FERRONORDIC
machines

ANNUAL REPORT 2014

CONTENT



This is Ferronordic Machines

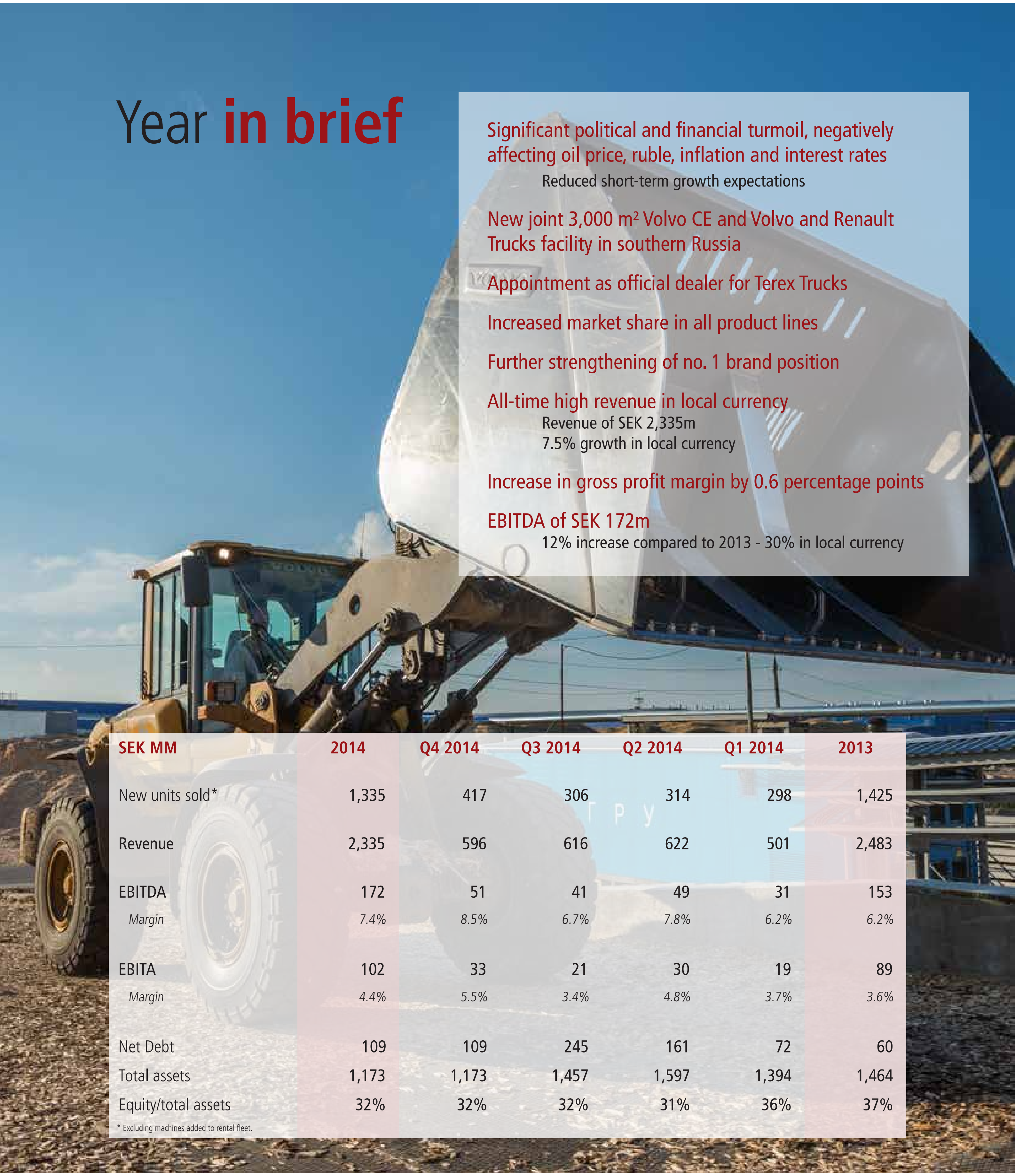
	2014	2010
REVENUE (SEK MM)	2,335	1,184[1]
EBITDA (SEK MM)	172	(22)[1]
EMPLOYEES	767	326
OUTLETS	75	12

[1] Annualized

- Official dealer of Volvo CE and Terex Trucks in Russia
- Aftermarket dealer for Volvo and Renault Trucks in select locations
- Significant presence all over Russia
- Revenue of SEK 2,335m and EBITDA of SEK 172m
- Strong market potential
- Experienced management and board of directors



Year in brief



Significant political and financial turmoil, negatively affecting oil price, ruble, inflation and interest rates
Reduced short-term growth expectations

New joint 3,000 m² Volvo CE and Volvo and Renault Trucks facility in southern Russia

Appointment as official dealer for Terex Trucks

Increased market share in all product lines

Further strengthening of no. 1 brand position

All-time high revenue in local currency
Revenue of SEK 2,335m
7.5% growth in local currency

Increase in gross profit margin by 0.6 percentage points

EBITDA of SEK 172m
12% increase compared to 2013 - 30% in local currency

SEK MM	2014	Q4 2014	Q3 2014	Q2 2014	Q1 2014	2013
New units sold*	1,335	417	306	314	298	1,425
Revenue	2,335	596	616	622	501	2,483
EBITDA	172	51	41	49	31	153
Margin	*7.4%*	*8.5%*	*6.7%*	*7.8%*	*6.2%*	*6.2%*
EBITA	102	33	21	30	19	89
Margin	*4.4%*	*5.5%*	*3.4%*	*4.8%*	*3.7%*	*3.6%*
Net Debt	109	109	245	161	72	60
Total assets	1,173	1,173	1,457	1,597	1,394	1,464
Equity/total assets	32%	32%	32%	31%	36%	37%

* Excluding machines added to rental fleet.

Sustained operating result **despite challenging market**

Lars Corneliusson, CEO

2014 HAS BEEN a challenging year for Ferronordic Machines and our industry in Russia, in particular the fourth quarter. The negative effects of the crisis in Ukraine and the related sanctions are becoming increasingly noticeable. The decrease in economic growth, falling oil prices, rising inflation, the falling ruble, increased interest rates, and reduced access to capital markets, have all contributed to a significant slowdown in the market of our products in Russia. The overall market for construction equipment in Russia fell by more than 25% in 2014, and by 45% in the fourth quarter. Despite this, our own unit sales of new machines dropped by less than 10% as we continued to gain market share.

IN LOCAL CURRENCY our revenue increased by almost 8% during the year and reached RUB 13,062m, which is the company's highest annual revenue ever. Due to the depreciation of the ruble however, our revenue in Swedish krona decreased by 6% compared to 2013. Despite the falling ruble we managed to increase our EBITDA by 12% in Swedish krona, corresponding to 30% in local currency. Further, despite a fairly modest improvement in gross margin, we managed to increase our EBITDA margin from 6.2% to 7.4%.

Given the political turmoil and the deterioration of all relevant economic indicators, we view the result during 2014 as a sign of strength of our strategy and organization.

EVEN IF THE ECONOMIC situation in Russia is currently uncertain, we are convinced that our company continues to develop in the right direction. Our organization throughout Russia has become even more competent and experienced. Our network is continously improving. Our processes have become even more efficient.
The offering to our customers continues to expand and improve. In this respect I want to highlight a few important events during the year:

- In December Ferronordic Machines was appointed the official dealer for Terex Trucks throughout Russia. The appointment adds four models of rigid haulers to our offering, thus significantly improving our penetration in the core earthmoving segment and extending our presence in light mining. The existing fleet of Terex Trucks also provides additional opportunities to increase our aftermarket sales, which are becoming increasingly important as the market for new machine sales is expected to continue to decline during 2015.

- During the second quarter Volvo CE launched a new wheeled excavator, EW 205. This new excavator has allowed us to enter a market segment where we previously did not have any suitable product to offer. This new model has been a good contributor to our sales in 2014.

- During the year we have continued to expand our aftermarket network for Volvo and Renault Trucks. I am particularly pleased with the opening of our new service station outside Krasnodar in southern Russia. The new station enables us to provide full support for the Volvo Group's entire product range, including Volvo CE, Volvo and Renault Trucks, and Volvo Penta. The new station is also strategically important to Ferronordic Machines since we, for the first time, will provide the full range of services to the Volvo Group's products in the Southern and North Caucasian Federal Districts.

LOOKING INTO THE FUTURE it is clear that 2015 will be a challenging year. The short and medium term market development is still difficult to predict. During the second half of the year we started to implement measures to adapt our costs to the changes in the market development. The implementation of these measures continues. All in all, however, we are optimistic about the future of our business as the long-term fundamentals in the Russian construction equipment market remain strong.



Vision, objectives **and strategy**

Our 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 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 and residual value management
- Rental fleet

BUILD ON STRONG BRAND

- Volvo CE - the third largest manufacturer of construction equipment in the world
- Building on No. 1 brand position in Russia
- Broad range of equipment for road and general construction, oil and gas and mining
- Development through additional strong brands

SUPERIOR INFRASTRUCTURE

- High density network – many points of presence
- 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 on the Russian market for high-quality construction equipment. Construction equipment is primarily used for infrastructure and heavy construction, but also in other industries, such as 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 144 million and is rich on natural resources. Russia is the world's second largest producer of oil and holds the world's second largest reserves of gas. Forestry is one of the main resources with over 800 million hectares of forest land, which corresponds to 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.

POLITICAL AND FINANCIAL TURMOIL DURING 2014

2014 has been characterized by significant political and financial turmoil. The crisis in Ukraine that started in the beginning of 2014 has escalated into armed conflict in eastern Ukraine and relations between Russia and the west remain weak. As a result of this several western countries have introduced sanctions against Russia, including restrictions for western companies to sell certain types of products to Russia, or to persons and companies subject to the sanctions. The sanctions have also led to limitations for Russian banks and certain Russian companies to seek financing from the international capital markets. Russia has also taken counteractions in the form of restrictions on import of foreign food products.

We have also seen a significant drop in the oil price during the year. From 1 January to 31 December 2014 the oil price fell from USD 111 per barrel to USD 57 per barrel, a decrease by approximately 50%.

As a result of the dropping oil price and sanctions, the Russian economy has been hit with a succession of negatives: a falling ruble, rising inflation, increased capital cost and tight liquidity. During 2014 the ruble lost 44% of its value against the Swedish krona, 54% against the euro, and 73% against the USD. Annual inflation as per 31 December 2014 amounted to approximately 11%. The Russian Central Bank's key rate as per 31 December 2014 amounted to 17% and 3M MosPrime amounted to 23.8 %.

Due to the deteriorating political and economic situation, GDP in Russia is expected to decrease by 3-5% during 2015. Thereafter, most economists predict that GDP will start to grow again.

Since the end of the year the ruble has strengthened against the Swedish krona, the euro and the USD. In addition, the Russian Central Bank has lowered the key rate to 14% and 3M MosPrime has fallen below 15%.

FERRONORDIC MACHINES REGIONS

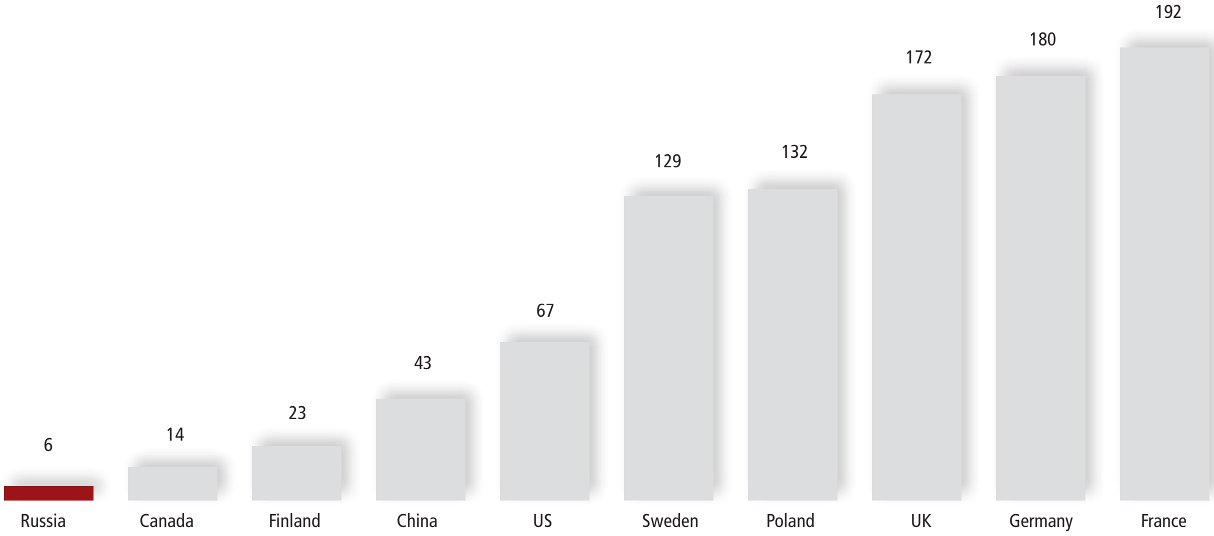
The economic development in Russia will vary between different geographical regions and have different drivers in different parts of Russia. Below is a table summarizing the size and population of the Russian federal districts where the company is operating. Since Ferronordic Machines internally reports the separate districts North Caucasus and South as one single district, the map and table have been adjusted to reflect the company's reporting.

Federal District	Area (000s of km^2)	Population (million)
Central	~650	38.8
North West	~1,700	13.8
South	~600	23.6
Volga	~1,000	29.7
Urals	~1,800	12.2
Siberia	~5,100	19.3
Far East	~6,200	6.2

Source: Rosstat

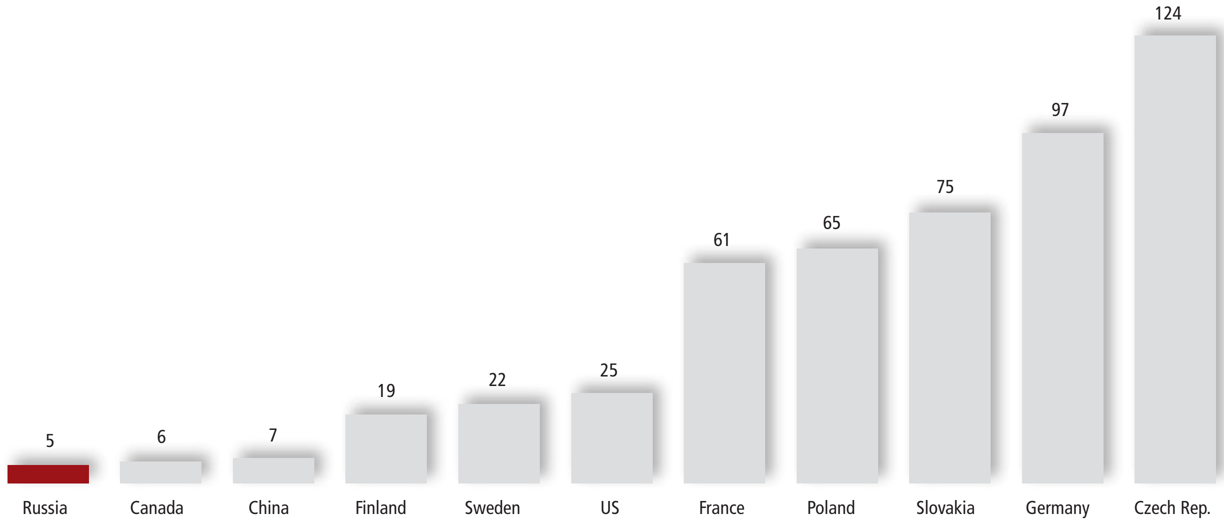
Despite the current political and financial situation the market for construction equipment is expected to capitalize on the long-term growth in Russia. An important driver for this will be infrastructure improvements. The bulk of the infrastructure in Russia was built during the Soviet era and is generally old and in need of improvement. For example, according to Rosavtodor, the Russian federal road agency as much as 40% of all roads fail to meet regulatory requirements. Another example of underdeveloped infrastructure is the low density of Russia's railroad network. Upgrading and expanding the 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 preparations for the FIFA World Cup 2018.

