

# Corporate **governance** report

Ferronordic Machines AB (publ) is a Swedish public company domiciled in Stockholm. Since 3 December 2013 the company's preference shares are listed on NASDAQ OMX First North Premier.

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

This corporate governance report has been prepared in accordance with the Annual Accounts Act and the Swedish Corporate Governance Code (the Code).

The corporate governance report has been audited by the company's auditors.

## SUMMARY OF FERRONORDIC MACHINES' CORPORATE GOVERNANCE MODEL

Ferronordic Machines' shareholders make the ultimate decision on the company's direction, since they at the AGM appoint the Board and the chairman of the Board. The AGM also elects the auditors and the members of the Nomination Committee. The task of the Board is to manage Ferronordic Machines' affairs on behalf of the shareholders. The auditors report to the AGM on their scrutiny. The Board establishes work procedures for the Board, including instructions for the CEO. The Board appoints the CEO. The CEO in turn appoints the members of the Executive Management and the Extended Management, including the Regional Directors.

## MORE INFORMATION ON CORPORATE GOVERNANCE:

The following information is available at [www.ferronordic.com](http://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](http://www.bolagsstyrning.se).

## SHAREHOLDERS' AGREEMENT

In addition to applicable external and internal regulations, the corporate governance of Ferronordic Machines is also regulated by a shareholders' agreement between the holders of the company's ordinary shares. The Shareholders' Agreement includes provisions regarding:

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

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

## SWEDISH CORPORATE GOVERNANCE CODE

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

**IMPORTANT EVENTS IN 2013:**

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

*During 2013 Ferronordic has deviated from the Code as follows:*

- The AGM on 20 May 2013 and the EGM on 24 May 2013 were not conducted in Swedish but in English, and the material presented at these general meetings was not available in Swedish but in English. This was deemed appropriate since most of the shares and votes were held by individuals and entities outside of Sweden and all shareholders at the time spoke and understood English. After the EGM on 24 May General Meetings have been conducted in Swedish and material has been available in Swedish with English translations.
- The resolution of the AGM 2013 electing the members of the Nomination Committee did not specify the procedures for replacing members of the Nomination Committee who resign before the work is concluded. Such procedures were not deemed necessary at the time.
- No statement was issued by the Nomination Committee in connection with the notice for the AGM 2013 motivating the Nomination Committee's proposals regarding the composition of the Board of Directors. Such motivation was not deemed necessary at the time since the company did not have any listed shares and the number of shareholders was limited.
- At the AGM 2013 the Nomination Committee did not give any account of how it had conducted its work nor any explanation of its proposals. Such account was not deemed necessary at the time since the company did not have any listed shares and the number of shareholders was limited.
- More than one member of the Board is also a member of the Group's executive management. Currently both Lars Corneliusson (CEO) and Erik Eberhardson (Head of Business Development) are members of the Board. This has been deemed appropriate and in the best interest of the company and the shareholders since both of them possesses

**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

unique experience relevant to the Board. Their Board memberships are also motivated by the fact that they are both large shareholders in the company.

- The committees of the Board have not kept separate minutes of their meetings (minutes for the Audit Committee are included in the general minutes for the Board meetings).
- The vesting period of the company's existing warrants programs for key employees is less than three years. This has been deemed appropriate in order to recruit and retain competent key personnel, which is in the best interest of the company and the shareholders. The warrants program does not include the CEO, the CFO or the Head of Business Development.
- The company currently has a warrants program for non-executive Board members. The warrants program, which was implemented before the company had any listed shares, bonds or other securities, was deemed necessary to recruit and retain competent and dedicated Board members when the company was just recently established.
- The corporate governance report included in the 2012 Annual Report did not comply with the requirements of the Code. This was not deemed necessary given that the company did not have any listed shares and that the Code did not apply to the company.

## SHARE CAPITAL AND SHAREHOLDERS

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

## GENERAL MEETINGS

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

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

All shareholders are entitled to participate in the General Meeting, in person or by proxy, provided that they are recorded in the share register five working days prior to the General Meeting and have notified Ferronordic Machines of their participation as specified in the notice.

All shareholders are entitled to have an item dealt with at the General Meeting provided that they inform the Board in writing early enough so that the item can be included in the notice for the meeting. At the General Meetings shareholders also have the opportunity to present questions to the Board and the management.

## ANNUAL GENERAL MEETING 2013

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

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

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

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

## EXTRAORDINARY GENERAL MEETINGS

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

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

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

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

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

## ANNUAL GENERAL MEETING 2014

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

## NOMINATING COMMITTEE

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

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

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

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

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

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

## BOARD OF DIRECTORS

The Board of Directors (Board) is responsible for the company's organization and the management of the company's operations.

The tasks of the Board include, inter alia:

- establishing the company's objectives and strategy;
- appointing, evaluation and, when needed, dismissing the CEO;
- ensuring that there are effective systems for follow-up and control of the company's operations;
- ensuring that there is sufficient control over the company's compliance with laws and other rules applicable to the company's operations;
- ensuring that required guidelines are in place concerning the company's conduct; and
- ensuring that the company's information disclosure is characterized by transparency and is correct, relevant and reliable.

