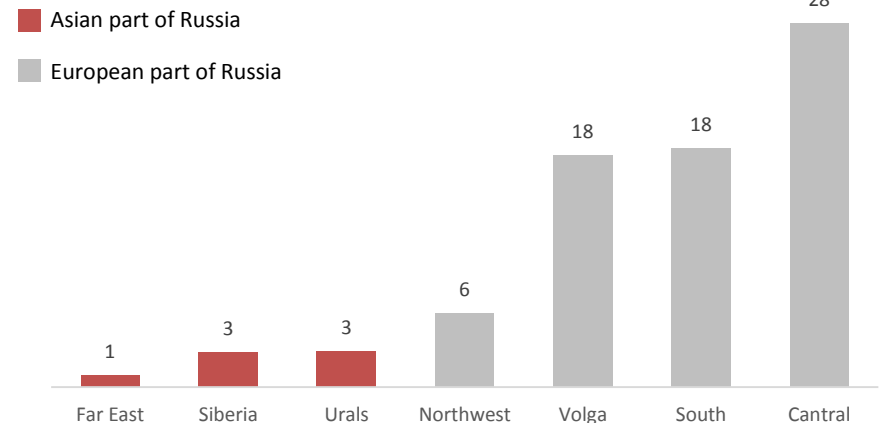
**Total road network in Russia is ~983 thousand kilometers**



Source: World Bank

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

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



Source: PMR Publications

# Market demand drivers

## Old and inefficient equipment

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

## Underlying market activity

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

## Aftermarket development

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

## End user maturity drives outsourcing trend

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

## Substitution effect

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

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