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



Source: World Bank

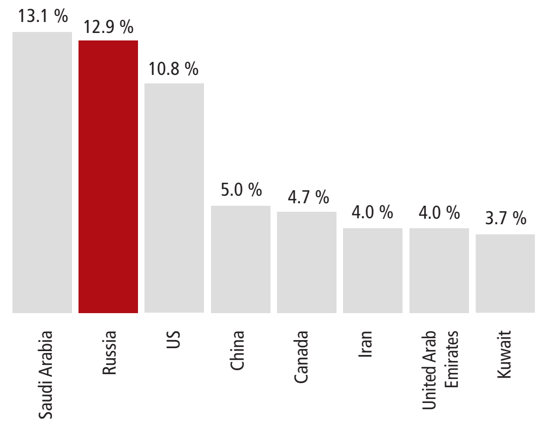
RAILWAY DENSITY IN SELECTED COUNTRIES (KM PER 1,000 SQ. KM LAND AREA)



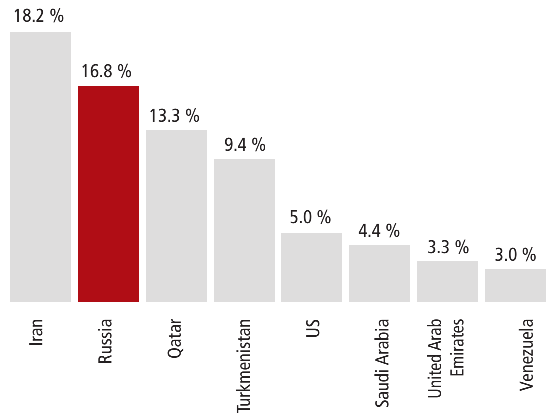
Source: World Bank

Another driver for both long-term growth and construction projects 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)



Source: British Petroleums Statistical Review of World Energy, June 2014

THE RUSSIAN CONSTRUCTION EQUIPMENT MARKET

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 housing, as well as construction and maintenance of oil and gas infrastructure. In the industries of mining, quarries, 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	~22%
General construction and other	• Heavy industry • Utilities • Construction of residential and non-residential properties	• Whole Russia	~46%
Oil & gas	• Oil and gas infrastructure • Site construction (e.g. refineries) • Maintenance of infrastructure	• Volga • Urals • Siberia	~6%
Mining	• Infrastructure • On-site construction and maintenance • Operational uses	• North West • Siberia • Far East • Urals	~8%
Quarries and aggregates	• Extraction and production of raw material for road and general construction	• North West • South • Siberia • Central • Urals	~9%
Forestry	• Site construction and maintenance • Harvesting • Off-road transport	• North West • Siberia • Far East • Volga	~9%

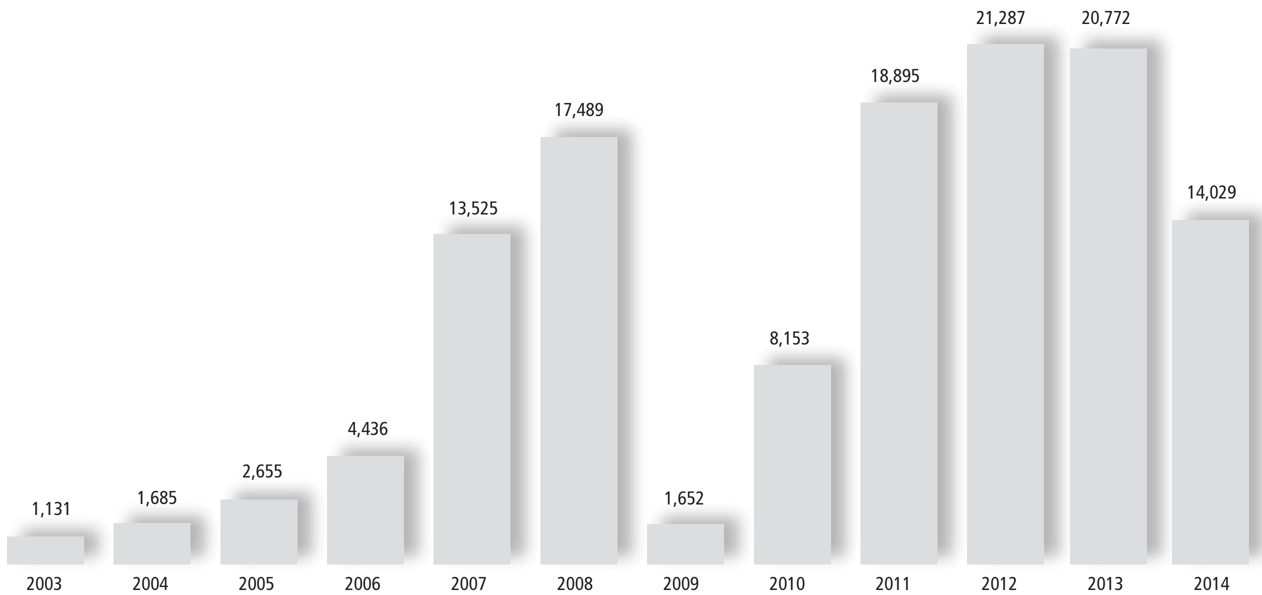
Note: General construction and other also include areas such as agriculture and landscaping, demolition, industrial material handling, recycling and waste.

In addition to capitalizing on increasing infrastructure investments, dealers of construction equipment are expected to benefit from the fact that the aging construction machines existing in Russia today need to be replaced and upgraded. Hence, the drivers of future growth are expected to be two-fold; firstly a need to replace old and inefficient machines, and secondly a need to increase the current machine population to increase the capacity.

Despite a decline in 2014, the import of foreign construction equipment to Russia has grown significantly during the last 10 years. In addition to overall construction growth in Russia, the replacement and upgrading of the existing machine fleet will be 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 small 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 SEK 5m, to small skid steer-loaders with prices below SEK 0.5m. The main competitors are other manufacturers of high-quality construction equipment, such as Caterpillar, Komatsu, JCB and Hitachi. Ferronordic Machines estimates that Volvo CE and these four manufacturers have about the same market share in Russia (measured in revenue). The graph below shows the development of the import of construction equipment to Russia (in number of units), excluding Chinese manufacturers.

RUSSIAN CONSTRUCTION EQUIPMENT IMPORT STATISITCS (UNITS)



Source: Russian import statistics provided by Volvo CE and Ferronordic Machines

The Company

THIS IS FERRONORDIC MACHINES

Ferronordic Machines is the official dealer for Volvo CE and Terex Trucks in Russia. Since its foundation in 2010 the company has expanded 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 and Terex Trucks, the Group has also been appointed aftermarket dealer for Volvo and Renault 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.

	2010	2011	2012	2013	2014
Outlets	12	53	69	74	75
Employees	326	540	654	731	767
Revenue (SEK MM)	706	2,421	2,402	2,483	2,335
EBITDA (SEK MM)	-13	111	117	153	172

THE FERRONORDIC MACHINES BUSINESS CONCEPT

In the construction industry, high utilization of equipment is vital for efficiency and profitability. Machines at stand-still, because of poor planning or breakdown, 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 maintenance 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 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 machines.

The high cost of construction equipment at stand-still results in high demand on dealers' service levels and availability of spare parts. To live up to these demands it has been a clear target for Ferronordic Machines 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 the 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 long experience from the industry.

In Europe and North America, the focus of purchasers of construction equipment has generally shifted from initial cost to total life-cycle cost, including cost of repair, maintenance, services and cost of machines at stand-still, 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 an overall increasing sophistication of Russian construction equipment customers. Ferronordic Machines believes it is a strong force in driving this trend, which will further strengthen the market positions of Volvo CE and other high-quality brands in Russia in the coming years.

The implementation of our business concept has been a strongly contributing factor to the further streghening of the number one brand position of Volvo CE in Russia between 2011 to 2014[1]. Customers surveyed have in particular appreciated customer relations, dense network and good service packages when answering the survey.

[1] Accordning to the Volvo Construction Equipment Brand Track Servey in 2014.

HISTORY

Ferronordic Machines was founded in 2010 when it became the official dealer of Volvo CE. The dealer agreement with Ferronordic Machines was said to be a significant and exciting development of its activities in Russia which would give Volvo CE 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 aftermarket services in the entire territory of Russia. In December 2014, Ferronordic Machines was also appointed the official dealer of Terex Trucks in Russia.

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

THE 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. In 2003 Volvo Trucks expanded its footprint in Russia significantly by opening a CKD-factory in Zelenograd, 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 of heavy trucks in Russia. In 2014, Volvo inaugurated a new facility for cab production in Kaluga with an annual capacity of 15,000 cabs.

Recently the dealer networks of Volvo Trucks and Renault Trucks have been combined and currently comprises a large network of authorized workshops throughout Russia. Volvo Trucks is one of the market leaders for foreign heavy trucks in Russia.

VOLVO CONSTRUCTION EQUIPMENT

Volvo CE has a large product portfolio and is one of the world's leading manufacturers of construction equipment. The brand is perceived as a premium brand in the market of construction equipment. Although Volvo CE established a Russian market presence fairly late (2002), it is enjoying a strong brand image in Russia. As described above, Volvo CE is considered the number one brand within construction equipment with competitive market shares in key premium segments. The number of delivered Volvo CE machines into Russia has increased from approximately 150 units in 2002 to over 1,500 in 2013 and approximately 1,360 in 2014.

Manufacturers of construction equipment typically work with external distributors for sales and after-market services, as they tend to focus on manufacturing and product development. Until 2010 the strategy of Volvo CE in Russia was, in addition to Volvo-owned operations in the North West and Central districts, to grow and gain market share through a network of several independent dealers responsible for different regions. In 2010 however, Ferronordic Machines was appointed the official dealer of Volvo CE machines, parts and aftermarket services throughout 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 official dealer of Volvo CE machines, parts and aftermarket 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 is responsible for the import of the machines and parts to Russia; thus Ferronordic Machines buys and sells all products inside Russia.

It is at the core of Volvo CE's global distribution strategy to appoint external dealers. 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.

VOLVO CE FACTORY IN KALUGA

In 2013 Volvo CE inaugurated a 20,660 m2 excavator plant in Kaluga. According to Volvo CE's announcement the investment amounted to SEK 350 million. The plant currently manufactures 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.

TEREX TRUCKS

On 17 December 2014 Ferronordic Machines was appointed the official dealer of Terex Trucks throughout Russia. The appointment adds four models of rigid haulers to Ferronordic Machines' product offering, with payloads ranging from 41 to 91 tons, as well as Terex-branded articulated haulers. As the distributor for Terex rigid and articulated haulers, Ferronordic Machines will also take over the responsibility for the aftermarket support of the existing machine population in Russia. Since 2007 Terex Trucks has sold about 200 trucks in Russia. Ferronordic Machines will work in cooperation with existing Terex partners to ensure a seamless continuation of high level support to existing customers. The addition of Terex trucks to our product range will significantly improve our penetration in the core earthmoving segment and extend our presence in light mining.

The appointment follows the acquisition by Volvo CE of Terex Equipment Ltd from Terex Corporation earlier in 2014. The acquisition included the main production facility in Motherwell, Scotland, and the two product ranges of rigid and articulated haulers. The deal allows for the continued use of the Terex brand name for the relevant machines for a transitional period.

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.

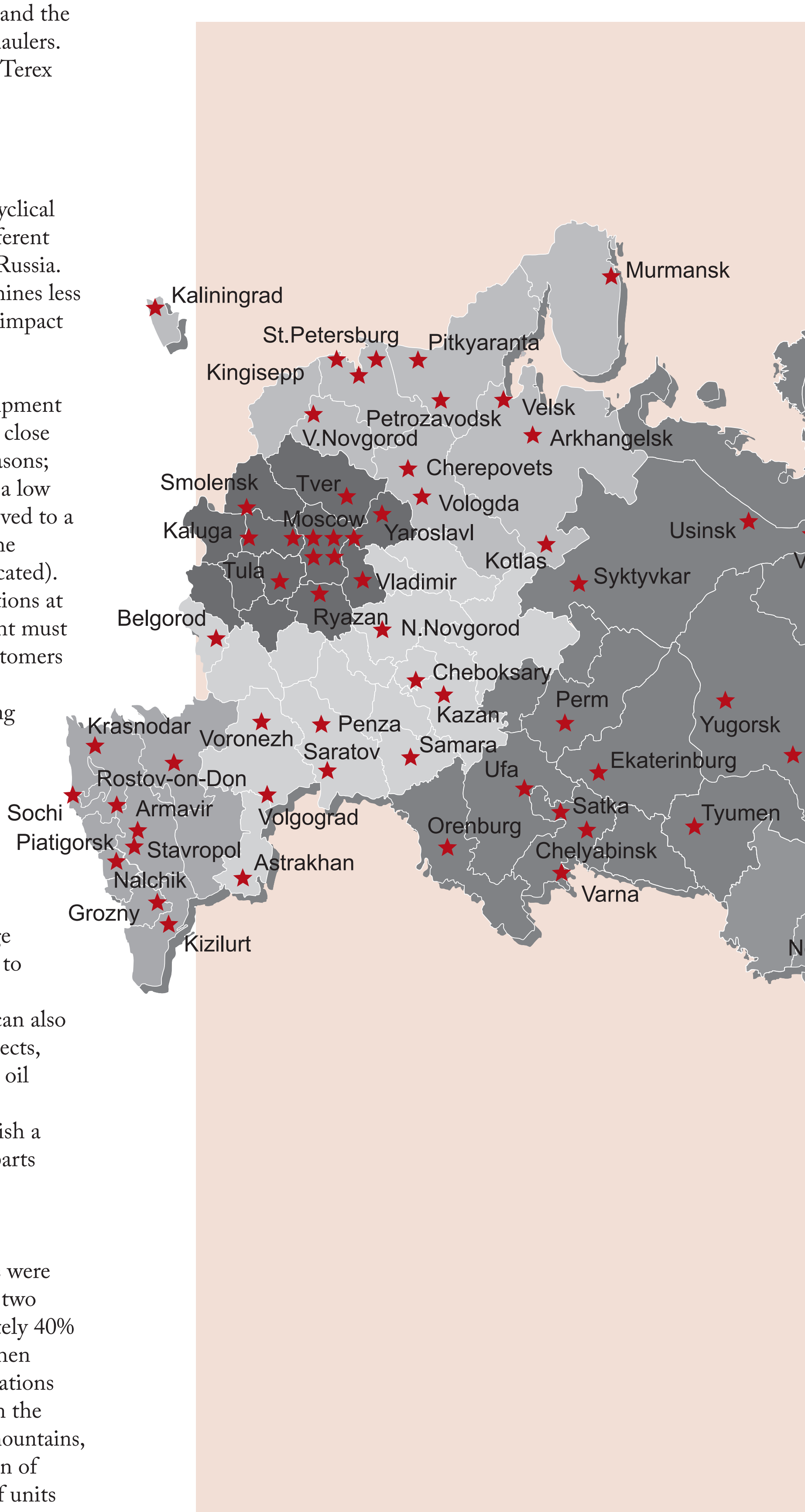
To be successful, dealers of construction equipment engaging in aftermarket activities need to be close to their customers. This is mainly for two reasons; firstly, construction equipment generally has a low level of mobility (machines are not easily moved to a service station so mechanics must travel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

In December 2014 Ferronordic Machines had 75 outlets throughout Russia. New facilities are usually established either on strategic locations or due to customer demand. Strategic locations are typically large towns that have a history of (or are expected to receive) large investments and high level of construction output. Ferronordic Machines can also establish facilities in connection to large projects, potentially at remote locations (e.g. mines or oil fields). These projects are often so large and demanding that it can be profitable to establish a repair and maintenance station and 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. Thanks to these efforts the share of units sold in other regions than North West and Central has increased to close to 50% in 2014.

FERRONORDIC MACHINES NETWORK




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

DIFFERENT TYPES OF FACILITIES

OWNED DEALER FACILITY

- Medium- to large sized, purpose built facilities, including service and repair workshops, warehouses, offices and display areas
- Ferronordic Machines has two owned facilities in operation, both for Volvo CE and Volvo and Renault Trucks: a 2,382 m^2 facility in eastern Moscow region and a 2,620 m^2 facility in Arkhangelsk
- The company owns two land plots ready for construction

RENTED DEALER FACILITY

- To reduce time-to-market and reduce capital investments the company often rents facilities
- The standards vary from basic to purpose-built
- In some cases the company has an option to purchase the facility at a pre-agreed price
- The company currently has 61 rented facilities

CUSTOMER-BASED SERVICE DEPOT

- To support large fleets of machines on customer sites, the company is able to quickly organize modular service depots based on air-filled hangars and/or containers
- The Group currently has five customer based outlets

HOME-BASED MECHANIC

- Mechanics working from home in remote locations or before the company has identified rented facilities
- The Group currently has seven home based mechanics in operation

PRODUCTS AND SERVICES

EQUIPMENT SALES

The principal products distributed by Ferronordic Machines are Volvo CE-branded road construction equipment, backhoe loaders, excavators, articulated haulers, wheel loaders and skid steer loaders. Sales, distribution and service of Volvo CE machinery and parts are the backbone of Ferronordic Machines' operations and contributed to more than 95% of the Group's revenue in 2014. Going forward, our principal products will also include Terex-branded products.

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

In November 2014 Volvo CE announced that it will cease production of Volvo-branded motor graders and backhoe loaders in its European and Americas operations. Instead these products will be designed and manufactured by SDLG, Volvo CE's subsidiary in China. Sales of new backhoe loaders and motor graders represent approximately 18% of our revenue from new machine sales. Given that the target is to cease production gradually and that our supply of backhoe loaders is secured for the next 12-18 months, we expect the short-term impact of this decision to be limited. The long-term consequences of this decision will be analyzed further as part of the continuous review of our product portfolio.