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

### *Composition*

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

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

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

### *Independence requirements*

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

requirements as six of the eight Board members are deemed independent of the company, its management and the major shareholders.

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

#### *Work procedures*

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

#### *Evaluation of the Board work*

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

#### *Board work in 2013*

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

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

The work of the CEO is evaluated by the Board continuously. At least once per year the Board discusses the evaluation of the CEO's work without

the presence of the CEO or anyone else from the company's management.

### **REMUNERATION OF THE BOARD**

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

### **BOARD COMMITTEES**

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

#### *Audit Committee*

The Audit Committee shall ensure the quality of the financial statements, maintain ongoing contacts with the auditors, monitor the independence and objectivity of the auditors, in corporation with the Nomination Committee prepare the election of the auditors, monitor the internal control of the Ferronordic Machines Group, as well as dealing with other related matters.

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

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

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

#### *Remuneration Committee*

The remuneration committee prepares matters concerning remuneration principles, remuneration and other employment terms of the CEO and other members of the Executive Management. The Remuneration Committee consists of three members: Per-Olof Eriksson (chairman), Martin Leach and Kristian Terling. All members of the remuneration committee are independent of the company, the company's management and the company's larger shareholders. The members are deemed to have appropriate knowledge and experience of matters relating to executive remuneration, as required by the Code.

## ATTENDANCE IN BOARD MEETINGS IN 2013

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

\* Erik Danemar left the Board of Directors, 20 May 2013

\*\* Kristian Terling was appointed to the Board of Directors, 20 May 2013

The Remuneration Committee held one formal meeting in 2013. In addition the members of the Remuneration Committee have had an informal continuous discussion throughout the year per email and telephone, and in connection with the meetings of the Board.

### AUDITORS

Ferronordic Machines' auditors are elected at the AGM. The current auditor is KPMG AB, which was re-elected at the AGM 2013 for the period until the AGM 2014. Mattias Lötborn is the auditor-in-charge. The compensation paid to KPMG is indicated in Note 30 on page 86.

### CEO AND EXECUTIVE MANAGEMENT

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

The Executive Management is convened on a regular basis, about once a month, and deals with the Group's financial development, company-wide development projects, leadership and competence sourcing, and other strategic issues.

In addition to the CEO, the Executive Management comprises Nadezhda Arzumanova, HR Director; Anders Blomqvist, CFO and Head of Investor Relations; Henrik Carlborg, General Counsel and Chief Compliance Officer (from July 2013); Erik Eberhardson, Head of Business Development; Olga Galashevskaya, Marketing and Corporate Communications Director (from June 2013); Onur Gucum, Commercial Director; Dmitry Khmelidze, Business Support Director (until November 2013); Andrey Romanov, Head of Trucks Business; Sergey Ustimenko (until August 2013) and Anton Varekha, Financial Director (since August 2013). The members of the Executive Management report to the CEO.

Information on the CEO and the other members of Executive Management, including their age, main education and shareholdings in the company, etc., can be found on page 29.

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

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

Operationally Ferronordic Machines is divided into seven regions, corresponding to the Federal Districts of the Russian Federation, i.e. North West (with regional hub in St. Petersburg), Central (with regional hub in Moscow), Volga (with regional hub in Kazan), South (including North Caucasus) (with regional hub in Krasnodar), Ural (with regional hub in Yekaterinburg), Siberia (with regional hub in Krasnoyarsk) and Far East (with regional hub in Khabarovsk). Each region has its own Regional Director. The Regional Directors are responsible for the business, as well as the coordination and implementation of company-wide policies and processes, in their respective regions. Each region also has a Regional Board, comprising the Regional Director and the Executive Management.

## REMUNERATION OF SENIOR EXECUTIVES

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

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

### *Fixed salaries*

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

### *Variable salaries*

Variable salaries are paid upon completion of predetermined and measurable performance criteria, mainly based on the performance of Group and/or the business area for which the relevant executive is responsible. For the CEO the variable salary may not exceed 100% of the annual fixed salary. For other executives the maximum variable salary varies between 10% and 50% of the annual fixed salary. The only exception is Erik Eberhardson (Head of

Business Development) whose maximum variable salary can be 150% of the annual fixed salary (depending on the results of the group and the results of the key accounts business area, for which he is responsible). The increased limit was agreed in connection with a decrease of the executive's fixed salary.

### *Benefits*

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

### *Pension benefits*

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

### *Routines for establishing remuneration*

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

## INTERNAL CONTROL OF FINANCIAL REPORTING

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

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

*Control environment*

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

*Risk assessment*

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

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

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

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

The internal control over the financial reporting are independently assessed by the company's auditors on a yearly basis. Although this assessment is made to enable the auditors to form an opinion on the financial statements of the Group, it is anyway used by the Group internally to assess the effectiveness of

its internal control and financial reporting procedures. No material weaknesses were identified in 2013.

*Control activities*

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

*Information and communication*

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

*Monitoring*

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

*Internal audit*

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



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

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

Stockholm, April 2014

The Board of Directors

More information on Ferronordic Machines' corporate governance work can be found in the section on Corporate Governance at [www.ferronordic.com](http://www.ferronordic.com).