

Corporate **governance** report

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

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

This corporate governance report has been prepared in accordance with the Annual Accounts Act and the Swedish Corporate Governance Code (the Code). The corporate governance report has been 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 the company's and the Group's affairs on behalf of the shareholders. The auditors report to the AGM on their scrutiny. The Board establishes work procedures for the Board, including instructions for the CEO. The Board appoints the CEO. The CEO in turn appoints the members of the executive and extended management, including Ferronordic Machines' regional directors.

MORE INFORMATION ON CORPORATE GOVERNANCE:

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

- Ferronordic Machines' Articles of Association
- Code of Conduct
- Information on Ferronordic'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 stipulates that Ferronordic Machines shall apply the Code. The shareholders' agreement also includes a list of reserved matters that must be approved by the Board, and minimum requirements regarding the Group's anti-bribery and compliance program. The shareholders' agreement will terminate upon a listing of the company's ordinary shares.

SWEDISH CORPORATE GOVERNANCE CODE

Companies listed on First North Premier are not required to apply the Code. However, in accordance with the shareholders' agreement for Ferronordic Machines and as part of the company's ambition to

list its shares on a regulated market in Sweden, Ferronordic Machines anyway acts as if the Code applied to it. This corporate governance report has therefore also been prepared to describe how Ferronordic Machines has applied the Code.

During 2015, Ferronordic Machines has deviated from one Code rule: more than one member of the Board is also a member of the Group's executive management. Currently both Lars Corneliussen and Erik Eberhardson 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. Both of them are also large shareholders of the company.

SHARE CAPITAL AND SHAREHOLDERS

At the end of 2015, four shareholders controlled more than ten percent of the votes in Ferronordic Machines: Skandinavskonsult i Stockholm AB with 25.9%, Lars Corneliusson with 13.7%, Erik Eberhardson with 13.2% and Mellby Gård AB with 12.1%. Further information about Ferronordic Machines' share capital and shareholders can be found on pages 24-26.

GENERAL MEETINGS

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

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

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

ANNUAL GENERAL MEETING 2015

The AGM 2015 took place on 19 May 2015 in Stockholm. At the meeting, 76.9% of the shares and 82.8% of the votes were represented in person or by proxy. The chairman of the Board, Per-Olof Eriksson was elected chairman of the meeting.

The CEO, the auditor, the chairman of the Nomination Committee and all member of the board elected by the AGM were present at the meeting.

The minutes of the meeting has been available at Ferronordic Machines' website. The following resolutions were made:

- the income statements and balance sheets were adopted,

- no dividends were to be paid with regard to the company's preference shares or ordinary shares,
- the members of the Board and the CEO were discharged of liability with regard to the financial year 2014,
- the number of Board members should be seven, without deputies,
- the chairman of the Board was awarded a fee of SEK 600,000, the vice chairman of the Board a fee of SEK 500,000, and each other Board member (except Lars Corneliusson and Erik Eberhardson) a fee of SEK 300,000,
- Magnus Brännström, Lars Corneliusson, Erik Eberhardson, Per-Olof Eriksson, Marika Fredriksson, Martin Leach and Kristian Terling were reelected as Board members,
- Per-Olof Eriksson was reelected as chairman of the Board,
- KPMG AB was reelected as the company's auditor, the principles regarding the company's Nomination Committee were adopted,
- the guidelines regarding remuneration of senior executives were approved,
- the company should offer the holders of warrants 2013/2016 to repurchase the warrants at a price corresponding to what the holders paid for the warrants, and
- the Board was authorized to resolve on the issue of new ordinary shares and the issue of new ordinary shares of series 2.

EXTRAORDINARY GENERAL MEETING 2015

An extraordinary general meeting (EGM) took place on 2 October 2015 in Stockholm. At the meeting, it was resolved to pay dividends on the company's preference shares in an amount of SEK 50 per preference share, corresponding to a total dividend payment of SEK 25m. No dividends were to be paid on ordinary shares. At the meeting, 85.1% of the shares and 88.8% of the votes were represented in person or by proxy. The company's general counsel, Henrik Carlborg, was appointed chairman. The minutes of the EGM were made available on the company's website.

EXTRAORDINARY GENERAL MEETING 2016

An extraordinary general meeting (EGM) took place on 4 April 2016 in Stockholm. At the meeting, it was resolved to pay dividends on the company's preference shares in an amount of SEK 50 per preference share, corresponding to a total dividend payment of SEK 25m. No dividends were to be paid on ordinary shares. At the meeting, 74.3% of the shares and 77.6% of the votes were represented in person or by proxy. The company's CFO, Anders Blomqvist, was appointed chairman. The minutes of the EGM were made available on the company's website.

ANNUAL GENERAL MEETING 2016

Ferronordic Machines' AGM 2016 will be held on 19 May 2016 at 7A Strandvägen, Conference & Events in Stockholm. More information is available at the company's website, www.ferronordic.com.