Product type	Example product	Units sold 2014	Description
Backhoe loaders		432	• Small and versatile machines, consisting of a tractor 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		448	• Excavators are used for site preparation, landscaping, trenching, excavation, demolition, truck loading, piping etc.
Articulated haulers/ dump trucks		112	• Volvo CE developed the articulated hauler concept and is still the market leader of articulated hauling in demanding conditions • Since December 2014, the Group also sells Terex-branded articulated haulers • Applications include road construction, quarrying, mining and waste handling
Wheel loaders		91	• Used to move or load materials • Comes in several sizes, from mini loaders to large production machines, for load and carry operations, quarries and aggregate, civil & building construction etc.
Road construction equipment		151	• Pavers are used to lay asphalt, often in connection with road construction • Volvo CE pavers are offered both as tracked and wheeled • Compactors are used to compact surfaces, e.g. asphalt or soil, often in connection with road construction • Volvo CE offers both asphalt and soil compactors in various sizes
Skid steer loaders		78	• Skid steer loaders are versatile, small machines with lift arms on which a variety of tools can be attached • Volvo CE offers a wide range of attachments for hauling earth, cutting trenches, digging postholes, palletizing material, breaking concrete, etc.
Pipelayers		4	• Excavators with long lifting boom sticks especially developed to handle different types of pipes • Used in connection with construction and maintenance of different types of pipe infrastructure, such as sewages or pipelines in the oil & gas industry
Forestry Machines		8	• Ferronordic Machines distributes forestry harvesters and forwarders • Harvesters are used in logging operations for felling, delimbing and bucking trees • Forwarders are used to transport logs from the stump to a roadside landing where the logs can be collected by a timber truck
Gensets		11	• A "genset" consists of a diesel engine and an electric generator and is used to generate electricity. It is typically used in places without connection to a power grid, or as emergency power supply • Our gensets include Volvo Penta engines but are assembled in Russia and sold under the Ferronordic Machines brand
Rigid dump trucks		NA	• Since December 2014 Ferronordic Machines is selling Terex-branded rigid dump trucks • Terex dump trucks have payloads ranging from 41 to 91 tons and are used in connection with, for example, mining, quarrying and road construction

EQUIPMENT RENTAL

During 2014, approximately 3% of Ferronordic Machine's revenue came from equipment rentals. In 2014 Ferronordic Machines also engaged in a pilot project for so-called "mining services" where machines are provided with operators to transport ore and overburden at a mine and compensation is calculated based on the quantity of ore and overburden transported.

PARTS

Sales of parts (including parts for Volvo and Renault Trucks) 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 decisive for fast delivery, and our presence in all districts of Russia provides for excellent customer service. We also offer customers remanufacturing of vital parts, such as engines and gearboxes, thus extending the lifecycle of the machines.

SERVICE

Service essentially consists of repair and maintenance of construction equipment and trucks performed by our mechanics. This includes planned maintenance, machine diagnostics, as well as planned and unplanned repairs. To tailor our offering and satisfy the individual needs of our customers, we offer a range of different service contracts. These service contracts increase the stability of the operations and improve the possibility to predict future revenues and cash flow.

SOFT PRODUCTS

We also offer our customers various soft products, including the Volvo CareTrack system. CareTrack is an advanced telematics system that gives both us and our customers a wide range of data regarding the machines in use. Through CareTrack we can advice our customers on how to reduce fuel costs, optimize performance and manage the service plan for their entire fleets in order to maximize uptime. The system transfers machine data via mobile network or satellite. The information from CareTrack increases our ability to provide a high level of customer service, both in terms of technical support by our mechanics, as well as proactive commercialized offers for spare parts at appropriate times. Additional soft products provided by Ferronordic Machines include:

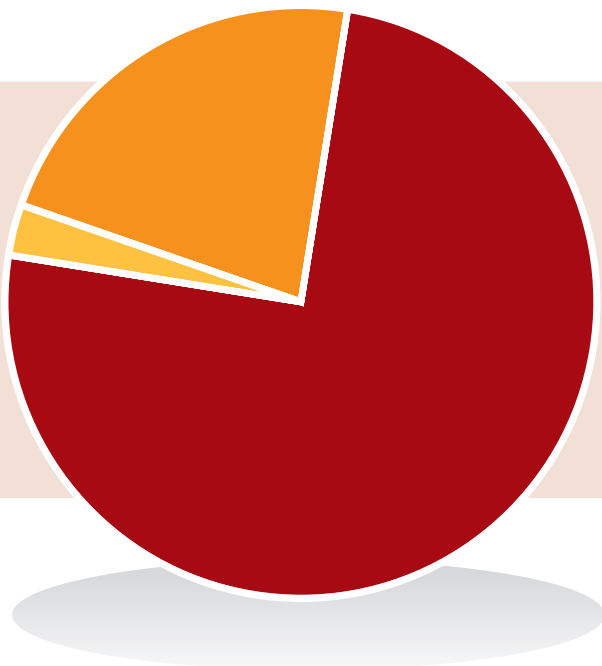
- Fleet management services
  - Simulation of projects
  - Consultancy on optimal fleet and specification composition
- Financial service through Volvo Financial Services and other leasing companies
- Operator training
- Extended warranties
- Consultancy on residual value management
- Trade-in of used machines

REVENUE SPLIT 2014

Equipment rental and other 2.7%

Aftermarket 22.5%

Equipment sales 74.8%



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 individual 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 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 distribute and maintain energy- and fuel efficient products. Another important part of our work consists of training machine operators to apply 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 760 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 2014, over 41,000 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.


VOLVO
VOLVO


VOLVO

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 2014, Ferronordic Machines had 24 holders of ordinary shares and approximately 600 holders of preference shares.

The company's ordinary shares are not listed on any exchange. The company's preference shares, issued in October 2013, are listed on NASDAQ OMX First North Premier under the symbol FNMA PREF.

On 30 September 2014 the company announced that a potential decision to list the company's ordinary shares on NASDAQ OMX Stockholm had been postponed. The announcement resulted from the fact that the company, in connection with the issue of preference shares in October 2013, announced that the Board had decided to evaluate a potential listing of the ordinary shares on NASDAQ OMX Stockholm during 2014. Ferronordic Machines continues to evaluate a potential listing and is well prepared if and when the situation in Russia stabilizes.

The table below sets forth the ten largest shareholders as of 31 December 2014:

	Number of Ordinary Shares	Number of Preference Shares	Share of Capital (%)	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%
BNY Mellon SA/NV	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%

Note: The shareholding in the company is partly dependent on the financial performance of the company and could therefore change in the coming years.

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 (SEK)	Total share capital (SEK)
2008	New formation	11,000	-	98,211	98,211
2010	Issue of new shares	89,000	-	794,619	892,830
2013	Share split (100:1)	9,900,000	-	-	892,830
2013	Issue of new shares	-	500,000	44,641	937,471
Total number of shares outstanding at 31 December 2014		10,000,000	500,000		937,471

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

PREFERENCE SHARES

Provided that the general meeting resolves to pay dividends, each preference share carries the right to a preferred dividend of SEK 100 per year until the last payment date before the AGM in 2016. 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 amount ("Outstanding Amount") will be added to future dividends. The Outstanding Amount shall be adjusted upwards by 20% p.a. from the date when payment should have been made until the dividends have been paid in full. No dividend can be paid to holders of ordinary shares before the holders of preference shares have received full payments of any Outstanding Amount.

In connection with, or subsequent to, a possible listing of the 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 in Ferronordic Machines corresponding to SEK 575 divided by 50% of the price per each ordinary share offered in the listing. Based on the subscription price for the preference shares, this implied a discount to the listing price of approximately 13% (excluding compensation for accrued dividends and Outstanding Amounts, if any). From 25 October 2014 the amount used for exchange into ordinary shares started to increase by SEK 5 per month until 25 January 2016, when the value to be used in an exchange into ordinary shares will equal SEK 650. Based on the subscription price for the preference shares this would then imply a discount to the listing price 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 this requires a resolution on a directed issue of ordinary shares to those holders of the preference shares who wish to utilize the conversion right. Furthermore, a resolution to redeem shares is conditional upon that the company has sufficient unrestricted equity.

The company has the right to redeem the preference shares in cash. The redemption price until 25 October 2014 was SEK 1,050 for each class A-preference shares and SEK 1,150 for each class B-preference shares (currently only class A-preference shares have been issued). On 25 October 2014 the redemption price started to increase 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).

The terms of the preference shares are set out in the 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 presentation currency.

WARRANTS

Ferronordic Machines previously had two warrant programs, one for selected senior executives, and another for certain non-executive members of the Board. During 2014 the program for Board members was discontinued, after which the company only has one outstanding warrant program.

Management Warrant Program

Ferronordic Machines has offered selected executives the opportunity to acquire warrants issued by the company. Anders Blomqvist, Lars Corneliusson and Erik Eberhardson do not participate in the program. On 31 December 2014, the number of outstanding warrants in the program amounted to 2,279. Each warrant entitles its holders to subscribe for 100 ordinary shares in Ferronordic Machines AB at a price of EUR 6.50 per share. On 20 May 2014, the Board concluded that the financial condition for the warrants to become exercisable had been satisfied. The warrants can be exercised 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 last day to exercise the warrants is 31 May 2016.

For the annual general meeting 2015, the board has proposed that the company should offer the current warrant holder to repurchase the warrants at a price corresponding to the amount paid for them by the holders, i.e. EUR 61,306.

Board Warrant Program

Ferronordic Machines previously had a warrant program for certain non-executive members of the Board. In accordance with the resolution of the AGM on 20 May 2014 the company made an offer to the warrant holders to repurchase the warrants at a price corresponding to the amount paid for them by the holders, i.e. in total SEK 327,122. All holders accepted the offer and the warrants were repurchased during the third quarter of 2014.

DIVIDENDS

On 9 October 2013 the EGM resolved to pay dividends on the preference shares corresponding to SEK 50 per preference share (i.e. SEK 25 million in total). The payment was made on 30 April 2014.

On 20 May 2014 the AGM resolved to pay dividends on the preference shares corresponding to SEK 100 per preference share (i.e. SEK 50 million in total), divided into two payment of SEK 50 each. The first payment was made on 29 October 2014. The record date for the second payment is 24 April 2015.

No dividend was to be paid on ordinary shares.

Dividends on preference shares in a total amount of SEK 50 million (SEK 100 per preference share) were recognised as distribution to owners in the consolidated statement of changes in equity for 2014.

Having regard to the current economic situation in Russia and the uncertain effect this may have during the year on the Group's cash position and working capital requirements, the board is of the opinion that it would not be prudent to make a resolution already at the AGM on 19 May 2015 to pay dividends on the company's preference shares when the record dates for the dividend payments do not occur until October 2015 and April 2016. The board therefore proposes that, for the time being, no dividends be paid on the preference shares. If the Board later comes to the conclusion that a payment of dividends on the preference shares will be possible, the board will convene an extraordinary general meeting in the beginning of October 2015 and/or April 2016 where a resolution can be made to pay dividends on the preference shares. The Board further proposes that no dividends be paid on ordinary shares.


VOLVO


VOLVO

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 (T Dr hc).

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

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

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.

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

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 Banking, Nordic Region, at HSBC. Board member of AH Automation AB.

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

Independent of the company, its management and major shareholders.

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).

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.

ANTON VAREKHA
Financial Director Ferronordic Machines LLC

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 2014, KPMG was appointed auditor until the next annual general meeting, with Mattias Lötborn as the main responsible auditor and without deputy.

Directors' **Report**

The Board of Directors of Ferronordic Machines AB, corporate registration number 556748-7953 (parent company), hereby presents its annual report and consolidated financial statements for the financial year 2014. All amounts are indicated in SEK millions (SEK m) unless otherwise stated. Amounts in brackets refer to the financial year 2013 if not otherwise stated.

THE BUSINESS

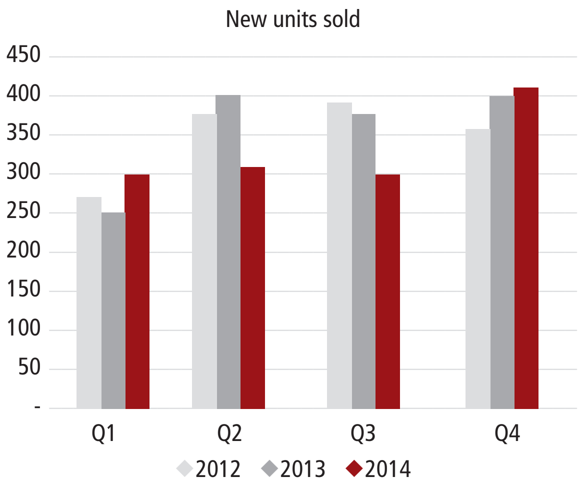
The parent company (together with its subsidiaries referred to as the "Group" or "Ferronordic Machines") is a Swedish public limited liability company. The registered address of the parent company is Hovslagargatan 5B, 111 48 Stockholm. The Group has administrative offices in Stockholm and Moscow. The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

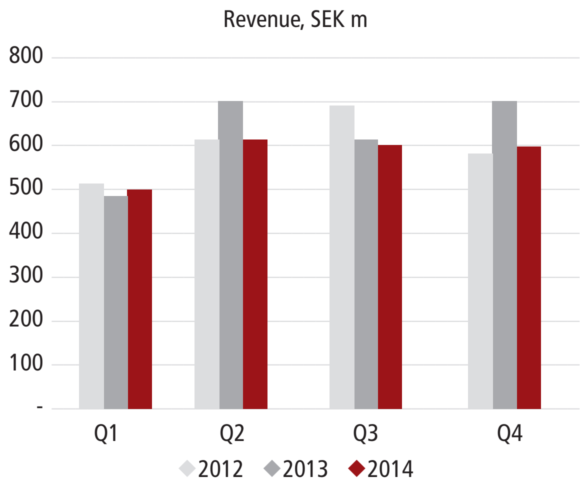
The Group was created to acquire and operate the Volvo CE distribution business in Russia. The acquisition took place on 27 May 2010 (see Note 5 to the financial statements for the financial year 2011). In connection with the acquisition the Group was appointed the official Volvo CE dealer in Russia. The Group's operations consist of distribution and sales of new construction equipment, sales of used equipment, rental of equipment, sales of parts, sales of attachments, and providing of services and technical support to customers.

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

ACTIVITIES IN 2014 COMPARED TO 2013

In 2014 Ferronordic Machines generated revenue of SEK 2,335m, a 6% decrease compared to 2013. However, in local currency our revenue increased by almost 8% and reached RUB 13,062m, which is the company's highest annual revenue ever. Revenue from sales of equipment decreased by 8% whereas revenue from the aftermarket decreased by only 2%. In rubles, however, the revenue from sales of equipment increased by 5% and the revenue from the aftermarket increased by 12%. The Group also managed to increase the gross margin, primarily because of higher margins on sold service hours, as well as higher margins on sold new and used machines. This together with lower selling, general and administrative expenses led to an increase in EBITDA margin of 1.2 percentage points. EBITDA for 2014 amounted to SEK 172m, a 12% increase compared to SEK 153m in 2013. In local currency EBITDA increased by 30%. Net result, excluding amortization of transaction related intangibles, increased by SEK 59m to SEK 52m. This significant increase was a result of an improved operating result, lower financial expenses following the repayment of the company's bond, as well as lower foreign exchange losses. Cash flow from operating activities was SEK -25m and cash flow from investing activities was SEK -36m. This resulted in a net debt position at the end of the year of SEK 109m[1].





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

Presence in Russia
During 2014 the Group retained its presence throughout Russia and has now established a strong platform in all regions. The number of sales- and/or service locations increased from 74 to 75 and the number of employees increased from 731 to 767.

NET SALES
The revenue of the Group in 2014 decreased by 6.0% from SEK 2,483m to SEK 2,335m compared to 2013. Revenue from sales of equipment decreased by 8.3% whereas revenue from the aftermarket decreased by 1.9%. In rubles, however, the revenue from sales of equipment increased by 4.5% and the revenue from the aftermarket increased by 11.5%.

GROSS PROFIT AND RESULTS FROM OPERATING ACTIVITIES
Gross profit for 2014 decreased by 2.8% to SEK 398m from SEK 410m in 2013. Gross margin during the year increased from 16.5% in 2013 to 17.1% in 2014, primarily because of higher margins on sold service hours as well as sold new and used machines.

Results from operating activities amounted to SEK 69m compared to SEK 52 in 2013, primarily as a result of a SEK 31m reduction in selling, general and administrative expenses.

RESULT BEFORE INCOME TAX
The result before income tax for 2014 amounted to SEK 26m compared to SEK -57m in 2013. The strong improvement was primarily a result of reduced selling, general and administrative expenses, reduced finance costs following the repayment of the bond loan, and lower foreign exchange losses.

RESULT FOR THE YEAR
As a result of the above, the after-tax result for the year increased to SEK 19m (SEK -44m).

CASH FLOW AND INVESTMENTS
Cash flow from operating activities during 2014 amounted to SEK -25m compared to SEK 42m the year before. The decrease was primarily related to strong cash flow in 2013, mainly as a result of an increase in trade payables following the introduction of new payment terms with Volvo CE in April 2013. Cash flow from investing activities during the year amounted to SEK -36m (SEK -22m), mainly relating to investments in property, plant and equipment and software licenses.

FINANCIAL POSITION
The Group's cash and cash equivalents at 31 December 2014 amounted to SEK 177m, an increase of approximately SEK 13m compared to 31 December 2013. Interest-bearing liabilities at 31 December 2014 amounted to SEK 287m, an increase of SEK 63m compared to 31 December 2013 (interestbearing liabilities include debt and obligations under finance leases, both short term and long term).

