

# Sustainability

## **SUSTAINABILITY IS ABOUT TRUST**

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

## **OUR SUCCESS IS DEPENDENT ON THE SUCCESS OF OUR CUSTOMERS**

By providing qualitative, fuel-efficient and safe machines, and ensuring that they work when and where they should, we contribute to our customers' long-term success. At the same time, we build a sound basis for a sustainable and profitable business going forward. This also helps us to develop and maintain long-term relations with Volvo and other partners, based on mutual trust, which further benefit our business and improve our ability to provide even better support to our customers.

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

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

## **WE HAVE ZERO TOLERANCE FOR CORRUPTION AND ANTI-COMPETITIVE BEHAVIOUR**

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

## **THE IMPORTANCE OF SUSTAINABILITY IS GROWING ALSO IN RUSSIA**

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



*Lars Corneliusson, President and CEO*



# Stakeholders and **materiality**

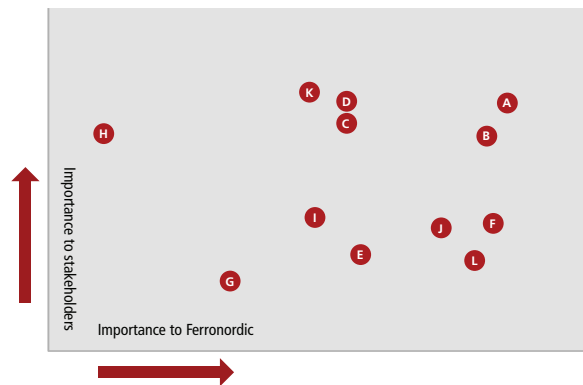
Ferronordic's main stakeholders are the following:

- 1) Customers
- 2) Partners (manufacturers whose brands we represent)
- 3) Suppliers
- 4) Shareholders
- 5) Employees
- 6) Banks and credit institutions
- 7) Governments and municipalities

We keep an ongoing dialogue with our stakeholders to understand their expectations and how our business creates additional value for them, Ferronordic and the society at large. Our most important stakeholders are our customers, partners, shareholders and employees.

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

Based on this analysis, we have identified twelve topics that particularly reflect Ferronordic's economic, environmental and social impact:

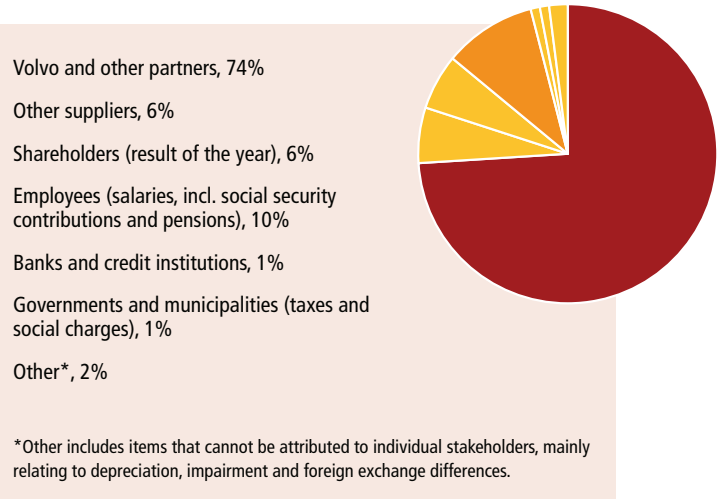


- |                                   |                                      |
|-----------------------------------|--------------------------------------|
| A. Customer satisfaction          | G. Diversity and equal opportunity   |
| B. Product safety                 | H. Environmental impact (operations)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

## Economic **impact**

We support our customers' value creating by providing high quality products, high parts availability and good service solutions. In 2017, we delivered 738 new machines throughout Russia. At the same time, we continued to service the existing population of active Volvo machines in the country of about 11,000 units. These machines continuously support our customers' profitability by engaging them to meet their customers' needs. At the same time, we create additional value for the manufacturers whose brands we represent, e.g. by purchasing machines and parts, but also by promoting their brands and providing feedback as to how the customers' needs can be better satisfied.

During 2017, our revenue amounted to SEK 2,567m (SEK 1,658m in 2016). The bulk of this was distributed among our stakeholders:



## Customer **satisfaction**

Customer satisfaction is our most important sustainability factor. For a company like Ferronordic, customer satisfaction is crucial to build sustainable relationships with customers and manufacturers.

Partly we achieve this by providing high-quality machines in combination with high parts availability and good and reliable service. Simply, we make sure that our customers' machines work when they should.

Another important aspect is our strategic strive towards increased customer integration, for example through our contracting services where we excavate and move earth and ore for customers in the mining industry.

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



## Environmental **impact**

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

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

An essential part of our work to promote environmental sustainability is our daily work to deliver and maintain fuel-efficient products. A large part of the existing machine population in Russia consists of old machines with suboptimal fuel-efficiency. By replacing these machines, we contribute to a better environment in Russia in general. We also use machine data from the machines' telematics systems to detect inefficient machine usage and make proactive offers to our customers how they can improve their fuel efficiency (e.g. operator training, replacement of components, renewal of machines, etc.).

Compliance with legal and other applicable environmental standards is a requirement included in our Code of Conduct. Save for a minor nonobservance which resulted in a fine of approx. SEK 16,000, no breaches of authorization conditions or national or local environmental legislation occurred in 2017 (no breaches occurred in 2016).

## Social impact – employees

At the end of 2017, we employed 847 people in 74 locations (compared to 782 employees in 73 locations at the end of 2016). Our aim is to have the right number of people with the right competences in the right place at the right time, at the right cost. The average age of our employees at the end of 2017 was 36 years (compared to 38, at the end of 2016). About 15% of our employees are female (same as the year before).

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

We prefer internal promotion. About 95% of all vacancies are announced internally on the company's intranet. About 60% of all vacant positions are filled internally. During 2017, we made 107 internal promotions (compared to 137 during 2016). This included various management positions, such as the promotion of Mikhail Visloguzov from regional sales manager to regional director in Central.

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

We cooperate with suppliers and partners that share our value. For the Volvo Group, which represents over 92% of our revenue, this is an essential question. The Volvo Group thus has a comprehensive program for controlling and ensuring that its suppliers fulfill Volvo's requirements with regard to social responsibility and human rights (see Volvo's 2017 annual- and sustainability report for further information).



## Training and education

Part of our work to build sustainable development is the significant investment we make in training and development of our employees. In 2017, we provided about 49,000 hours of training to our employees, compared to 45,000 in 2016.

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

## Product safety

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

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

## Occupational health **and safety**

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

To further improve and underline the importance of labor safety, additional resources were allocated during 2017. At the same time, a nationwide campaign was carried out in this field.

In 2017, one serious accident occurred that required hospitalization and unfortunately resulted in disability for the employee (in 2016, no serious accidents occurred). No work-related fatalities occurred in either 2017 or 2016.

The number of reported days of sick leave during 2017 was 2,237, which was slightly less than 2,474 days of sick leave reported in 2016. However, the average days of sick leave per employee decreased from 3.0 days per year to 2.6 days per year.



## Anti-**corruption**

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

We take active measures to prevent, monitor and investigate potential corruption in our operations. Our anti-corruption program consists of various policies and procedures, regular training (including an annual online training), regular risk assessment, whistleblower procedures, as well as auditing. During 2017 all employees except for some machine operators in our contracting services operations participated in the anti-corruption training. During 2017 we also updated our Code of Conduct with simplified and clearer rules of what is expected of us in different areas.