NOMINATION COMMITTEE

For the AGM 2015, the nomination committee consisted of Rune Andersson, representing Mellby Gärd AB, Mikael Brantberg (chairman), representing Russian CE Distribution Investors AB, Per-Olof Eriksson, representing shareholders who are Board members and/or employees of the group, and Daniel Nyhrén, 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 2015. The nomination committee's proposals to the AGM 2015, together with motivated statements, were presented in the notice to the AGM on 20 April 2014. No compensation was paid to the members of the nomination committee.

Principles regarding the nomination committee

At the AGM 2015, 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 of 2015 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, all shareholders who are members of the Board and/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 nomination committee shall act in the interest of all shareholders. The duties of the nomination committee shall include to evaluate the Board's constitution and work, and to make proposals for the annual general meeting regarding:

- election of chairman for the annual general meeting,
- number of Board members,
- election of the Board and the chairman of the Board,
- election of auditor (in cooperation with the Board's auditing committee),
- fees for the Board members, Board committees and auditors, and
- principles concerning the Nomination Committee for the annual general meeting 2017.

The mandate of the nomination committee is valid until a new nomination committee has been constituted. In case of material changes in the owners during the mandate period, the nomination committee shall ensure that a new large shareholder is given representation in the nomination committee. The constitution of the nomination committee shall be announced not later than six months before the annual general meeting 2016. The members of the nomination committee shall not receive any compensation from the company but are entitled to reimbursement for reasonable expenses.

Nomination committee for AGM 2016

The nomination committee for the AGM 2016 consists of the following members:

- Per Arwidsson, representing Fastighetsaktiebolaget Granen
- Håkan Eriksson, representing Skandinavkonsult i Stockholm AB
- Per-Olof Eriksson, representing the shareholders who are either employees of the group or member of the board
- Per Frankling, representing Creades AB

Håkan Eriksson has been appointed chairman of the nomination committee.

Shareholders who wish to submit proposals to the nomination committee for the AGM 2016 may do so by post to Ferronordic Machines AB, "Nomination Committee", Hovslagargatan 5B, 111 48 Stockholm, or by email to henrik.carlborg@ferronordic.ru. As per the date of this report, one proposal had been submitted to the nomination committee.

BOARD OF DIRECTORS

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

- 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;
- ensure that there is sufficient control over the company's compliance with laws and other rules applicable to the company's operations; and
- ensuring that the company's information disclosure is characterized by transparency and is correct, relevant and reliable.

The chairman of the Board ensures that the Board's work is carried out efficiently and that the Board fulfils its obligations.

Composition

During 2015, the Board consisted of seven members without deputies. All Board members were elected at the AGM 2015 for the period until the AGM 2016. The AGM 2015 also re-elected Per-Olof Eriksson as chairman for the period until the AGM 2016. Detailed information about the Board, including their shareholdings and various appointments, can be found on page 28.

According to the Shareholders' Agreement, investors holding over 20% of the ordinary shares and votes may appoint a representative to attend, observe and speak, but not vote, at the Board meetings. Russian CE Investors AB utilized this right and appointed Mikael Brantberg as Board observer until 15 October 2015 when Russia CE Investors AB sold its shares in the company to Skandinavkonsult i Stockholm AB. Since then, Skandinavkonsult i Stockholm AB has utilized this right and appointed Håkan Eriksson as Board observer.

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

Independence requirements

According to the Code 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, 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

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

Board work in 2015

During 2015, the Board held eight meetings. Over the year the Board devoted particular focus to the following issues:

- the Group's earnings and financial position;
- interim reporting;
- development of the geopolitical and financial situation in Russia and the effect on the Group and the Russian construction equipment market;
- corporate governance, risk management and internal control;
- strategic issues and business development;
- financial matters; and
- 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.

ATTENDANCE IN BOARD MEETINGS IN 2015

	Magnus Brännström	Lars Corneliusson	Kristian Terling	Erik Eberhardson	Per-Olof Eriksson	Marika Fredriksson	Martin Leach
19 February	•	•	•	•	•	•	•
15 April	•	•	•	•	•		•
19 May	•	•	•	•	•	•	•
19 May	•	•	•	•	•	•	•
25 August		•	•	•	•		•
6 September	•	•		•	•	•	
2 October	•	•	•	•	•	•	•
24 November		•	•	•	•	•	•

REMUNERATION OF THE BOARD

As resolved at the AGM 2015, the total remuneration of the Board amounts to SEK 2,000,000, 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 main task of the committees is to prepare issues and present them to the Board for resolutions.

Audit Committees

The audit committee shall ensure the quality of the financial statements, maintain ongoing contacts with the auditors, monitor the independence and objectivity of the auditors, prepare the election of the auditors (in corporation with the nomination committee), monitor the internal control of the Group, as well as dealing with other related matters. The audit committee consists of the following 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 2015 the audit committee held three meetings in connection with the meetings of the Board. The minutes of these meetings are included in the minutes of the Board meetings.