Equity at 31 December 2014 amounted to SEK 372m, a decrease of SEK 166m compared to 31 December 2013. The decrease is mainly a result of accrued and paid dividends on preference shares in the amount of SEK 50m, as well as negative translation differences in the amount of SEK 135m. The significant amount of negative translation differences is caused by the substantial depreciation of the ruble against the Swedish krona during the year which led to a significant decrease in the net asset value in the presentation currency.

At the reporting date Ferronordic Machines LLC was in breach of two of the covenants in its RUB 500m credit facility agreement with Sberbank. The first covenant requires a minimum level of net profit of the borrower and the second one sets a limit for the borrower's total level of bank debt. As a result of this the loan became payable on demand instead of upon maturity in April 2016. After the reporting date the bank has waived its right to demand early repayment because of the covenant breaches.

CHANGES IN PRESENTATION AND FUNCTIONAL CURRENCIES
From 1 January 2014 the Group and the parent company have selected the Swedish krona as presentation currency. Previously the consolidated financial statements were presented in euro. Management believes that the Swedish krona is a more appropriate presentation currency in the current environment. As per 1 January 2014 the parent company's functional currency has been changed from Russian ruble to Swedish krona, since the Swedish krona better reflects the primary economic environment in which the parent company operates, particularly since most of the cash flow from financing activities are generated in Swedish krona.

CHANGE TO VOLVO CE'S PRODUCT LINE
In November 2014 Volvo CE announced that it will cease production of Volvo-branded motor graders and backhoe loaders in its European and Americas operations. Instead these products will be designed and manufactured by SDLG, Volvo CE's subsidiary in China. Sales of new backhoe loaders and motor graders represent approximately 18% of our revenue from new machine sales. Given that the target is to cease production gradually and that our supply of backhoe loaders is secured for the next 12-18 months, we expect the short-term impact of this decision to be limited. The long-term consequences of this decision will be analyzed further as part of the continuous review of our product portfolio.

EMPLOYEES

Competence development
The Group provides training to all employees, in particular mechanics and sales representatives. A large part of the training materials is provided online, and most of it is translated into Russian. During 2014 the company provided 41,066 training hours (46,298).

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

Compliance Program
At the start of the employment, all employees receive a copy of the Group's Code of Conduct and anti-corruption policy, and confirm in writing that they have read and understood these. The Group has a program for compliance with international anti-corruption legislation, including various policies and procedures (e.g. policies regarding gifts and entertainment, due diligence and contracts with agents, subdealers and other associated parties, M&A policy, etc.), a web-based training, and annual compliance certifications. Each year an audit is made by an independent audit firm to identify possible areas for improvement in the Group's compliance program, and a review of selected transactions to verify that the Group's compliance related policies are followed.

SIGNIFICANT RISKS AND UNCERTAINTIES

The Group is exposed to various types of risk, both operational and financial. Identifying, managing and pricing these risks are fundamental for the Group's profitability. Operational risks are associated with the daily operations and relate to business cycles, tendering, capacity utilisation, price risks and revenue recognition.

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

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

RISK MANAGEMENT

The management of the operational risks comprises a continuous improvement process, covering a large number of ongoing projects and tasks. It is particularly important that the Group's employees consistently comply with standardized processes and working methods as they are developed to ensure that operational risks are kept under control.

Financial risks and credit risks are managed centrally in order to minimize and control the risk exposure. The 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. These risks have increased as a result of the geopolitical and macroeconomic uncertainty that has prevailed during 2014 and still continues.

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.

Political instability and popular unrest in Ukraine during 2014 have escalated tensions between Russia and Ukraine. This has resulted in Russia annexing the Crimea, and led to armed conflict in parts of eastern Ukraine. As a result the relations between Russian and other members of the international community, in particular EU and the U.S. have deteriorated and resulted in sanctions being introduced against Russia and certain Russian companies and individuals. These sanctions inter alia include restrictions for U.S. and/or EU companies to sell certain goods and services to Russia, or that certain goods and services can only be sold to Russia after receipt of prior authorization. Other sanctions have resulted in prohibitions for U.S. and/or EU companies to sell goods and services to certain Russian companies and individuals included in the U.S. and EU sanctions lists. In addition, sanctions have been introduced which have made it significantly more difficult for certain Russian banks and certain Russian companies to obtain financing from the international capital markets.

The western sanctions have still not had any direct material adverse effect on the Group's activities or financial position. For example, the sanctions have not prevented the Group from continuing to do business with its existing customers. Nevertheless, the indirect effects of the sanctions are becoming visible and they have been a contributing reason for the material deterioration of the economic climate in Russia during 2014.

In the wake of the Ukrainian crisis and western sanctions there are also signs of increased protectionism in Russia. A government decree was introduced in July 2014 with restrictions for state and municipal entities to buy non-Russian equipment. The Group believes that this decree will have limited impact on its business, but does not exclude that similar and more extensive protectionist laws and decrees may be introduced in the future, which could have a material adverse effect on the Group's operations, financial condition and result.

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 market for construction equipment, 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. A sign of this is the decline in the market that has followed the deteriorating economic climate in Russian during 2014. In a longer perspective, however, the demand for construction equipment is driven by a countrywide need to renovate and upgrade existing infrastructure, and a need to renew the existing machine population, most of which is old and outdated and has limited production capacity. Demand for service and parts is not as sensitive to fluctuations in the economic cycle.

Capacity utilisation

The Group is expanding its network and has plans to expand its capacity further. 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 have a close cooperation to monitor market tendencies and market share development, and to adjust the prices the Group pays for machines and parts. Unforeseen and/or significant changes in the prices charged by Volvo CE and other suppliers constitute a risk. The Group believes that its close partnership with Volvo CE, the Group's main supplier, constitutes a flexible framework to share and mitigate the price risk.

Revenue recognition

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

Insurances
The Group assesses that it has adequate insurance coverage for its operations in Sweden.

The insurance market in Russia is still underdeveloped. Several types of insurance that are customary in other countries are not available in Russia. 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 is not adequate to cover all potential losses or liabilities. Consequently, there is a risk that the loss or destruction of certain assets, or that claims 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, partly arising as a result of changes in debt levels, interest rates and currency movements. For information about the Group´s financial risks, see Note 22 to the consolidated financial statements *(Financial instruments and risk management).*

Material disputes
No material disputes have taken place during the year.

OUTLOOK
The short and medium term market development is difficult to predict and the recent economic instability as well as the events in Ukraine create additional uncertainties and challenges. We continue to take measures to adapt our costs to the changes in market development.

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

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 38.

PARENT COMPANY
The revenue of the parent company during 2014 amounted to SEK 15.8m (SEK 28.2m). The difference between the years relates to royalties to the parent company from Ferronordic Machines LLC under an intra-group trademark license agreement, which were higher in 2013 (since they included royalties for 2011-2013) than in 2014.

Administrative expenses in 2014 amounted to SEK 18.3m (SEK 15.5m), an increase of 18.7% compared to 2013. The after-tax result for 2014 increased to SEK 25.2m (SEK -26.3m), mainly because of lower finance cost following the repayment of the bond loan. Cash flow for 2014 was SEK -4.6m (SEK 3.3m).

As of 31 December 2014, the value of the parent company's net assets amounted to SEK 423.3m (SEK 518.1m).

The parent company had three employees at the end of the year.

EVENTS SUBSEQUENT TO THE REPORTING DATE
The interest on Ferronordic Machines LLC's credit facility from Sberbank has been increased from 9.7% to 15% starting from 1 February 2015. The loan currently outstanding under this facility amounts to RUB 500 million (SEK 69 million).

PROPOSED ALLOCATION OF PROFIT
The following amount is available for allocation by the AGM:

SEK 422,321,549

The Board proposes that this amount is allocated as follows:

SEK	
Amount carried forward	422,321,549
of which to the Share Premium Reserve	604,922,011
Total amount allocated	**422,321,549**

Having regard to the current economic situation in Russia and the uncertain effect this may have during the year on the Group's cash position and working capital requirements, the Board is of the opinion that it would not be prudent to make a resolution already at the AGM on 19 May 2015 to pay dividends on the company's preference shares when the record dates for the dividend payments do not occur until October 2015 and April 2016. The Board therefore proposes that, for the time being, no dividends be paid on the preference shares. If the Board later comes to the conclusion that a payment of dividends on the preference shares will be possible, the Board will convene an extraordinary general meeting in the beginning of October 2015 and/or April 2016 where a resolution can be made to pay dividends on the preference shares. The Board further proposes that no dividends be paid on ordinary shares.

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

Corporate governance report

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

Corporate governance within Ferronordic Machines comprises the Group's control and management systems. The aim is to ensure efficient decision-making by 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 reviewed by the company's auditors.

SUMMARY OF FERRONORDIC MACHINES' CORPORATE GOVERNANCE MODEL

The shareholders make the ultimate decision on the company's direction by appointing the Board and the chairman of the Board. The AGM also elects the auditors and adopts the principles concerning the Nomination Committee. The task of the Board is to manage 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 and 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 on ordinary shares;
- 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 as if the Code already applied to it. This report has therefore been prepared to describe how Ferronordic Machines has applied the Code.

IMPORTANT EVENTS IN 2014:

- Tom Jörning resigned as Board member due to new obligations within the Volvo Group
- The executive and extended management teams were reduced to make the work more efficient

During 2014 Ferronordic Machines has deviated from the Code as follows:

- 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 possess 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 audit committee has not kept separate minutes of its 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 program 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.

SHARE CAPITAL AND SHAREHOLDERS

At the end of 2014, 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%. The shareholding in the company is partly dependent on the financial performance of the company and could therefore change in the coming years. Further information about Ferronordic Machines' share capital and shareholders can be found on pages 24-26.

GENERAL MEETINGS

The general meeting of shareholders 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). The AGM also 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.

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

ANNUAL GENERAL MEETING 2014

The AGM 2014 took place on 20 May 2014 in Stockholm. At the meeting, 78.9% of the shares and 82.3% of the votes were represented in person or by proxy. Attorney-at-law Fredrik Palm was elected chairman of the AGM.

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

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

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

- dividends of SEK 100 per preference share were to be paid on the preference shares, divided in two payments of SEK 50 each,
- no dividends were to be paid for the 2013 financial year with regard to ordinary shares,
- re-election of Magnus Brännström, Lars Corneliusson, Erik Eberhardson, Per-Olof Eriksson, Marika Fredriksson, Tom Jörning, Martin Leach and Kristian Terling as Board members,
- 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
- adoption of principles regarding the company's nomination committee;
- adoption of a remuneration policy for senior executives;
- resolution that the company should offer holders of warrants 2011/2016 to repurchase the issued warrants for a price equal to what the holders paid for the relevant warrants; and
- authorizations to the Board to decide upon an issue of new ordinary shares and new ordinary shares of series 2.

ANNUAL GENERAL MEETING 2015

Ferronordic Machines's AGM 2015 will be held on 19 May 2015 at Radisson Blu Strand Hotel in Stockholm. More information is available at www.ferronordic.com.

NOMINATION COMMITTEE

The nomination committee acts in the interest of all shareholders. The duties of the nomination committee are to evaluate the Board's constitution and work and to make proposals to the AGM concerning:

- chairman of the AGM
- Board members and the chairman of the Board
- auditors (in cooperation with the auditing committee)
- remuneration of the Board members, Board committees and auditors

The constitution of the nomination committee is announced not later than six months before the AGM. For the AGM 2014, the nomination committee consisted of Mikael Brantberg (chairman), representing Russian CE Distribution Investors AB, Rune Andersson, representing Mellby Gård AB, and Stefan Charette, representing Creades AB. All members were independent of the company, the company's management as well as the company's largest shareholder, measured by number of votes. Shareholders were offered the opportunity to submit proposals to the nomination committee. No proposals were submitted for the AGM 2014. The nomination committee's proposals to the AGM 2014, together with motivated statements, were presented in the notice to the AGM on 16 April 2014. No compensation was paid to the members of the nomination committee.

At the AGM 2014 the following principles were adopted regarding the nomination committee: The nomination committee shall consist of four members. The chairman of the Board shall in connection with the end of the third quarter 2014 contact each of the four largest shareholders in the company and encourage them to appoint their respective representatives for the nomination committee. As regards the appointment of representatives for the nomination committee, shareholders who are members of the Board or employed by the Group shall be regarded as one shareholder. If a shareholder chooses not to appoint a representative for the nomination committee, the right to appoint a member of the nomination committee shall transfer to the next largest shareholder (provided such shareholder has not already appointed or is entitled to appoint a member of the nomination committee). If a member of the nomination committee resigns, the shareholder appointing the resigning member shall be asked to appoint another member of the nomination committee. The chairman of the nomination committee shall be the member appointed by the largest shareholder, unless the nomination committee does not agree otherwise (though not a person employed by the group or a member of the Board).

The mandate of the nomination committee is valid until a new nomination committee has been constituted. In case of material ownership changes during the mandate period of the nomination committee, the nomination committee shall ensure that a new large shareholder is given representation in the nomination committee. The constitution of the nomination committee shall be announced not later than six months before the annual general meeting. The members of the nomination committee shall not receive any compensation from the company but are entitled to reimbursement for reasonable expenses.

The current nomination committee comprises:
- Mikael Brantberg (chairman), Russian CE Distribution Investors AB
- Rune Andersson, Mellby Gård AB
- Per-Olof Eriksson, chairman of the Board, representing the shareholders who are employed by the Group or are members of the Board
- Daniel Nyhrén, Creades AB

Shareholders have been able to submit proposals to the nomination committee for the AGM 2015. No proposals have been submitted.

BOARD OF DIRECTORS

The Board of Directors 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 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

Until 30 September 2014 the Board consisted of eight members without deputies. On 30 September Tom Jörning announced his resignation from the Board due to new obligations within the Volvo Group. After this the Board has consisted of seven members without deputies. All Board members were elected at the AGM 2014 for the period until the AGM 2015. The AGM 2014 also re-elected Per-Olof Eriksson as chairman of the Board for the period until the AGM 2015. Detailed information about the Board, including 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 Distribution 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 also 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 five of the seven 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, i.e. 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 2014

During 2014 the Board held 11 meetings, including meetings held by telephone or per capsulam. Over the year the Board devoted particular focus to the following issues:
- The Group's earnings and financial position
- Interim reports
- Development of the geopolitical and economic situation in Russia and its affect on the Group
- Corporate governance, risk management and internal control
- Strategy matters
- The financing of the Group, including preparations for a potential listing of the ordinary shares
- Remuneration to the CEO and other executives
- Evaluation of the work of the Board and 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 2014, the total remuneration of the Board amounts to SEK 2,300,000 of which SEK 600,000 is paid to the chairman, SEK 500,000 to the vice chairman, and SEK 300,000 to each of the other directors, except for 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 within the Group, as well as dealing with other related matters.

The audit committee consists of the following five members: Magnus Brännström, Per-Olof Eriksson, Marika Fredriksson (independent and qualified member), 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 2014 the audit committee held two meetings in connection with the physical meetings of the Board. Minutes from these meetings are included in the minutes for the relevant Board meetings.

Remuneration Committee

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

The remuneration committee held two telephone meetings in 2014. 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 2014 for the period until the AGM 2015. Mattias Lötborn is the auditor-in-charge. The compensation paid to KMPG is indicated in Note 30.

ATTENDANCE IN BOARD MEETINGS IN 2014

	Magnus Brännström	Lars Corneliusson	Kristian Terling	Erik Eberhardson	Per-Olof Eriksson	Marika Fredriksson	Tom Jörning	Martin Leach
30 January	•	•	•	•	•	•	•	•
21 February	•	•	•	•	•	•	•	•
25 March	•	•	•	•	•	•	•	•
24 April	•	•	•	•	•	•	•	•
13 May	•	•	•	•	•	•	•	•
20 May	•	•	•	•	•	•	•	•
20 May	•	•	•	•	•	•	•	•
7 August	•	•	•	•	•	•	•	•
30 September	•	•	•	•	•	•	•	•
13 October	•	•	•	•	•	•		•
14 November		•	•	•	•	•		•

CEO AND EXECUTIVE MANAGEMENT

The CEO is appointed by the Board and is responsible for the day-to-day management of the Group. The current CEO, Lars Corneliusson, 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; Henrik Carlborg, General Counsel; Erik Eberhardson, Head of Business Development; Olga Galashevskaya, Marketing and Corporate Communications Director (until November 2014); Onur Gucum, Commercial Director; Andrey Romanov, Head of Trucks Business (until November 2014); and Anton Varekha, Financial Director Ferronordic Machines LLC. The members of the executive nanagement report to the CEO.

In November 2014 the executive management was reduced to seven members, including the CEO, to make the work more efficient.

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 and the regional directors and (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, 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, except Ural and Siberia which currently have a shared regional director. The regional directors are responsible for the business, as well as the coordination and implementation of company-wide policies and processes, in their respective regions. Each region also has a regional board, comprising the relevant regional director and the executive management.

REMUNERATION OF SENIOR EXECUTIVES

Remuneration and other benefits payable to the CEO and the other members of the executive management can be found on Note 29 (e).

The AGM 2014 adopted the following principles regarding remuneration to the company's executives:

Remuneration to executives 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.

Fixed salaries

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

Variable salaries

Executives may receive variable salaries in addition to fixed salaries. Variable salaries shall be paid upon completion of predetermined and measurable performance criteria, primarily based on the performance of Group as a whole or the development of the part of the Group for which the relevant executive is responsible. The variable salary may, as regards the CEO, amount to not more than 100% of the fixed salary and, as regards other executives, not more than 50% of the fixed salary. An exception may be made regarding Erik Eberhardson whose maximum variable salary may not exceed 150% of the fixed salary (according to an agreement made in connection with a decrease of the fixed salary).

Benefits

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

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. Pension plans shall be defined contribution plans without guaranteed level of pension.

Routines for establishing remuneration

The remuneration committee prepares and the Board 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 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 has implemented 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.

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 adopted 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 responsible for 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
Since April 2014 the Group has established an internal audit function. The internal auditor reports to the Financial Director of Ferronordic Machines LLC with regard to reporting matters and to the General Counsel with regard to compliance matters. The internal auditor also reports to the audit committee on matters relating to internal control.

Stockholm, April 2015

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.


FERRO
machines
VOLVO
VOLVO
VOLVO

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

SEK '000	Note	1 January 2014 to 31 December 2014	1 January 2013 to 31 December 2013
Revenue	6	2,334,546	2,482,931
Cost of sales		(1,936,418)	(2,073,431)
Gross profit		398,128	409,500
Selling expenses	7	(95,869)	(105,663)
General and administrative expenses		(226,146)	(247,278)
Other income		6,585	1,468
Other expenses	8	(13,726)	(6,420)
Results from operating activities		68,972	51,607
Finance income	9	2,592	892
Finance costs	9	(36,577)	(81,353)
Net foreign exchange gains/(losses)		(9,043)	(27,979)
Result before income tax		25,944	(56,833)
Income tax	10	(7,215)	12,899
Result for the year		18,729	(43,934)
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Foreign currency translation differences for foreign operations		(134,675)	-
Items that will never be reclassified to profit or loss:			
Exchange differences on translating to presentation currency		-	(12,264)
Other comprehensive income for the year, net of income tax		(134,675)	(12,264)
Total comprehensive income for the year		(115,946)	(56,198)
Earnings per share			
Basic earnings per share (SEK)	31	(3.13)	(6.89)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

SEK '000	Note	31 december 2014	31 december 2013
ASSETS			
Non-current assets			
Intangible assets	12	42,544	96,249
Property, plant and equipment	11	224,688	250,470
Deferred tax assets	13	36,192	22,893
Total non-current assets		303,424	369,612
Current assets			
Inventories	14	424,693	589,600
Trade and other receivables	15	265,412	338,516
Other assets		706	709
Prepayments		1,336	1,047
Cash and cash equivalents	16	177,453	164,075
Total current assets		869,600	1,093,947
TOTAL ASSETS		1,173,024	1,463,559
EQUITY AND LIABILITIES			
Equity	17		
Share capital		937	1,027
Additional paid in capital		594,865	592,346
Translation reserve		(175,901)	(39,436)
Retained earnings		(48,373)	(16,136)
TOTAL EQUITY		371,528	537,801
Non-current liabilities			
Deferred tax liabilities	13	6,567	10,493
Long-term portion of finance lease liabilities	18	21,278	24,312
Total non-current liabilities		27,845	34,805
Current liabilities			
Borrowings	18	246,370	162,800
Trade and other payables	21	491,736	657,756
Deferred income	19	7,508	15,446
Provisions	20	9,121	18,066
Short-term portion of finance lease liabilities	18	18,916	36,885
Total current liabilities		773,651	890,953
TOTAL LIABILITIES		801,496	925,758
TOTAL EQUITY AND LIABILITIES		1,173,024	1,463,559
Pledged Assets and Contingent Liabilities			
Pledged Assets	18	209,135	197,098
Contingent Liabilities	25	-	6,321

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

		Attributable to equity holders of the Company				
SEK '000	Note	Share capital	Additional paid in capital	Retained earnings	Translation reserve	Total equity
Balance 31 December 2013		1,027	592,346	(16,136)	(39,436)	537,801
Effect of change in functional currency	3	(90)	2,846	(966)	(1,790)	-
Balance 1 January 2014		937	595,192	(17,102)	(41,226)	537,801
Total comprehensive income for the year						
Result for the year		-	-	18,729	-	18,729
Other comprehensive income						
Foreign exchange differences		-	-	-	(134,675)	(134,675)
Total comprehensive income for the year		-	-	18,729	(134,675)	(115,946)
Contribution by and distribution to owners						
Preference shares dividends	17	-	-	(50,000)	-	(50,000)
Warrant cancellation	17	-	(327)	-	-	(327)
Total contributions and distributions		-	(327)	(50,000)	-	(50,327)
Balance 31 December 2014		937	594,865	(48,373)	(175,901)	371,528

		Attributable to equity holders of the Company				
SEK '000	Note	Share capital	Additional paid in capital	Retained earnings	Translation reserve	Total equity
Balance 1 January 2013		983	103,925	52,798	(27,172)	130,534
Total comprehensive income for the year						
Result for the year		-	-	(43,934)	-	(43,934)
Other comprehensive income						
Foreign exchange differences		-	-	-	(12,264)	(12,264)
Total comprehensive income for the year		-	-	(43,934)	(12,264)	(56,198)
Contribution by and distribution to owners						
Issue of preference shares	17	44	487,852	-	-	487,896
Preference shares dividends	17	-	-	(25,000)	-	(25,000)
Warrant issue	17	-	569	-	-	569
Total contributions and distributions		44	488,421	(25,000)	-	463,465
Balance 31 December 2013		1,027	592,346	(16,136)	(39,436)	537,801

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

CONSOLIDATED STATEMENT OF CASH FLOWS

SEK '000	Note	1 January 2014 to 31 December 2014	1 January 2013 to 31 December 2013
Cash flows from operating activities			
Result before income tax		25,944	(56,833)
Adjustments for:			
Depreciation and amortisation	11, 12	102,718	101,254
Loss from write off of receivables		7,486	2,056
Profit on disposal of rental fleet		(6,877)	(6,693)
Finance cost	9	36,577	81,353
Finance income	9	(2,592)	(892)
Net foreign exchange losses		9,043	27,979
Other non-cash movements		-	2,459
Cash from operating activities before changes in working capital and provisions		172,299	150,683
Change in inventories		(175,583)	(209,433)
Change in trade and other receivables		(45,006)	(81,969)
Change in prepayments		(785)	743
Change in trade and other payables		34,845	259,297
Change in provisions		(4,549)	(6,046)
Change in other assets		(308)	(43)
Change in deferred income		(3,978)	10,336
Cash flows from operations before interest paid and tax paid		(23,065)	123,568
Proceeds from sale of rental fleet		36,012	26,182
Income tax paid		(1,335)	(11,037)
Interest paid		(36,579)	(96,667)
Cash flows from operating activities		(24,967)	42,046
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		-	181
Interest received		2,592	783
Acquisition of property, plant and equipment		(34,267)	(17,435)
Acquisition of intangible assets		(4,722)	(5,696)
Cash flows from investing activities		(36,397)	(22,167)
Cash flows from financing activities			
Proceeds from issue of warrants		-	597
Repayment of bonds		-	(280,000)
Proceeds from borrowings		849,306	281,623
Proceeds from preference share issue		-	362,182
Repayment of other loans		(684,652)	(338,864)
Distributions to preference shareholders		(50,000)	-
Leasing financing received		41,523	9,545
Leasing financing paid		(42,668)	(42,001)
Repayment of warrants		(327)	-
Cash flows from financing activities		113,182	(6,918)
Net increase in cash and cash equivalents		51,818	12,961
Cash and cash equivalents at start of the year		164,075	165,671
Effect of exchange rate fluctuations on cash and cash equivalents		(38,440)	(14,557)
Cash and cash equivalents at year-end	16	177,453	164,075

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

PARENT COMPANY INCOME STATEMENT

SEK '000	Note	1 January 2014 to 31 December 2014	1 January 2013 to 31 December 2013
Revenue		15,794	28,215
Gross profit		**15,794**	**28,215**
Administrative expenses	7	(18,349)	(15,461)
Other expenses		-	(44)
Results from operating activities		**(2,555)**	**12,710**
Finance income	9	39,323	45,557
Finance costs	9	(1)	(58,319)
Net foreign exchange gains/(losses)		(4,616)	(33,386)
Result before income tax		**32,151**	**(33,438)**
Income tax	10	(7,000)	7,114
Result for the year		**25,151**	**(26,324)**

PARENT COMPANY STATEMENT OF COMPREHENSIVE INCOME

SEK '000	Note	1 January 2014 to 31 December 2014	1 January 2013 to 31 December 2013
Result for the year		**25,151**	**(26,324)**
Other comprehensive income			
Items that are or may be reclassified to profit or loss:			
Translation difference, expanded net investments in foreign operations		(69,676)	-
Other comprehensive income for the year, net of tax		(69,676)	-
Total comprehensive income for the year		**(44,525)**	**(26,324)**

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

PARENT COMPANY BALANCE SHEET

SEK '000	Note	31 December 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	11	30	11
Intangible assets	12	6,275	10,705
Financial assets			
Holdings in group companies	28	192,162	192,105
Loans to group companies	26	199,021	285,178
Deferred tax assets	13	34,078	20,860
Total financial assets		425,261	498,143
Total non-current assets		431,566	508,859
Current assets			
Trade and other receivables	15	19,298	44,007
Prepayments		353	323
Cash and cash equivalents	16	370	5,013
Total current assets		20,021	49,343
TOTAL ASSETS		451,587	558,202
EQUITY AND LIABILITIES			
Equity	17		
Restricted equity			
Share capital		937	937
Unrestricted Equity			
Share Premium Reserve		604,922	605,249
Translation reserve		(69,676)	-
Retained earnings		(138,075)	(61,751)
Result for the year		25,151	(26,324)
TOTAL EQUITY		423,259	518,111
Non-current liabilities			
Non-current liabilities	18	-	-
Total non-current liabilities		-	-
Current liabilities			
Trade and other payables	21	28,328	40,091
Total current liabilities		28,328	40,091
TOTAL LIABILITIES		28,328	40,091
TOTAL EQUITY AND LIABILITIES		451,587	558,202
Contingent Liabilities*		68,742	

No assets had been pledged either as of 31 December 2014 or 31 December 2013.
* Guarantee in favor of Sberbank as security for credit facility to Ferronordic Machines LLC, a subsidiary.

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

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

SEK '000	Note	Share capital	Share premium reserve	Retained earnings	Translation reserve	Total equity
Balance 1 January 2014		937	605,249	(88,075)	-	518,111
Total comprehensive income for the year						
Result for the year		-	-	25,151	-	25,151
Other comprehensive income						
Foreign exchange differences		-	-	-	(69,676)	(69,676)
Total comprehensive income for the year		-	-	25,151	(69,676)	(44,525)
Contribution by and distribution to owners						
Preference shares dividends		-	-	(50,000)	-	(50,000)
Warrant cancellation	17	-	(327)	-	-	(327)
Total contributions and distributions		-	(327)	(50,000)	-	(50,327)
Balance 31 December 2014		937	604,922	(112,924)	(69,676)	423,259

SEK '000	Note	Share capital	Share premium reserve	Retained earnings	Translation reserve	Total equity
Balance 1 January 2013		893	116,828	(36,751)	-	80,970
Total comprehensive income for the year						
Result for the year				(26,324)		(26,324)
Other comprehensive income						
Total comprehensive income for the year		-	-	(26,324)	-	(26,324)
Contribution by and distribution to owners						
Issue of preference shares	17	44	487,852	-	-	487,896
Preference shares dividends		-	-	(25,000)	-	(25,000)
Warrant issue	17	-	569	-	-	569
Total contributions and distributions		44	488,421	(25,000)	-	463,465
Balance 31 December 2013		937	605,249	(88,075)	-	518,111

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

PARENT COMPANY STATEMENT OF CASH FLOWS

SEK '000	Note	1 January 2014 to 31 December 2014	1 January 2013 to 31 December 2013
Cash flows from operating activities			
Result before income tax		32,151	(33,438)
Adjustments for:			
Depreciation and amortisation	11,12	4,434	4,436
Finance costs	9	1	58,319
Finance income	9	(39,323)	(45,557)
Net foreign exchange losses		4,616	33,386
Cash from operating activities before changes in working capital and provisions		**1,879**	**17,146**
Change in trade and other receivables		18,632	(31,237)
Change in prepayments		(30)	266
Change in trade and other payables		(11,763)	2,906
Cash flows from operations before income tax and interest paid		**8,718**	**(10,919)**
Interest paid		-	(72,175)
Cash flows from operating activities		**8,718**	**(83,094)**
Cash flows from investing activities			
Interest received		37,050	56,663
Acquisition of property, plant and equipment		(27)	
Contributions to subsidiaries		(57)	(55,449)
Cash flows from investing activities		**36,966**	**1,214**
Cash flows from financing activities			
Repayment of bonds		-	(280,000)
Distributions to shareholders		(50,000)	
Proceeds from issue of preference shares		-	362,182
Proceeds from warrant issue		-	597
Repayment of warrants		(327)	-
Cash flows from financing activities		**(50,327)**	**82,779**
Net increase/(decrease) in cash and cash equivalents		**(4,643)**	**899**
Cash and cash equivalents at beginning of year		5,013	1,710
Effect of exchange rate fluctuations on cash and cash equivalents		-	2,404
Cash and cash equivalents at year-end	16	**370**	**5,013**

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

CONTENT OF NOTES

Notes

NOTE 1 » GENERAL INFORMATION

Ferronordic Machines AB (the “parent company” or the “company”) and its subsidiaries comprise the “Group”. The company is a Swedish public limited liability company 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 principal activity is sales and service of construction equipment in Russia. The Group is the official dealer for Volvo CE and Terex Trucks but also represents, sells and services high quality construction equipment from other manufacturers.

Through its operations, the Group is exposed to the Russian economic and financial markets, which have characteristics of an emerging market. The legal and fiscal frameworks continue to develop but remain subject to varying interpretations and frequent changes. Together with other legal and fiscal impediments this contributes to the challenges faced by entities operating in Russia. The consolidated financial statements reflect management’s assessment of the impact of the Russian business environment on the Group’s operations and financial position. The future business environment may differ from management’s assessment (for information on additional operational risk relating to the Ukraine crisis and related sanctions, please see the Directors’ Report).

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. RFR 1 on Supplementary Accounting Rules for Groups, issued by the Swedish Financial Reporting Board, has been applied. The annual accounts of the parent company are prepared in accordance with the Swedish Annual Accounts Act and RFR 2, Accounting for Legal Entities, issued by the Swedish Financial Reporting Board.

BASIS OF MEASUREMENT

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

FUNCTIONAL AND PRESENTATION CURRENCY

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

USE OF ESTIMATES AND JUDGMENTS

The preparation of the consolidated financial statements in conformity with IFRS 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 assumptions are reviewed on an ongoing basis. Changes are recognised in the period when the estimates are changed and in future periods affected.

Information about judgments that have the most significant effect on the amounts recognised in the consolidated financial statements is included in Note 4 (*useful life and residual value of property, plant and equipment*), Note 20 (*warranty provision*) and Note 22 (*allowance for trade receivables*).

Information about assumptions and estimation for which the risk of material adjustment within the next financial year are substantial is included in Note 25 (*Contingencies*).

NOTE 3 » CHANGES IN ACCOUNTING POLICIES

From 1 January 2014 the Group and the parent company have selected the Swedish krona as presentation currency. Previously the consolidated financial statements were presented in euro. Management believes that the Swedish krona is a more appropriate presentation currency in the current environment. As per 1 January 2014 the parent company’s functional currency has been changed from the Russian ruble to the Swedish krona, since the Swedish krona better reflects the primary economic environment in which the parent company operates, particularly since most of the cash flow from financing activities are generated in Swedish krona.

In connection with the change of functional currency, all items of the parent company were recalculated from euro to Swedish krona using the exchange rate as at 1 January 2014. Comparative information of the parent company was also recalculated from euro to Swedish krona at the exchange rate as of 1 January 2014. Comparative information in the consolidated financial information was recalculated from euro to Swedish krona as if the new presentation currency had always been applied.

Starting from 1 January 2014, the non-current loan from the parent company to its subsidiary Ferronordic Machines LLC is regarded as a net investment in a foreign operation. Exchange differences arising on monetary items that form part of a net investment in a foreign operation are recognised in the statement of comprehensive income.

NOTE 4 » SIGNIFICANT ACCOUNTING POLICIES

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

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

ELIMINATION OF GROUP TRANSACTIONS

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 in 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 functional currency at the exchange rate on the date of the transaction. Monetary assets and liabilities in foreign currencies are translated to functional currency at the exchange rate on the reporting date. The foreign currency gain or loss on monetary items comprises 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 at the exchange rate at the date of the transaction.

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

Foreign operations

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

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

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

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

FINANCIAL INSTRUMENTS

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 recognises loans, receivables and deposits when they are originated. All other financial assets are recognised 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 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. The category loans and receivables includes 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 when the Group becomes a party to the contractual provisions of the instrument. The Group derecognises financial liabilities when the 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, 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. Costs that are 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. Dividends on preference shares are recognised as equity distributions on approval by the company's shareholders at the general meeting.