Remuneration Committee

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

The remuneration committee held one formal meeting in 2015. 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 2015 for the period until the AGM 2016. Mattias Lötborn is the auditor-in-charge. The compensation paid to KPMG is indicated in note 30 on page 82.

CEO AND EXECUTIVE MANAGEMENT

The CEO, Lars Corneliusson, is appointed by the Board and is responsible for the day-to-day management of the Group. The CEO is also the General Director of Ferronordic Machines LLC, the Group's main operating entity in Russia.

The executive management convenes on a regular basis, at least 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, in 2015 the executive management consisted of Nadezhda Arzumanova, HR Director, Anders Blomqvist, CFO and Investor Relations, Henrik Carlborg, General Counsel, Erik Eberhardson, Business Development, Onur Gucum, Commercial Director; and Anton Varekha, Financial Director (until June). The members of the executive management report to the CEO. Information on the CEO and the other members of executive management, including their age, main education, professional experience, shareholdings in the company, etc., can be found on page 29.

For certain matters, the executive management is supplemented by certain other Group functions and the regional directors (extended management).

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

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

REMUNERATION OF SENIOR EXECUTIVES

For information regarding remuneration and other benefits to the executive management, refer to note 29 (e) on page 81.

The AGM 2015 adopted the following principles regarding remuneration to the company's executives:

These guidelines concern remuneration and other terms of employment for the Ferronordic Machines executive management team. The members of the executive management team, including the CEO and any possible deputy CEO, are hereafter referred as the "Executives". The guidelines apply to employment agreements made after the approval of these guidelines by the meeting and to amendments to existing employment agreements made thereafter.

Basic principles

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

Fixed salaries

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

Variable salaries

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

Non-monetary and other benefits

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

Pension benefits

In addition to those pension benefits that Executives are entitled to according to law, Executives may be offered pension benefits that are competitive in the country where the individual in question is or has been a resident or to which the individual has a relevant connection. Pension plans shall be defined contribution plans without guaranteed level of pension.

Severance pay

Severance pay shall not exceed 12 months salary.

The Board's preparation and decision-making on issues concerning remuneration and other terms of employment

The Remuneration Committee is responsible for:

- 1) preparing the Board's decisions on issues concerning principles of remuneration, remuneration and other terms of employment for the Executives,
- 2) monitoring and evaluating programs for variable remuneration, both ongoing and those who end during the year,
- 3) monitoring and evaluating programs the application of these guidelines, and
- 4) monitoring and evaluating current remuneration structures and levels in the group.

The Remuneration Committee prepares and the Board resolves on:

- 1) the remuneration and terms of employment of the CEO and the deputy CEO,
- 2) the principles for remuneration (including pension and severance pay) for the other Executives.

The Remuneration Committee is further responsible for reviewing and recommending to the Board share-related incentive programs to be decided by the annual general meeting.

Authority to decide on deviations from these guidelines

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

Information on earlier decisions on remuneration that has not become due for payment at the time of the annual general meeting's consideration of these guidelines

Decisions on remuneration that will not have become due the time of the annual general meeting 2015 fall within the frames of these guidelines.

REPORT ON INTERNAL CONTROL

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

Control environment

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

Risk assessment

Ferronordic Machines has established an annual process for reviewing and assessing risks relating to financial reporting. The risk assessment also include risks related to fraud and irregularities, as well as the risk of loss or misappropriation of assets. Identified risks are prioritized and actions to manage and mitigate the identified risks are established. Risks relating to financial reporting are also evaluated on an ongoing basis within the framework of the internal audit. Policies and procedures regarding financial reporting are being evaluated continuously, based on the risk assessment. The board is updated continuously on material risks as well as actions planned or taken to manage and mitigate such risks.

Control activities

The main purpose of the control activities is to identify and prevent errors and thus guarantee the quality of the financial reporting. Based on the risk assessment, various control activities have been established within identified processes. These aim to ensure that the requirements on the external financial reporting are fulfilled. The activities are both manual and automatic, and includes e.g. reviews and approvals of different types of bookkeeping transactions, analysis of key ratios, verification of accounts and checklists, as well as application of controls for financial information in the IT systems which are used for the financial reporting.

In addition, the Board and its Audit Committee, as well as the executive management, constitute general control bodies that carry out different control activities. Ferronordic Machines has also established an internal audit function which, among other things, control financial reporting.

Information and communication

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

Monitoring

The company's financial development is reviewed at every board meeting. All interim reports are reviewed and approved by the Board before they are made public.

The annual report and the directors' report are reviewed and approved by the Board. The efficiency of the assessment and management of risks is followed up at different levels within the Group, for example at the executive management meetings and the regional board meetings, as well as within the day-to-day work of the internal audit function. The monitoring includes both formal and informal processes, e.g. comparisons between result and budget, monthly reviews of overdue accounts receivable, etc.

Internal audit

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

Stockholm, April 2016

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.