PROPERTY, PLANT AND EQUIPMENT

Recognition and measurement
Property, plant and equipment, except for land, is 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 directly attributable labour costs, 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. The gains or losses on disposals of property, plant and equipment are determined by comparing the proceeds from the 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 separately. If a component of an asset 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 item of property, plant and equipment. 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: :

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

The residual value established for all groups of property, plant and equipment amounts to zero, except for machines and equipment included in the rental fleet, for which the residual value is accepted at 25% of the cost the assets after a three years rental period.

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

INTANGIBLE ASSETS

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

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

Amortisation
Amortisation is calculated over the cost of the asset less residual value.

Except for goodwill, amortisation of intangible assets is recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets from the date when the assets become available for use. This most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets.

The estimated useful lives of the Group's intangible assets 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 year and adjusted if appropriate.

LEASES

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.

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

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

INVENTORIES

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

Each unit of construction equipment kept in inventory has a specifically identified cost. 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
Financial assets not carried at fair value through profit or loss are assessed at each reporting date to determine whether there is any objective evidence that the assets are 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 debtors 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 significant loans and receivables are assessed for specific impairment. Significant loans and receivables found not to be impaired individually 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. If a subsequent event causes the amount of an impairment loss to decrease, the decrease is reversed through profit or loss.

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

Assets that cannot be impairment tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating unit. The recoverable amount of an asset or cash-generating unit 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 present value and the risks specific to the asset or cash-generating unit. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit exceeds the estimated recoverable amount of the asset.

Impairment losses are recognized in profit or loss.

EMPLOYEE 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 with Volvo, the Group provides a one year warranty on all new Volvo CE machines sold by the Group. Volvo CE reimburses the Group for costs incurred as a result of these warranties at agreed rates and amounts. The Group records both the gross provision amount for the warranty and the related receivable from Volvo CE. The provisions for warranties are recognised when the machines that the warranties relate to are sold. The provision is based on historical data.

In addition to warranties included in the price of sold machines, the Group offers customers extended warranties for periods of 2-3 years. The revenue on such contracts is recognized by the Group evenly during the contract term. When the Group sells extended warranties to customers it also purchases a corresponding extended warranty from Volvo CE. Extended warranties purchased from Volvo CE are recognized as other receivables and amortised to profit and loss evenly during the contract term.

REVENUE

Goods sold

Revenue from the sales 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 that the significant risks and rewards of ownership of the goods have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount are recognised as a reduction of revenue when the sales are recognised.

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

Services

Revenue from sales of services is normally recognised in profit or loss when the relevant services are completed and invoiced. 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 the foreign currency movements (net gain or net loss).

INCOME TAXES

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

Current tax is the expected tax payable 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 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 the tax assets and liabilities relate to income taxes levied by the same tax authority on the same taxable entity, or on different 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 Russian tax legislation, tax losses and current tax assets of one Group company cannot be offset against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities and, therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset for unused tax losses, tax credits and deductible temporary differences is recognized if it is probable that taxable profits will be available in the future against which the deferred tax assets 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 had not yet become effective on 31 December 2014, and have thus 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 the Group's financial assets, and except for IFRS 15 Revenue from contracts with customers, which becomes mandatory for the Group's consolidated financial statements no earlier than 2017 and which will result in enhanced disclosures about revenue and have an impact on the recognition of revenue, 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 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 EU insofar as this is possible under the Swedish Annual Accounts Act and with regard to the relationship between accounting and taxation. The stated accounting policies have been applied consistently for all periods presented.

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

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'. The income statement and balance sheet for the parent company are presented according to the structure that follows from the Swedish Annual Accounts Act, 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

The parent company recognizes holdings in subsidiaries at cost less impairment losses, if any. Expenses attributable to business combinations are included in the parent company's acquisition cost. Contingent consideration is valued according to the likelihood that the consideration will be paid. 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

Because of the connection between accounting and taxation, the rules on financial instruments and hedge accounting in IAS 39 are not applied by the parent company.

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

Leases

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

Shareholders´ contributions

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

NOTE 5 » DETERMINATION OF FAIR VALUE

Some 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 as follows.

- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** other inputs that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- **Level 3:** other 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 might be categorised in different levels, then the fair value measurement is categorised in its entirety in the same level as the lowest level input that is significant to the entire measurement.

Changes in levels are recognized at the end of the period when the change 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 values of loans payable and finance leases were calculated based on the present value of future cash flows from principal and interest, discounted at the market rate of interest at the reporting date (level 2).

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

The Group has not disclosed the fair values of short-term receivables and payables since the carrying amounts reasonably are the same as the fair values.

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 comprises sale and rental of new and used equipment as well as aftermarket support (parts and service) to customers operating in, inter alia, infrastructure, construction, mining, oil & gas, forestry and industrial operations.

Revenue from Equipment Distribution

Group

SEK '000	2014	2013
Equipment Sales	1,746,506	1,903,733
Equipment Rentals	61,965	44,653
Aftermarket	524,340	534,545
Other revenue	1,735	-
Total revenues	2,334,546	2,482,931

The Group operates in one geographic area: Russia. In 2014 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).

Reconciliation of EBITDA to profit

SEK '000	2014	2013
EBITDA	171,690	152,861
Depreciation and amortisation	(102,718)	(101,254)
Net foreign exchange losses	(9,043)	(27,979)
Finance income	2,592	892
Finance costs	(36,577)	(81,353)
Profit/(loss) before income tax	25,944	(56,833)
Income tax	(7,215)	12,899
Result for the period	18,729	(43,934)

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 2014 and for the comparative period in 2013.

NOTE 7 » SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses:

Group

SEK '000	2014	2013
Personnel related expenses	90,909	100,912
Other selling expenses	4,960	4,751
	95,869	105,663

General and Administrative expenses:

Group

SEK '000	2014	2013
Personnel related expenses	95,991	87,852
Depreciation & amortisation	57,909	75,953
Rent	31,812	33,433
Other operating expenses	40,434	50,040
	226,146	247,278

Parent Company

SEK '000	2014	2013
Personnel related expenses	10,906	6,868
Depreciation & amortisation	4,434	4,438
Other operating expenses	3,009	4,155
	18,349	15,461

NOTE 8 » OTHER EXPENSES

Group

SEK '000	2014	2013
Bank services	4,311	1,152
Impairment loss on trade receivables	7,511	2,056
Sundry	1,904	3,212
	13,726	6,420

NOTE 9 » FINANCE INCOME AND FINANCE COSTS

Group

SEK '000	2014	2013
Interest income on bank deposits	2,592	892
Finance income	2,592	892
Interest expense on finance leasing obligation	(11,151)	(15,655)
Interest expenses on bonds	-	(56,947)
Interest expense on bank loans	(25,426)	(8,751)
Finance costs	(36,577)	(81,353)
Net finance costs	(33,985)	(80,461)

Parent Company

SEK '000	2014	2013
Interest income on loan to subsidiary	39,201	45,557
Interest income on bank deposits	122	-
Finance income	39,323	45,557
Interest expenses on bonds	-	(58,319)
Other	(1)	-
Finance costs	(1)	(58,319)
Net finance costs	39,322	(12,762)

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

NOTE 10 » INCOME TAXES

The parent company is a tax resident of Sweden where the tax rate for 2014 was 22% (same as 2013). The other Group companies are tax residents of Russia where the applicable tax rate is 20%. Income tax is calculated separately for each subsidiary by multiplying the applicable tax rate with the taxable results for the period. The applicable tax rate of the Group in 2014, calculated on a weighted-average basis, was 22.1% (compared to 23.9% in 2013).

	Group		Parent Company	
SEK '000	2014	2013	2014	2013
Current tax expense	(1,335)	(4,349)	-	-
Deferred tax (expense)/benefit	(5,880)	17,248	(7,000)	7,114
Total income tax (expense)/benefit	(7,215)	12,899	(7,000)	7,114

Reconciliation of effective tax rate:

Group

SEK '000	2014		2013	
Result for the year	18,729		(43,934)	
Total income tax expense/(benefit)	7,215		(12,899)	
Profit/(loss) excluding income tax	25,944	100	(56,833)	100
Income tax at applicable tax rate	(5,708)	(22.1)	13,583	(23.9)
Adjustments to current income tax for previous periods	-		1,761	(3.1)
Non-deductible expenses	(1,507)	(5.8)	(2,445)	4.3
	(7,215)	(27.9)	12,899	(22.7)

Parent Company

SEK'000	2014		2013	
Result for the year	25,151		(26,324)	
Total income tax expense/(benefit)	7,000		(7,114)	
Profit/(loss) excluding income tax	32,151	100	33,438	100
Income tax at applicable tax rate	(7,073)	(22.0)	7,114	(21.3)
Other items	73	0.2	-	-
	(7,000)	(21.8)	7,114	(21.3)

NOTE 11 » PROPERTY, PLANT AND EQUIPMENT

Group

SEK´000	Land	Buildings and constructions	Machinery and equipment	Rental fleet	Office equipment	Cars	Under construction	Total
Cost or deemed cost								
Balance 1 January 2014	16,901	47,854	32,570	150,796	11,294	62,077	27,097	348,589
Additions	348	2,062	4,829	-	376	22,590	12,039	42,244
Transfers from inventory	-	-	-	135,319	-	-	-	135,319
Disposals	-	-	-	-	-	(12,942)	(80)	(13,022)
Transfers to inventory	-	-	-	(61,974)	-	-	-	(61,974)
Transfers	-	1,603	2,452	299	46	1,111	(5,511)	-
Translation difference	(5,412)	(15,559)	(10,137)	(63,285)	(4,462)	(21,564)	(9,819)	(130,238)
Balance 31 December 2014	11,837	35,960	29,714	161,155	7,254	51,272	23,726	320,918
Depreciation and impairment losses								
Balance 1 January 2014	-	4,803	11,624	42,212	8,285	31,195	-	98,119
Depreciation for the period	-	3,651	7,625	46,698	994	9,485	-	68,453
Disposals	-	-	-	-	-	(3,810)	-	(3,810)
Transfers to inventory	-	-	-	(28,554)	-	-	-	(28,554)
Translation difference	-	(2,106)	(5,106)	(16,998)	(2,769)	(10,999)	-	(37,978)
Balance 31 December 2014	-	6,348	14,143	43,358	6,510	25,871	-	96,230
Carrying amounts								
1 January 2014	16,901	43,051	20,946	108,584	3,009	30,882	27,097	250,470
31 December 2014	11,837	29,612	15,571	117,797	744	25,401	23,726	224,688

SEK´000	Land	Buildings and constructions	Machinery and equipment	Rental fleet	Office equipment	Cars	Under construction	Total
Cost or deemed cost								
Balance 1 January 2013	17,785	18,862	22,110	112,119	11,443	53,173	55,138	290,630
Additions	433	7,257	13,650	-	709	13,632	5,233	40,914
Transfers from inventory	-	-	-	83,317	-	-	-	83,317
Disposals	-	(2,872)	(1,220)	-	-	(467)	(3,088)	(7,647)
Transfers to inventory	-	-	-	(35,050)	-	-	-	(35,050)
Transfers	-	26,876	-	-	-	-	(26,876)	-
Translation difference	(1,317)	(2,269)	(1,970)	(9,590)	(858)	(4,261)	(3,310)	(23,575)
Balance 31 December 2013	16,901	47,854	32,570	150,796	11,294	62,077	27,097	348,589
Depreciation and impairment losses								
Balance 1 January 2013	-	2,266	4,376	30,261	6,962	11,763	-	55,628
Depreciation for the period	-	2,863	7,949	25,301	1,886	21,106	-	59,105
Disposals	-	(78)	(156)	-	-	(216)	-	(450)
Transfers to inventory	-	-	-	(10,717)	-	-	-	(10,717)
Translation difference	-	(248)	(545)	(2,633)	(563)	(1,458)	-	(5,447)
Balance 31 December 2013	-	4,803	11,624	42,212	8,285	31,195	-	98,119
Carrying amounts								
1 January 2013	17,785	16,596	17,734	81,858	4,481	41,410	55,138	235,002
31 December 2013	16,901	43,051	20,946	108,584	3,009	30,882	27,097	250,470

Depreciation expenses of SEK 44,809 thousand (SEK 25,301 thousand) have been charged to cost of sales, and SEK 23,644 thousand (SEK 33,804 thousand) have been charged to general and administrative expenses.

CHANGE IN USEFUL LIVES

During 2013, the Group reconsidered the expected useful life of cars under finance leasing. Cars that management previously intended to sell after three years are now expected to be used for seven years from the date of purchase. As a result, the expected useful lives of these assets have increased. The effect of these changes on depreciation, recognised in general and administrative expenses, in current and future periods is as follows:

SEK '000	2013	2014	2015	2016	Later
(Decrease)/increase in depreciation expense	(5,303)	(10,866)	(3,089)	2,902	16,356

Machines and cars under finance leases:

SEK '000	Rental fleet	Cars	Total
Cost or deemed cost			
Balance 1 January 2014	53,301	57,426	110,727
Additions	-	5,006	5,006
Transfers from inventory	37,899	-	37,899
Transfers to inventory	(32,387)	-	(32,387)
Buy-out from finance lease	-	(17,567)	(17,567)
Translation difference	(17,659)	(14,771)	(32,430)
Balance 31 December 2014	41,154	30,094	71,248
Depreciation and impairment losses	Rental fleet	Cars	Total
Balance 1 January 2014	22,088	28,900	50,988
Depreciation for the year	13,881	5,459	19,340
Transfers to inventory	(19,855)	-	(19,855)
Buy-out from finance lease	-	(14,102)	(14,102)
Translation difference	(5,418)	(6,899)	(12,317)
Balance 31 December 2014	10,696	13,358	24,054
Carrying amounts			
1 January 2014	31,213	28,526	59,739
31 December 2014	30,458	16,736	47,194

SEK '000	Rental fleet	Cars	Total
Cost or deemed cost			
Balance 1 January 2013	76,206	49,261	125,467
Additions	-	12,119	12,119
Transfers from inventory	9,550	-	9,550
Transfers to inventory	(27,395)	-	(27,395)
Translation difference	(5,060)	(3,954)	(9,014)
Balance 31 December 2013	53,301	57,426	110,727
Depreciation and impairment losses	Rental fleet	Cars	Total
Balance 1 January 2013	20,801	10,546	31,347
Depreciation for the year	12,119	19,688	31,807
Transfers to inventory	(8,987)	-	(8,987)
Translation difference	(1,845)	(1,334)	(3,179)
Balance 31 December 2013	22,088	28,900	50,988
Carrying amounts			
1 January 2013	55,405	38,715	94,120
31 December 2013	31,213	28,526	59,739

Cash flows relating to purchases and sales of construction equipment included in the rental fleet are classified as operating cash flows in the consolidated statement of cash flows.

Parent Company

SEK '000	Office equipment 2014
Cost or deemed cost	
Balance 1 January 2014	36
Additions	23
Disposals	-
Translation difference	-
Balance 31 December 2014	59
Depreciation and impairment losses	
Balance 1 January 2014	25
Depreciation for the period	4
Disposals	-
Translation difference	-
Balance 31 December 2014	29
Carrying amounts	
Balance 31 December 2014	30

SEK '000	Office equipment 2013
Cost or deemed cost	
Balance 1 January 2013	36
Additions	-
Disposals	-
Translation difference	-
Balance 31 December 2013	36
Depreciation and impairment losses	
Balance 1 January 2013	16
Depreciation for the period	9
Disposals	-
Translation difference	-
Balance 31 December 2013	25
Carrying amounts	
31 December 2013	11

NOTE 12 » INTANGIBLE ASSETS

Group

SEK '000	Software and software licences	Customer relationship	Franchise agreement	Total
Cost				
Balance 1 January 2014	13,298	134,413	84,969	232,680
Additions – internally developed	2,879	-	-	2,879
Acquisitions – separately acquired	2,211	-	-	2,211
Disposals	(5,839)	-	-	(5,839)
Translation difference	(3,918)	(41,337)	(26,126)	(71,381)
Balance 31 December 2014	8,631	93,076	58,843	160,550

Amortisation	Software and software licences	Customer relationship	Franchise agreement	Total
Balance 1 January 2014	5,410	80,273	50,748	136,431
Amortisation for the year	1,265	20,218	12,782	34,265
Disposals	(3,815)	-	-	(3,815)
Translation difference	(904)	(29,391)	(18,580)	(48,875)
Balance 31 December 2014	1,956	71,100	44,950	118,006
Carrying amounts				
31 December 2014	6,675	21,976	13,893	42,544

SEK '000	Software and software licences	Customer relationship	Franchise agreement	Total
Cost				
Balance 1 January 2013	12,761	145,009	91,672	249,442
Additions – internally developed	2,673	-	-	2,673
Acquisitions – separately acquired	3,131	-	-	3,131
Disposals	(4,299)	-	-	(4,299)
Translation difference	(968)	(10,596)	(6,703)	(18,267)
Balance 31 December 2013	13,298	134,413	84,969	232,680

Amortisation	Software and software licences	Customer relationship	Franchise agreement	Total
Balance 1 January 2013	5,515	62,436	39,464	107,415
Amortisation for the year	4,498	23,067	14,584	42,149
Disposals	(4,299)	-	-	(4,299)
Translation difference	(304)	(5,230)	(3,300)	(8,834)
Balance 31 December 2013	5,410	80,273	50,748	136,431
Carrying amounts				
31 December 2013	7,888	54,140	34,221	96,249

a) Amortization
Amortization expenses of SEK 34,265 thousand (SEK 42,149 thousand) have been recognized as general and administrative expenses during the year.

Franchise agreement and customer relationships arise from a license agreement with CJSC Volvo Vostok. The duration of the agreement is six years, ending in 2016. The Group does not have an unconditional right to prolong the license. Hence, the useful lives of the licenses have been limited to six years. At 31 December 2014 the remaining amortization period for the licenses was 17 months.

Parent Company

SEK '000	License 2014
Balance 31 December 2014	26,577
Amortization and impairment losses	
Balance 1 January 2014	15,872
Amortisation for the period	4,430
Balance 31 December 2014	20,302
Carrying amounts	
31 December 2014	6,275

SEK '000	License 2013
Balance 31 December 2013	26,577
Amortization and impairment losses	
Balance 1 January 2013	11,443
Amortisation for the period	4,429
Balance 31 December 2013	15,872
Carrying amounts	
31 December 2013	10,705

NOTE 13 » DEFERRED TAX ASSETS AND LIABILITIES

(a) Recognised deferred tax assets and liabilities

Group 31 December 2014

SEK '000	Assets	Liabilities	Net
Property, plant and equipment	7,862	-	7,862
Intangible assets	-	(8,427)	(8,427)
Inventories	-	(1,084)	(1,084)
Trade and other receivables	-	(14,340)	(14,340)
Prepayments	449	-	449
Provisions	1,824	-	1,824
Deferred income	1,502	-	1,502
Short-term portion of finance lease liabilities	1,452	-	1,452
Long-term portion of finance lease liabilities	-	(43)	(43)
Trade and other payables	6,188	-	6,188
Tax loss carry-forwards	34,242	-	34,242
Tax assets/ (liabilities)	53,519	(23,894)	29,625
Set off of tax	(17,327)	17,327	-
Net tax assets/(liabilities)	36,192	(6,567)	29,625

Parent Company 31 December 2014

SEK '000	Assets	Liabilities	Net
Tax loss carry-forwards	34,078	-	34,078
Net tax assets/(liabilities)	34,078	-	34,078

Group 31 December 2013

SEK '000	Assets	Liabilities	Net
Property, plant and equipment	3,304	-	3,304
Intangible assets	-	(19,010)	(19,010)
Inventories	-	(1,250)	(1,250)
Trade and other receivables	-	(12,419)	(12,419)
Provisions	3,616	-	3,616
Deferred income	3,089	-	3,089
Short-term portion of finance lease liabilities	3,491	-	3,491
Long-term portion of finance lease liabilities	2,500	-	2,500
Trade and other payables	8,053	-	8,053
Tax loss carry-forwards	21,026	-	21,026
Tax assets/(liabilities)	45,079	(32,679)	12,400
Set off of tax	(22,186)	22,186	-
Net tax assets/(liabilities)	22,893	(10,493)	12,400

Parent Company 31 December 2013

SEK '000	Assets	Liabilities	Net
Tax loss carry-forwards	20,860	-	20,860
Net tax assets/(liabilities)	20,860	-	20,860

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

Group

SEK '000	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2014
Property, plant and equipment	3,304	7,484	-	(2,926)	7,862
Intangible assets	(19,010)	6,360	-	4,223	(8,427)
Inventories	(1,250)	(293)	-	459	(1,084)
Trade and other receivables	(12,419)	(7,707)	-	5,786	(14,340)
Prepayments		603	-	(154)	449
Trade and other payables	8,053	340	-	(2,205)	6,188
Provisions	3,616	(913)	-	(879)	1,824
Deferred income	3,089	(856)	-	(731)	1,502
Short-term portion of finance lease liabilities	3,491	(1,296)	-	(743)	1,452
Long-term portion of finance lease liabilities	2,500	(2,382)	-	(161)	(43)
Tax loss carry-forwards	21,026	(7,220)	19,652	784	34,242
Net tax assets/(liabilities)	12,400	(5,880)	19,652	3,453	29,625

Parent Company

SEK '000	1 January 2014	Recognised in profit or loss	Recognised in other comprehensive income	Effect of movement in exchange rates	31 December 2014
Tax loss carry-forwards	21,141	(7,000)	19,652	-	33,793
Changes in exchange rates	(281)	566	-	-	285
Net tax assets/(liabilities)	20,860	(6,434)	19,652	-	34,078

Foreign exchange differences in the amount of SEK 89,328 thousand related to the intercompany loans from the parent company to Ferronordic Machines LLC were recognized in other comprehensive income since the loans form part of net investments in foreign operations. The tax effect of the exchange differences was also recognized in other comprehensive income in the amount of SEK 19,652 thousand.

Group

SEK '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	(2,413)	5,700	-	17	3,304
Intangible assets	(27,909)	7,058	-	1,841	(19,010)
Inventories	(1,068)	(276)	-	94	(1,250)
Trade and other receivables	(9,806)	(3,408)	-	795	(12,419)
Trade and other payables	6,488	2,093	-	(528)	8,053
Provisions	5,161	(1,211)	-	(334)	3,616
Deferred income	1,422	1,825	-	(158)	3,089
Short-term portion of finance lease liabilities	974	2,664	-	(147)	3,491
Long-term portion of finance lease liabilities	7,040	(4,143)	-	(397)	2,500
Tax loss carry-forward	10,547	6,946	3,270	263	21,026
Net tax assets/(liabilities)	(9,564)	17,248	3,270	1,446	12,400

Parent Company

SEK '000	1 January 2013	Recognised in income statement	Recognised directly in equity	Effect of movement in exchange rates	31 December 2013
Tax loss carry-forwards	10,480	7,114	3,352	-	20,946
Changes in exchange rates	363	(449)	-	-	(86)
Net tax assets/(liabilities)	10,843	6,665	3,352	-	20,860

NOTE 14 » INVENTORIES

	Group		Parent Company	
SEK '000	31 December 2014	31 December 2013	31 December 2014	31 december 2013
Raw materials and consumables	5,925	3,825	-	-
Work in progress	8,271	9,633	-	-
Goods for resale	410,497	576,142	-	-
	424,693	589,600	-	-

In 2014 raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales amounted to SEK 1,852,716 thousand (SEK 1,991,536 thousand). In 2014 the write-down of inventories to net realisable value amounted to SEK 3,937 thousand (SEK 2,560 thousand). The write-down is included in cost of sales.

NOTE 15 » TRADE AND OTHER RECEIVABLES

	Group		Parent Company	
SEK '000	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Trade receivables	214,082	272,510		-
Trade receivables due from subsidiaries	-	-	17,348	43,289
VAT receivable	7,799	5,872	3	656
Warranty claims	8,848	14,648	-	-
Other receivables	34,683	45,486	1,947	62
	265,412	338,516	19,298	44,007

Other receivables include prepaid income tax in the amount of SEK 5,265 thousand as at 31 December 2014 (SEK 6,688 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	
SEK '000	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Bank balances	16,042	55,774	336	4,977
Call deposits	161,411	108,301	34	36
Cash and cash equivalents	177,453	164,075	370	5,013

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 the number of shares in the parent company in 2013 and 2014.

	Ordinary shares		Preference shares	
Number of shares unless otherwise stated	2014	2013	2014	2013
In issue 1 January	10,000,000	100,000	500,000	-
Issued for cash	-	-	-	377,600
Settled against bonds payable	-		-	122,400
Share split	-	9,900,000	-	-
In issue 31 December, fully paid	10,000,000	10,000,000	500,000	500,000
Par value per share	SEK 0.089	SEK 0.089	SEK 0.089	SEK 0.089

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

The preference shares were issued in October 2013. Gross proceeds from the issue amounted to SEK 500 million. Consultancy costs and legal fees directly attributable to the issue, amounting to SEK 12,104 thousand (net of tax of SEK 3,270 thousand). The net proceeds from the issue amounted to SEK 487,896 thousand. The excess of net proceeds over par value of the newly issued preference shares was recognised in additional paid in capital in the amount of SEK 487,852 thousand

Preferential right to dividends and other terms of the preference shares are set out in the parent company's articles of association, available on the Group's website. Since 3 December 2013 the preference shares are listed on NASDAQ OMX First North Premier in Stockholm.

Following the change of the parent company's functional and presentation currency from euro to Swedish krona, the parent company's share capital and the par value of the shares in the parent company were translated from euro to Swedish krona, using the exchange rate SEK/EUR 8.9283. In the table above, the same exchange rate has been used when translating the par value for 2013 (EUR 0.01) from euro to Swedish krona.

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

(c) Warrants
In accordance with the decision of the extraordinary general meeting on 24 May 2013, the parent company offered selected executives the opportunity to acquire warrants issued by the parent company. Anders Blomqvist, Lars Corneliusson and Erik Eberhardson did not participate in the 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 the parent company at a subscription price of EUR 6.50 per share, subject to the fulfilment of certain profitability targets. At the board meeting on 20 May 2014 the board concluded that these targets had been 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.

For the annual general meeting 2015, the board has proposed that the company should offer current warrant holder to repurchase the warrants under this program.

Ferronordic Machines previously had a warrants program for certain non-executive board members. In June 2014, in accordance with the resolution of the AGM in May 2014, all warrants under this program were repurchased. The total purchase price was SEK 327,122. No warrants under the 2011/2016 program are outstanding after the repurchase.

(d) Dividends
Dividends on preference shares in a total amount of SEK 50,000 thousand (SEK 50 per preference share) were recognised as distribution to owners in the consolidated statement of changes in equity (SEK 25,000). Dividends on preference shares in the amount of SEK 50,000 were paid during 2014 (during 2013 no dividends were paid).

Having regard to the current economic situation in Russia and the uncertain effect this may have during the year on the Group's cash position and working capital requirements, the board is of the opinion that it would not be prudent to make a resolution already at the AGM on 19 May 2015 to pay dividends on the company's preference shares when the record dates for the dividend payments do not occur until October 2015 and April 2016. The board therefore proposes that, for the time being, no dividends be paid on the preference shares. If the Board later comes to the conclusion that a payment of dividends on the preference shares will be possible, the board will convene an extraordinary general meeting in the beginning of October 2015 and/or April 2016 where a resolution can be made to pay dividends on the preference shares. The Board further proposes that no dividends be paid on ordinary shares.

NOTE 18 » BORROWINGS

Interest-bearing borrowings are measured at amortised cost. For 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 2014		31 December 2013	
SEK '000	Outstanding balance	Credit facility limit	Outstanding balance	Credit facility limit
Current liabilities				
Secured short term borrowings	151,945	208,038	162,800	178,679
Unsecured short term borrowings	94,425	94,425	-	59,569
	246,370	302,463	162,800	238,248

During the year, Ferronordic Machines LLC, the Group's main operating entity, agreed on a SEK 69m (RUB 500m) revolving credit facility with OAO Promsvyazbank, a Russian bank. The facility is made for two years. Ferronordic Machines LLC also agreed on a SEK 69m (RUB 500m) revolving credit facility with OAO Sberbank, a Russian bank. The facility is made for two years and is secured by a guarantee provided by the parent company.

On 31 December 2014 the secured borrowings were secured by a pledge of inventory with a carrying amount of SEK 194,424 thousand. Pledged inventory in the amount of SEK 14,711 thousand constitutes security for a bank guarantee issued by OAO Bank of Moscow to Volvo to secure payments by Ferronordic Machines LLC for delivered equipment.

On 31 December 2014 the nominal interest rate on the Group's loans and borrowings varied between 9.7% and 16.8%.

At the reporting date Ferronordic Machines LLC was in breach of two of the covenants under its RUB 500m (SEK 68,742 thousand) credit facility agreement with Sberbank. The first covenant requires a minimum level of net profit of the borrower and the second one sets a limit for the borrower's total level of bank debt. As a result of the breach the loan became payable on demand instead of upon maturity in April 2016. After the reporting date the bank has waived its rights to demand early repayment because of the covenant breaches.

b) Finance lease liabilities

During the year the Group entered into sale and leaseback arrangements relating to Volvo CE machines for the rental fleet, which resulted in finance lease obligations. In total machines with a carrying value of SEK 29,180 thousand (SEK 9,327 thousand) were sold to leasing companies for SEK 37,899 thousand (SEK 9,327 thousand) and then immediately leased back. The excess of the sales proceeds over the carrying amount, amounting to SEK 8,719 thousand (zero in 2013), was deferred over the lease term (see Note 19 (*Deferred income*)).

Future minimum lease payments at 31 December 2014 and 2013:

Group

	2014			2013		
SEK '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	32,536	(13,620)	18,916	46,667	(9,782)	36,885
Between one and five years	28,734	(7,456)	21,278	26,936	(2,624)	24,312
	61,270	(21,076)	40,194	73,603	(12,406)	61,197

Finance lease liabilities relate to leasing of Volvo CE machines included in the rental fleet and leasing of cars for the car fleet. At 31 December 2014 the future minimum lease payments for car leasing, payable within one year from the reporting date and payable between one and three years from the reporting date, amounted to SEK 10,277 thousand (SEK 26,043 thousand), and SEK 3,457 thousand (SEK 14,473 thousand), respectively.

NOTE 19 » DEFERRED INCOME

	Group		Parent Company	
SEK '000	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Deferred income short-term due to lease back transaction	508	1,848	-	-
Deferred income short-term relating to service contracts	7,000	13,598	-	-
	7,508	15,446	-	-

NOTE 20 » PROVISIONS

Group

SEK '000	Warranties	Other	Total
Balance 1 January 2014	14,655	3,411	18,066
Provisions made during the year	16,949	-	16,949
Provisions used during the year	(18,646)	(2,721)	(21,367)
Translation difference	(4,110)	(417)	(4,527)
Balance 31 December 2014	8,848	273	9,121
Non-current	-	-	-
Current	8,848	273	9,121
	8,848	273	9,121

Group

SEK '000	Warranties	Other	Total
Balance 1 January 2013	25,634	190	25,824
Provisions made during the year	17,914	3,114	21,028
Provisions used during the year	(26,729)	-	(26,729)
Translation difference	(2,164)	107	(2,057)
Balance 31 December 2013	14,655	3,411	18,066
Non-current	-	-	-
Current	14,655	3,411	18,066
	14,655	3,411	18,066

Warranties

In accordance with the dealer agreement with Volvo, the Group provides a one year warranty on all new Volvo CE machines sold. Volvo CE also offers extended warranties, which the Group offers to its customers. Volvo CE reimburses the Group for the costs incurred in respect of provided warranties at rates and amounts agreed. The Group records both the gross provision amount of the warranties and a receivable from Volvo CE. The provision for warranties is recognised when the products to which the warranties relate are sold. The provision is based on historical warranty data. Amounts of expected reimbursement from Volvo as of 31 December 2014 and 31 December 2013, respectively, are disclosed in the Note 15 (*Trade and other receivables*).

NOTE 21 » TRADE AND OTHER PAYABLES

	Group		Parent Company	
SEK ’000	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Trade payables	365,695	570,950	238	328
Advances from customers	47,536	29,954	-	-
Other payables and accrued expenses	48,050	45,792	27,917	39,524
Other taxes payable	30,455	11,060	173	239
	491,736	657,756	28,328	40,091

At 31 December 2014 other payables included dividends payable on preference shares in the amount of SEK 25,000 thousand (SEK 25,000 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

Deriving from its use of financial instruments the Group is exposed to credit risk, liquidity risk and market risk. This Note describes the Group’s exposure to these 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. Through its training, policies and procedures, the Group 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.

Corruption is a significant area of risk in Russia. In this area the board, in its monitoring role, is assisted by an independent compliance audit. This audit is made 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.

In 2014 the Group established an internal audit function. The function currently consists of one person, accountable to the audit committee of the Board. The internal auditor is responsible for developing and implementing control procedures in the Group, thereby reducing different operational risks. The Group believes that introducing an internal audit function will generally improve its risk management and compliance environment.

(b) Credit risk

Credit risk constitutes the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk mainly arises 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 the individual customer. However, management also considers the demographics of the Group's customer base, including the general default risk of the industry in which the customers operate.

At 31 December 2014, the top 20 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 credit (less than 150 days) 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.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, 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. Future sales to such customers are made on a prepayment basis with approval of the risk manager.

Trade receivables from sales of construction equipment are collateralized by a retention right to the equipment sold until fully paid. Except for this the Group usually does not require collateral in respect of trade and other receivables.

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

Group

SEK '000	Note	2014 Carrying amount	2013 Carrying amount
Trade receivables	15	214,082	272,510
Cash and cash equivalents	16	177,453	164,075
		391,535	436,585

The maximum exposure to credit risk for trade receivables is entirely related to operations in Russia.

IMPAIRMENT OF RECEIVABLES

Aging of trade receivables at the reporting date:

Group

	31 December 2014		31 December 2013	
SEK '000	Gross	Impairment	Gross	Impairment
Not past due	164,298	-	215,811	-
Past due 0-30 days	25,371	-	32,463	-
Past due 31-120 days	17,357	(2,522)	18,079	(1,785)
Overdue above 120 days	19,704	(10,126)	16,446	(8,504)
	226,730	(12,648)	282,799	(10,289)

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

Group

	Individual impairments	
SEK '000	2014	2013
Balance 1 January	(10,289)	(8,952)
Increase during the year	(8,329)	(2,367)
Decrease due to reversal	818	311
Translation differences	5,152	719
Balance 31 December	(12,648)	(10,289)

(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 manages liquidity risk by ensuring, 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 operational 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 2014

SEK '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
Finance lease liabilities	40,194	61,270	18,439	14,097	20,602	8,132	-	-	-
Borrowings	246,370	258,617	230,010	28,607	-	-	-	-	-
Trade and other payables	413,745	413,745	413,745	-	-	-	-	-	-
	700,309	733,632	662,194	42,704	20,602	8,132	-	-	-

31 December 2013

SEK '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
Finance lease liabilities	61,197	73,603	22,767	23,900	21,347	5,589	-	-	-
Borrowings	162,800	165,867	165,867	-	-	-	-	-	-
Trade and other payables	616,742	616,742	616,742	-	-	-	-	-	-
	840,739	856,212	805,376	23,900	21,347	5,589	-	-	-

(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 Group's objective of market risk management is to ensure that the exposure stays within acceptable parameters, while optimising the return.

(i) Currency risk
Even though most sales and purchases are made in Russian rubles, the Group is exposed to currency risk on purchases and borrowings that are denominated in other currencies. These transactions primarily occur in euro or Swedish krona.

Interest on borrowings is denominated in the currency of the borrowing. In respect of other financial assets and liabilities denominated in foreign currencies, the 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	EUR	SEK	SEK
SEK '000	2014	2013	2014	2013
Cash and cash equivalents	3	1,000	313	3,223
Trade and other payables	(8,271)	(8,437)	(2,728)	(26,499)
Net exposure	(8,269)	(7,437)	(2,415)	(23,276)

Foreign exchange rates applied during the period:

In RUB	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
	2014	2014	2013	2013
EUR	50.7674	69.2119	42.3170	45.0447
SEK	5.5808	7.2736	4.8916	5.0369

SENSITIVITY ANALYSIS

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

A strengthening (weakening) of the ruble against the Swedish krona would at 31 December 2014 have increased (decreased) profit or loss before taxes by the amounts shown below. This analysis is based on exchange rate variances that management considered 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 2013.

	Strengthening	Weakening
31 December 2014		
SEK (20% movement)	121	(121)
31 December 2013		
SEK (20% movement)	4,655	(4,655)

(ii) Interest rate risk
Under normal circumstances and during the term of the credit facilities, the Group is exposed to limited interest rate risk since the Group seeks to borrow funds at fixed interest rates (see Note 18 (*Borrowings*)). However, as is common in Russia, most of the Group's credit agreements allow the banks to increase interest rates in case of exceptional changes in the key rate of the Russian Central Bank or other force majeure events. As a result of the financial turmoil during 2014 (in particular the decision by the Russian Central Bank in December 2014 to increase the interest rate to 17%), many banks have utilized this right and the Group has seen an unexpected increase in the interest charged on the its credit facilities. The Group seeks to limit this additional interest rate risk by tighter working capital management to minimize the need for debt financing.

PROFILE

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

Group

SEK '000	Carrying amount 2014	Carrying amount 2013
Fixed rate instruments		
Bank deposits	161,411	108,261
Borrowings	(246,370)	(162,800)
Finance lease liabilities	(40,194)	(61,197)
	(125,153)	(115,736)

FAIR VALUE SENSITIVITY ANALYSIS FOR FIXED RATE INSTRUMENTS

The Group does not account for any fixed rate financial instruments as fair value through profit or loss or as available-for-sale. A change in interest rates at the reporting date would therefore not affect profit and loss or equity.

CARRYING VALUES AND FAIR VALUES

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 values of the Group's financial assets and liabilities approximate their respective carrying values. This does not apply to finance lease liabilities for which the fair value on 31 December 2014 amounted to SEK 37,628 thousand compared to a carrying amount of SEK 40,194 thousand.

The fair value of the Group's finance lease liabilities was determined for disclosure purposes by discounting future cash flows at the market interest rate at the reporting date. Due to the absence of similar finance lease agreements concluded close to the reporting date, the market interest rate for each finance lease was determined by calculating the change in yield of government bonds from the commencement of the relevant lease to 31 December 2014. This change has then been added to the interest rate implicit in the lease (level 2).

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 continously monitors the return on capital (the Group defines this as the result from operating activities divided by total equity).

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

SEK '000	2014	2013
Total liabilities	801,496	925,758
Less: cash and cash equivalents	(177,453)	(164,075)
Net debt	624,043	761,683
Total equity	371,528	537,801
Debt to capital ratio at 31 December	1.7	1.4

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 amounts receivable and payable do not always meet the criteria for offsetting in the statement of financial position. This is because the Group may not have any currently legally enforceable right to offset recognised amounts, because the right to offset may be enforceable only on the occurrence of future events. Under Russian law, an obligation can only be offset against a similar claim if it is due, has no maturity or is payable on demand.

Carrying amounts of recognised financial instruments subject to the above agreements:

SEK '000	Trade and other receivables	Trade and other payables
31 December 2014		
Gross amounts	53,905	340,959
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	53,905	340,959
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(7,092)	(7,092)
Net amount	46,813	333,867

SEK '000	Trade and other receivables	Trade and other payables
31 December 2013		
Gross amounts	57,470	563,482
Amounts offset in accordance with IAS 32 offsetting criteria	-	-
Net amounts presented in the statement of financial position	57,470	563,482
Amounts related to recognised financial instruments that do not meet some or all of the offsetting criteria	(13,481)	(13,481)
Net amount	43,989	550,001

The net amounts presented above are included in the statement of financial position and form part of trade and other receivables and trade and other payables, respectively. Other amounts included in these line items do not meet the criteria for offsetting and are not subject to the agreements described above.

NOTE 23 » OPERATING LEASES

The Group leases a number of premises and facilities under operating leases. During the year an amount of SEK 28,045 thousand (29,695 thousand) was recognised as an operating expense in profit or loss in respect of rented premises and facilities.

Lease agreements for rented premises and facilities 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 2014.

NOTE 24 » CAPITAL COMMITMENTS

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

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 major taxes, such as corporate income tax, VAT, corporate property tax and other taxes. The application of the new legislation is in large parts still unclear.

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

At the reporting date Ferronordic Machines LLC was undergoing a tax field audit with regard to the financial years 2011-2013. No results of the audit had been presented by the tax authorities at the time of issuing this report.

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 was enacted in Russia as per 1 January 2012. The new legislation provided major modifications to make local transfer pricing rules more similar to OECD guidelines. At the same time additional uncertainty was created in practical application of tax legislation in certain circumstances. These 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 primarily apply to cross-border transactions between related parties, as well as certain cross-border transactions between independent parties. Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts (tax audits considering the new rules have started just recently), it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

In addition, a number of new changes in Russian tax legislation was adopted in the fourth quarter of 2014 and became effective on 1 January 2015. Those changes are particularly aimed at regulating transactions with offshore companies and their activities. These changes may potentially impact the Group's tax position and create additional tax risks going forward.

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 additional tax at 31 December 2013 was SEK 6,321 thousand and contingent liability was disclosed in this regard as at 31 December 2013. As at 31 December 2014, the 2010 financial year is closed for tax audits and contingent liability was reversed.

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

NOTE 26 » RELATED PARTY TRANSACTIONS

(a) Control relationships

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

Management and the Board control 52.64% of the shares and 55.00% of the voting rights in the parent company (same as 2013).

Transactions with employees
During the year the Group issued unsecured loans to employees in a total amount of SEK 54 thousand (SEK 214 thousand). Interest of 12% p.a. is payable by the employees and the loans are repayable in cash in full 12 months after the issue date. At 31 December 2014 the outstanding balance of such loans amounted to SEK 190 thousand (SEK 214 thousand) and was included in trade and other receivables (see Note 15 (*Trade and other receivables*)).

Remuneration to executive management during 2014 and 2013 is included in personnel costs and presented in Note 29 (*Employees, board and executive management*).

(b) Transactions with other related parties

Parent Company

Revenue

	2014		2013	
SEK '000	Transaction value	Outstanding balance	Transaction value	Outstanding balance
Services provided:				
Subsidiary (i)	15,794	9,826	28,215	22,795
Interest accrued:				
Subsidiary (ii)	39,201	7,522	45,557	20,494
	54,995	17,348	73,772	43,289

(i) License fee received from Ferronordic Machines LLC as compensation for the Volvo CE dealership business sub-license and royalties received from Ferronordic Machines LLC for a trademark license. The outstanding balance as of 31 December 2014 represents accrued royalties under the intra-group trademark license

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

Other balances

SEK '000	31 December 2014	31 December 2013
Contributions to subsidiaries	192,162	192,105
Loans to subsidiaries (iii)	199,021	285,178
	391,183	477,283

(iii) Loans granted by the parent company to Ferronordic Machines LLC are unsecured and bear interest rates of 15% per annum. The loans are in rubles in order to minimize the Group's currency risks. During the year the loans were prolonged until 31 December 2016.

NOTE 27 » EVENTS SUBSEQUENT TO THE REPORTING DATE

As per 1 February 2015 the interest on Ferronordic Machines LLC's credit facility from Sberbank was increased from 9.7% to 15%. The loan currently outstanding under this facility amounts to RUB 500 million.

No other events requiring disclosure in the financial statements have occurred after the reporting date.

NOTE 28 » INTERESTS IN GROUP COMPANIES

As of 31 December 2014 the Group consisted of the following legal entities:

Subsidiary	Corporate Identity Number	Country of incorporation	2014 Ownership/ voting	2014 Carrying amount	2013 Ownership/ voting	2013 Carrying amount
Ferronordic Machines AB	556748-7953	Sweden	Holding	-	Holding	-
Ferronordic Machines LLC		Russia	100%	192,105	100%	192,105
Ferronordic Machines Arkhangelsk LLC		Russia	100%	12,566	100%	18,356
Ferronordic Machines Kaliningrad LLC		Russia	100%	2	-	-
Ferronordic Torgoviy Dom LLC		Russia	100%	55	-	-
				204,728		210,461

As follows from the parent company's statement of cash flows, the parent company has made contributions to its new subsidiaries during 2014 in an amount of SEK 57,000: SEK 2,000 to the share capital of Ferronordic Machines Kaliningrad LLC and SEK 55,000 to the share capital of Ferronordic Torgoviy Dom LLC.

NOTE 29 » EMPLOYEES, BOARD AND EXECUTIVE MANAGEMENT

(a) Average number of employees

	2014	of which women	2013	of which women
Parent Company – Citizenship				
Sweden	3	33 %	2	50 %
Total in Parent Company	3	33 %	2	50 %
Subsidiaries – Citizenship				
Russia	752	19 %	677	21 %
Sweden	3	0 %	3	0 %
Belgium			1	0 %
Italy			1	0 %
Ukraine	1	0 %	4	0 %
Finland			1	0 %
Germany	1	0 %	1	0 %
Turkey	1	0 %	1	0 %
Total in subsidiaries	758	19 %	689	21 %
Total Group	761	19 %	691	21 %

(b) Breakdown between men and women in management

	Group Female representation 2014	Group Female representation 2013	Parent Company Female representation 2014	Parent Company Female representation 2013
Board	14%	13%	14%	13%
CEO and executive management	22%	14%	0%	0%

(c) Personnel costs

Salaries, other remuneration and social security expenses for the parent company and its subsidiaries (information for the parent company includes remuneration to the Board members):

	2014		2013	
SEK '000	Salaries and other remuneration	Social security expenses	Salaries and other remuneration	Social security expenses
Parent Company	7,119	3,383	3,720	2,673
(of which pension costs)		1,624		1,722
Subsidiaries	174,748	30,961	173,546	34,522
(of which pension costs)		24,827		25,717
Total	181,867	34,344	177,266	37,195
(of which pension costs)		26,451		27,439

The table below shows salaries and other remuneration distributed between the parent company and its subsidiaries and between executive management and other employees. The members of the Board and executive management in the parent company, the subsidiaries and the Group in 2014 amounted to ten (ten), nine (including the Board members Lars Corneliussion and Erik Eberhardson) (ten) and 19 (24), respectively.

	2014		2013	
SEK '000	Board and executive management	Other employees	Board and executive management	Other employees
Parent Company	6,734	385	3,322	398
(of which bonuses)	530	-	147	-
Subsidiaries	19,878	154,870	17,439	156,107
(of which bonuses)	4,264	34,173	-	40,422
Total	26,612	155,255	20,761	156,505
(of which bonuses)	4,794	34,173	147	40,422

(d) Remuneration to the Board

Total remuneration paid to the Board in 2014 amounted to SEK 1,748,000 (SEK 1,151,000).

At the annual general meeting on 20 May 2014 it was resolved that the remuneration to the Board members should be paid in an amount of SEK 2,300,000. Of this amount, SEK 600,000 should be paid to the chairman, SEK 500,000 to the vice chairman, and SEK 300,000 to each of the other Board members, except for the two Board members who are employed by the Group. No additional remuneration should be paid for work on the remuneration committee or the audit committee. Tom Jörning resigned from the board at the end of September and has only received compensation until his resignation.

Remuneration to the Board in 2014 and 2013 (SEK '000):

Name	2014	2013
Per-Olof Eriksson (chairman)	475	300
Magnus Brännström	238	150
Lars Corneliusson	-	-
Erik Eberhardson	-	-
Marika Fredrikson	238	150
Tom Jörning (resigned September 2014)	163	150
Martin Leach	396	250
Kristian Terling (elected May 2013)	238	88
Erik Danemar (resigned May 2013)	-	63
Total	1,748	1,151

(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. 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 total remuneration for 2014 amounted to SEK 7,158,000 including compensation for housing and schooling. The right to pension contributions amounts to 12.6% of the fixed gross salary.

During 2014, the executive management included Nadezhda Arzumanova, Anders Blomqvist, Henrik Carlborg, Lars Corneliusson, Erik Eberhardson, Olga Galashevskaya (until November), Onur Gucum, Andrey Romanov (until November) and Anton Varekha.

During 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).

Name	2014	2013
Nadezhda Arzumanova	full year	full year
Anders Blomqvist	full year	full year
Henrik Carlborg	full year	from July
Lars Corneliusson	full year	full year
Erik Eberhardson	full year	full year
Onur Gucum	full year	full year
Anton Varekha	full year	from August
Andrey Romanov	until November	full year
Olga Galashevskaya	until November	from June
Dmitry Khmelidze	-	until November
Francesco Mascherpa	-	until January
Jukka Huuhtanen	-	until January
Sergey Ustimenko	-	until August
Dmitry Bugoslavsky	-	until January

Remuneration to Lars Corneliusson and other members of executive management:

	2014			2013		
SEK '000	Lars Corneliusson	Other executive management	Total	Lars Corneliusson	Other executive management	Total
Fixed salary	4,530	12,765	17,295	4,083	15,432	19,515
Variable salary	1,801	2,994	4,794	-	-	-
Pension costs	573	1,405	1,978	562	1,419	1,981
Other benefits	254	2,455	2,709	-	112	112
Total	7,158	19,618	26,776	4,645	16,963	21,608

NOTE 30 » AUDITORS' FEES AND EXPENSES

	Group		Parent Company	
SEK '000	2014	2013	2014	2013
KPMG				
Audit assignments	1,937	1,713	620	398
Other assignments	374	173	233	17
Other				
Other assignments	1,047	830		-
	3,358	2,716	853	415

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 year, less dividends on preference shares related to the period, divided by the weighted average number of ordinary shares outstanding.

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

a) Result attributable to holders of ordinary shares

SEK '000	2014	2013
Result for the year	18,729	(43,934)
Dividends on preference shares required for the year	(50,000)	(25,000)
Result attributable to holders of ordinary shares	(31,271)	(68,934)

b) Weighted average number of ordinary shares

Number of ordinary shares	2014	2013
Ordinary shares outstanding 1 January	10,000,000	100,000
Effect of share split in October 2013	-	9,900,000
Weighted average number of ordinary shares during the year	10,000,000	10,000,000

On 9 October 2013 the share capital of Ferronordic Machines AB was restructured through a share split in proportion of 100/1 (from 100,000 ordinary shares with a par value of EUR 1.00 each to 10,000,000 shares with par value of EUR 0.01 each).

As at 31 December 2014, 2,279 warrants (2,459 warrants) were excluded from the calculation of diluted earnings per share since 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 20 April 2015. The consolidated statement of comprehensive income and the consolidated statement of financial position and the parent company income statement and parent company balance sheet will be submitted for adoption at the Annual General Meeting on 19 May 2015.

Stockholm, 20 April 2015

Per-Olof Eriksson
EberhardsonChairman

Martin Leach
Vice Chairman

Erik
Vice Chairman

Magnus Brännström
Director

Lars Corneliusson
Director

Marika Fredriksson
Director

Kristian Terling
Director

Lars Corneliusson
Managing Director

Our audit report was submitted on 20 April 2015

KPMG AB

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 2014, except for the corporate governance statement on pages 35 - 42. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 30 - 86.

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 2014 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 2014 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 - 42. 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 2014. 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 - 42 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, 20 April 2015

KPMG AB

Mattias Lötborn

Authorized Public Accountant

Production: Nimbus Communication AB
Print: E-Print AB
Photo: Ferronordic Machines
Paper: MultiArt Silk

MILJÖMÄRKT
341 865

Ferronordic Machines AB
www.ferronordic.com
+46 8 - 509 072 80
Hovslagargatan 5 B
111 48 STOCKHOLM
Sweden